School Employees Retirement System

OF OHIO

S E R S

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For The Year Ended June 30, 2002

Comprehensive Annual Financial Report

For the Year Ended June 30, 2002
Prepared by SERS Staff
Thomas R. Anderson, Executive Director

School Employees Retirement System of Ohio
300 East Broad Street, Suite 100
Columbus, Ohio 43215-3746
www.ohsers.org

"The mission of SERS is to enhance the well-being and financial security of our members, retirees and beneficiaries through benefit programs and services which are soundly financed, prudently administered, and delivered with a focus on understanding and responsiveness."

Left to right: Thomas Anderson, Mary Kasunic, State Auditor's representative O'Neal Saunders, Barbara Overholser, Jeannie Knox, Darlene Mulholland, Barbara Miller, Attorney General's representative Jim Winfree.
Not pictured: Orris Fields.

President:	**Barbara Overholser,** Columbus, Ohio *Term Expires June 30, 2005*
Vice President:	**Jeannie Knox**, Cincinnati, Ohio *Term Expires June 30, 2003*
Employee-Member:	**Barbara Miller,** Malvern, Ohio *Term Expires June 30, 2004*
Employee-Member:	**Darlene Mulholland,** Cleveland, Ohio *Term Expires June 30, 2005*
Retiree-Member:	**Mary Kasunic**, Wickliffe, Ohio *Resigned April 30, 2002*
Retiree-Member:	**Orris E. Fields, Jr.**, Wilmington, Ohio *Term Expires June 30, 2004*
ExOfficio Member:	**Betty Montgomery** *Attorney General*
ExOfficio Member:	**Jim Petro** *Auditor of State*

Thomas R. Anderson
Executive Director

John D. LeHockey
Deputy Executive Director/COO

Directors:

Virginia S. Brizendine
Finance

Jimmie L. Kinnan
General Counsel

Karen G. Kloss
Member Services

Milo M. Rouse, Jr.
Health Care Services

Douglas L. Sisson
Investments

Teresa R. Woolley
Information Technology

SERS RETIREMENT BOARD

Barbara Overholser, President
Jeannie Knox, Vice President
Barbara Miller, Employee-Member
Darlene Mulholland, Employee-Member
Mary Kasunic, Retiree-Member
(through 4/30/02)
Orris Fields, Retiree-Member
Betty Montgomery, Attorney General
Jim Petro, Auditor of State

LEGAL/LEGISLATIVE
Jimmie Kinnan

EXECUTIVE DIRECTOR
Thomas Anderson

INTERNAL AUDITOR
Dennis Trzeciak

DEPUTY EXECUTIVE DIRECTOR/ CHIEF OPERATING OFFICER
John LeHockey

ADMINISTRATIVE SERVICES
- Facilities Management
- Human Resources
- Facilities Development
- Mail Room/Print Shop

INVESTMENTS
Douglas Sisson
- Portfolio Management
- Investment Operations

MEMBER SERVICES
Karen Kloss
- Retirement
- Information Services
- Compliance
- Employer Relations
- Records Management

FINANCE
Virginia Brizendine
- General Accounting
- Investment Accounting
- Cash Management
- Tax Reporting

INFORMATION TECHNOLOGY
Teresa Woolley
- Data Processing
- Technical Support
- Systems & Programming
- Client Services

HEALTH CARE
Milo Rouse
- Retiree Health Plan
- Employee Health Plan

PROFESSIONAL CONSULTANTS

Medical Advisor
Dr. Edwin H. Season - Columbus, Ohio

Independent Auditor
Deloitte & Touche LLP - Columbus, Ohio

Actuary
Buck Consultants - New York, New York

Investment Consultant & Money Managers
See pages 31, 43


Certificate of
Achievement
for Excellence
in Financial
Reporting
Presented to
School Employees
Retirement System of Ohio
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001
A Certificate of Achievement for Excellence in Financial
Reporting is presented by the Government Finance Officers
Association of the United States and Canada to
government units and public employee retirement
systems whose comprehensive annual financial
reports (CAFRs) achieve the highest
standards in government accounting
and financial reporting.
President
Executive Director

School Employees Retirement System

THOMAS R. ANDERSON
Executive Director

JOHN D. LeHOCKEY
Deputy Executive Director

300 EAST BROAD ST., SUITE 100 • COLUMBUS, OHIO 43215-3746 • (614) 222-5853

VIRGINIA BRIZENDINE
Finance

JIMMIE L. KINNAN
General Counsel

KAREN G. KLOSS
Member Services

MILO M. ROUSE, JR.
Health Care Services

DOUGLAS L. SISSON
Investments

TERESA R. WOOLLEY
Information Technology

December 13, 2002

Dear President and Members of the Retirement Board:

We are pleased to submit the Comprehensive Annual Financial Report of the School Employees Retirement System of Ohio (SERS) for the fiscal year ended June 30, 2002. The report provides information about the financial operations of the System, including management's stewardship of the funds entrusted to the System and compliance with all legal requirements placed on the System. The management of SERS has responsibility for the accuracy of the contents and the completeness and fairness of the presentation. Our internal accounting controls are designed to ensure the security of member and employer contributions, to assure responsible safeguarding of our assets and to provide a degree of reliability to all our financial records.

The report is divided into six sections:

- the Introductory Section which contains a Letter of Transmittal, along with the identification of the administrative organization, awards and a summary of federal and state legislation affecting the System over the past year;
- the Financial Section which contains an independent auditors' report from our certified public accountants, Deloitte & Touche LLP; management's discussion and analysis, the financial statements of the System and required supplementary information;
- the Investment Section which includes the investment report, investment portfolio performance for the past year, and investment policy;
- the Actuarial Section which contains a letter expressing the opinion of our consulting actuaries, Buck Consultants, and results of their annual actuarial valuation;
- the Statistical Section which includes significant data pertaining to the System; and
- the Plan Summary Section which provides a concise explanation of the various benefits that we provide our members.

MAJOR INITIATIVES AND HIGHLIGHTS

In 2002 SERS completed a comprehensive strategic planning process that reaffirmed the system's mission statement; set a new five-year vision; identified seven core values; and established eight near-term corporate goals. Combined, these statements set the tone for SERS' future business operations, and confirmed the organization's identity and purpose. Whether we introduce new legislation, develop new programs for members or invest in technology that improves work processes, we measure the concept and expected results against our core values and corporate goals.

October 2001 gave rise to the new Health Care Services Department, once known as the Insurance Section of Member Services. Health care is a very important benefit to retirees, yet it is a continuing struggle for SERS to maintain benefits in the face of escalation of health care and prescription drug expenses. This department will focus on responding to retirees' questions and concerns about their medical and pharmacy benefits and seek out innovative ways to ensure access to quality health care benefits while controlling costs.

In March 2002, we activated an operator-assisted toll-free telephone number for retirees. During business hours, retiree calls are routed to a call group matched to their particular question or concern. After hours, retirees may leave a message and can expect a call from the SERS the next business day. In the near future, we will have separate toll-free numbers for members and employers.

We supported H.B. 157 that was enacted this year. Sponsored by Representative Kirk Schuring of Canton, it fixes the annual cost of living adjustment (COLA) for all public retirees at 3%, regardless of the actual change in the consumer price index. The former COLA calculation process at Ohio's public retirement systems was overly burdensome, complex, and extremely confusing to retirees. This bill simplifies that process and maintains equity among generations of retirees with regard to their annual cost of living increase. Significantly, there is no actuarial cost to implement this change because our actuary already considers a fixed 3% annual COLA when performing our annual valuation.

We also supported S.B. 247 as it moved through the General Assembly. This bill permits SERS, State Teachers Retirement System and Public Employees Retirement System to develop a new payment option for future retirees that would allow them to elect an up-front cash payment at the time of retirement with a reduced monthly pension. This bill was signed by Governor Taft on July 1 and became effective October 1. We believe this new payment option will be of great interest to our members by giving them an added choice to consider when reviewing their financial needs at the time of retirement.

INVESTMENTS

SERS invests accumulated funds to maximize both current income yield and long-term appreciation in accordance with the prudent person standard as found in Section 3309.15 of the Ohio Revised Code. The primary objective of our investment policy is to assure that the System meets its responsibilities for providing retirement and other benefits. The portfolio is diversified to maximize total return on assets while operating within prudent parameters of risk, to protect principal from severe depreciation during adverse market conditions, such as those experienced the last two years, and to achieve investment results competitive with those of the broad market. Details of portfolio composition, rates of return and information concerning our investment policy and operations are provided on pages 34 through 48 of this report.

On June 30, 2002, the fair value of the net investments in custody on an accrual basis was $7.27 billion, a decrease of $790 million from the previous year. Our portfolio returned (7.8)% for the year ended June 30, 2002, matching our investment policy benchmark. The continued drop in domestic equity markets leads the decline in the portfolio value but was offset, in part, by positive returns in fixed income instruments and real estate. Annualized rates of return for the entire portfolio for three, five and ten years are (1.1)%, 5.2% and 8.7%, respectively.

FUNDING

SERS is a cost-sharing multiple-employer defined benefit public employee retirement system established by the Ohio General Assembly in 1937 to provide retirement benefits to Ohio public school employees who are not required to possess a certificate in order to perform their duties. Benefits provided to participants in SERS include age and service retirement, disability benefits, survivor benefits, death benefits and post-retirement health care benefits. For a more complete description of employees eligible for membership in SERS, as well as benefits provided upon retirement, disability or death, please see the Plan Summary Section.

SERS' objective is to establish and receive employee and employer contributions that, expressed in terms of percents of active member payroll, will remain approximately level from one generation to the next. Theses contributions, combined with present assets and future investment returns, will meet present and future financial obligations. The actuarial accrued liability for pension benefits on June 30, 2002 and June 30, 2001 was $9,986 million and $9,257 million, respectively and the actuarial value of assets was $8,879 million and $8,791 million, respectively. SERS' funding ratio declined from 95% to 89%.

The employer contribution rate of 14% is allocated by Board policy to cover the normal cost and amortization of the unfunded actuarial accrued liabilities for basic pension benefits, the reimbursement of Medicare Part B premiums and death benefits. The remainder goes toward the funding of post-retirement health care benefits, which are funded on a pay-as-you-go basis. To provide additional funding for health care, employers pay a surcharge for members whose salary is less than a minimum amount. Additional information regarding funding, including fiscal year 2002 contribution rates and amortization period, is provided within the Actuarial Section.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to SERS for its comprehensive annual financial report for the fiscal year ended June 30, 2001. This was the seventeenth consecutive year that SERS has achieved this prestigious award. To be awarded a Certificate of Achievement, a government entity must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

We want to recognize the departure of a long-serving member of the Retirement Board. Mary Kasunic was first elected as an employee member in 1979 and served for two terms. She retired in 1992 after spending over twenty-five years with the Wickliffe City Schools. Then, in 1997, Mary was elected to the retiree member position on SERS' Board. In the middle of her second term Mary resigned from the board when she and her husband moved to be near the rest of their family in Colorado. Mary is a tireless supporter of active and retired members, taking advantage of all opportunities to advance their cause in Columbus, around the state or in Washington D.C. We wish many years of active and enjoyable retirement for Mary. Orris E. Fields, Jr. of Wilmington was selected to serve the remaining two years of Mary's term.

The preparation of this report is the combined effort of the System's staff under the direction of the Retirement Board. It will be mailed to all employer members of SERS and other interested parties and published on our website. Summary financial information will be distributed to active and retired SERS membership.

The cooperation of SERS' employers contributes significantly to the success of SERS and is greatly appreciated. We would also like to express our gratitude to the Board, the staff, consultants and others who help ensure the successful operation of the School Employees Retirement System.

Respectfully submitted,

Thomas R. Anderson
Executive Director

Virginia S. Brizendine
Director - Finance

STATE LEGISLATION

The Ohio General Assembly regularly considers legislation that could have an impact on SERS' operations, or the provision of benefits to members or retirees. The following significant Ohio legislation became effective or was introduced this year:

H.B. 157 (Effective 2/1/02)

This legislation fixes the annual cost of living adjustment for all public retirees at 3%, regardless of the actual change in the consumer price index.

S.B. 119 (Effective 2/20/02)

This legislation permits multiple transfers of service credit and contributions between Ohio's public retirement systems.

S.B. 247 (Effective 10/1/02)

This legislation enables SERS, STRS, and PERS to develop a partial lump-sum option plan (PLOP) which would enable new retirees to elect an up-front cash distribution at the time of retirement with a reduced monthly pension thereafter.

S.B. 261 (Effective 9/3/02)

This legislation creates a discount prescription drug program for seniors and disabled individuals. The system will be able to determine the impact of the program, if any, on SERS' retiree drug benefits after the Department of Aging develops the program with drug manufacturers.

H.B. 364 (Passed by General Assembly 12/5/02)

This legislation expands the sponsorship and area of the state in which community schools may be established, and makes other changes in community school law. The bill contains language clarifying that community school payments to SERS must be made from the education foundation, and that SERS and STRS receive priority creditor status if a school closes. The bill will be sent to the Governor for his signature.

H.B. 173 (Introduced 3/21/01)

This legislation creates the Ohio Technology Fund, a venture capital investment fund that would invest in high technology businesses. The legislation requires PERS, STRS, SERS, and the Bureau of Workers' Compensation to invest $60 million per year, on a prorata basis, to the fund. The bill received sponsor testimony in the House Finance & Appropriations Committee.

S.B. 289 (Introduced 8/15/02)

This legislation establishes criteria for the appointment of broker-dealers, new reporting requirements to the Ohio Division of Securities and Ethics Commission, and a requirement that 60% of equity trades by Ohio's public retirement systems be made through Ohio brokers. The bill has been assigned to the Senate Ways & Means Committee.

FEDERAL LEGISLATION

The impact of congressional and federal regulatory activities upon SERS has increased in recent years. SERS monitors these activities, and when appropriate, contacts congressional representatives and regulatory agencies to provide education about the impact of proposals. Enacted and introduced federal legislation this year includes:

Public Company Accounting Reform Legislation

H.R. 3763 (Effective 7/30/02)

Signed into law by the president, this legislation is intended to protect investors by improving the accuracy of corporate disclosures made pursuant to the securities laws. Introduced by Rep. Michael Oxley (R-OH), it provides for a five-member oversight board to regulate public accounting firms; extends enforcement authority of the SEC; and prohibits an officer, director or affiliated person of an issuer of registered securities from exerting improper influence upon the conduct of an audit. The legislation was merged with S. 2673 in the House-Senate conference committee and renamed the Sarbanes-Oxley Act.

Social Security Offset and Windfall Elimination

H.R. 664 Sponsored by Rep. William Jefferson (D-LA), this bill sets a floor whereby a spousal Social Security benefit would not be reduced if the recipient collects less than $1,200 per month in combined Social Security and public pension benefits. Although the legislation has tremendous bipartisan support, it has yet to have a hearing. **S. 611**, sponsored by Sen. Barbara Mikulski (D-MD), is the Senate companion.

H.R. 848 Sponsored by Rep. Max Sandlin (D-TX), this bill seeks to repeal the Windfall Elimination Provision. No action has been taken on this bill.

H.R 1073 Sponsored by Rep. Barney Frank (D-MA), this bill would eliminate the Windfall Elimination Provision when an individual's combined monthly income from Social Security and other public pensions does not exceed $2,000 per month. **S. 2521**, sponsored by John Kerry (D-MA) is the Senate companion. No action has been taken on either bill.

H.R. 2638 Sponsored by Rep. Howard "Buck" McKeon (R-CA), this bill would repeal both the Social Security Offset and Windfall Elimination Provisions. **S. 1523**, sponsored by Sen. Dianne Feinstein (D-CA), is similarly intended. No action has been taken on either bill.

H.R. 3497 Sponsored by Rep. E. Clay Shaw, Jr. (R-FL), this bill contains a provision that would reduce the Social Security Offset from two-thirds to one-third. No action has been taken on this bill.

Patient Protection

H.R. 2563 Sponsored by Rep. Greg Ganske (R-IA), this bill would require group health plans and health insurance issuers to have approved utilization review programs, claims procedures, and appeal procedures concerning claims denials. The bill sets forth provisions concerning group health plans and health insurers, and the provision of certain advice and care, including: emergency care, obstetric and gynecological care, specialist's care, prescription drugs, and participation in approved clinical trials. The House passed the bill, and on 9/6/01 it was introduced and placed on the Senate calendar.

S. 1052 Sponsored by Sen. John McCain (R-AZ), this bill is intended to provide protection for consumers in managed care plans, including coverage for visits to the nearest emergency room, direct access to medical specialists, medically necessary prescription drugs, and clinical trials for experimental treatments. The bill would also provide extensive new opportunities to challenge decisions by health maintenance organizations and insurers, including a two-tiered review process and a right to sue insurers and HMOs over decisions that lead to injury or death. The Senate passed the bill on 6/29/01.

Bankruptcy Reform

H.R. 333 Sponsored by Rep. George Gekas (R-PA), this bill would make numerous changes in the bankruptcy code, including exemption of all retirement savings assets from bankruptcy estate. The bill was passed by both the House and Senate, and on 7/30/02, the conference committee reported the bill.

Social Security Number Privacy

H.R. 2036 Sponsored by Rep. E. Clay Shaw, Jr. (R-FL), this bill would, among other provisions, prohibit display to the general public of Social Security account numbers possessed by governmental agencies, prohibit display of Social Security numbers on checks issued for payment by government agencies, prohibit display by governmental agencies of personal identification numbers, and create new penalties. **S. 1014**, sponsored by Sen. Jim Bunning (R-KY), is the Senate companion. **S. 848**, introduced by Sen. Dianne Feinstein (D-CA), would also, with certain exceptions, prohibit the display, sale, or purchase of Social Security numbers.

Prescription Drugs

H.R. 4954 Sponsored by Rep. Nancy Johnson (R-CT), this bill provides for voluntary prescription drug coverage under Medicare. The legislation passed the House on 6/28/02, and was placed on the Senate calendar. **S. 2625**, introduced by Sen. Bob Graham (D-FL), would provide coverage for outpatient prescription drugs under Medicare. **S. 2**, introduced by Sen. Chuck Grassley (R-IA), amends Title XVIII of the Social Security Act to provide for a voluntary prescription drug delivery program under Medicare, and modernizes the program.

FINANCIAL SECTION

Deloitte & Touche LLP
155 East Broad Street
Columbus, Ohio 43215-3611

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Fax: (614) 229-4647
www.deloitte.com

Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
School Employees Retirement System of Ohio
Columbus, Ohio

We have audited the accompanying combining statement of plan net assets of the School Employees Retirement System of Ohio (the "System") as of June 30, 2002 and the related combining statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combining financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2002, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the combining financial statements, in 2002, the System adopted Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis or Sate and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosure*.

Management's discussion and analysis is not a required part of the combining financial statements, but is supplementary information required by the GASB. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte
Touche
Tohmatsu

Our audit was conducted for the purpose of forming an opinion on the basic combining financial statements of the System taken as a whole. The required supplementary information and additional information listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic combining financial statements of the System. This supplementary and additional information are the responsibility of the System's management. Such information has been subjected to the auditing procedures applied in our audit of the basic combining financial statements for the year ended June 30, 2002 and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2002 financial statements taken as a whole. The schedule of funding progress and employer contributions for the year ended June 30, 1997 was reported on by other auditors whose report stated that the schedule was fairly stated when considered in relation to the basic combining financial statements taken as a whole.

The statistical data on pages 58-60 are presented for the purpose of additional analysis and is not a required part of the basic combining financial statements of the System. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic combining financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2002, on our consideration of the System's internal control structure and on its compliance with laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

December 12, 2002

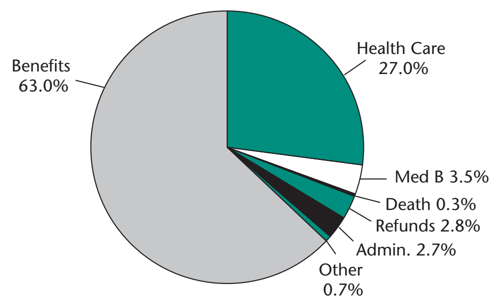
MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the School Employees Retirement System's financial performance provides a narrative overview of financial activities for the fiscal year ended June 30, 2002. Please read it in conjunction with the information that we have furnished in our Letter of Transmittal, which can be found in the Introductory Section of this report.

FINANCIAL HIGHLIGHTS

Contributions and investment income for fiscal year 2002 totaled $(94,154,929). This amount includes realized and unrealized investment gains and losses. The employee and employer contribution rates during fiscal 2002 remained unchanged from the prior year at 9% and 14%, respectively.

DEDUCTIONS FROM PLAN NET ASSETS



Expenses are incurred primarily for the purpose for which SERS was created, the payment of benefits. Included in the deductions from plan net assets for 2002 were benefit payments, refunds of contributions due to member terminations or deaths, transfers to other Ohio Systems to provide benefits for those members who had membership in more than one system, and administrative expenses. Pension benefits are funded through a combination of employee and employer contributions and investment income. The Medicare Part B reimbursement, the $1,000 death benefit and health care expenses are funded through employer contributions and investment income. Deductions from plan net assets for fiscal year 2002 totaled $676,215,939, an increase of 2.6% over fiscal 2001 deductions.

OVERVIEW OF FINANCIAL STATEMENTS

Following the management's discussion and analysis are the financial statements: the Combining Statement of Plan Net Assets and the Combining Statement of Changes in Plan Net Assets. SERS' financial statements are prepared using the accrual basis of accounting and are in compliance with applicable Governmental Accounting Standards Board statements.

The Combining Statement of Plan Net Assets provides a view at the fiscal year end of the amount the plan has accumulated in assets to pay for benefits. The Combining Statement of Changes in Plan Net Assets shows what has happened to the plan during the fiscal year. If net assets increased, then additions were greater than the deductions. If net assets decreased, then additions to the plan were less than the deductions from the plan.

CONDENSED STATEMENTS OF PLAN NET ASSETS
(in millions)

	2002	2001	Change Amount	Change Percent
Cash	$ 44.5	$ 2.4	$ 42.1	1770.9%
Receivables	452.2	428.0	24.2	5.7
Investments	7,863.9	8,620.1	(756.2)	(8.8)
Property & Equipment	55.1	5.3	49.8	946.2
Other Assets	0.8	60.1	(59.3)	(98.6)
Total Assets	8,416.5	9,115.9	(699.4)	(7.7)
Benefits & Accounts Payable	29.9	29.7	0.2	0.9
Investments Payable	827.9	757.1	70.8	9.3
Total Liabilities	857.8	786.8	71.0	9.0
Net Assets Available	$7,558.7	$8,329.0	$(770.4)	(0.1)%

CONDENSED STATEMENTS OF CHANGES IN PLAN NET ASSETS
(in millions)

	2002	2001	Change Amount	Change Percent
Contributions	$ 552.8	$ 526.5	$ 26.3	5.0%
Net Investment Loss	(647.0)	(632.4)	14.6	2.3
Total Additions	(94.2)	(105.9)	11.7	(11.1)
Benefits	634.2	617.2	17.0	2.8
Refunds & Transfers	23.6	26.0	(2.4)	(9.2)
Admin. Expenses	18.4	16.0	2.4	14.9
Total Deductions	676.2	659.2	17.0	2.6
Net Decrease	$ (770.4)	$ (765.1)	$ 5.3	0.7%

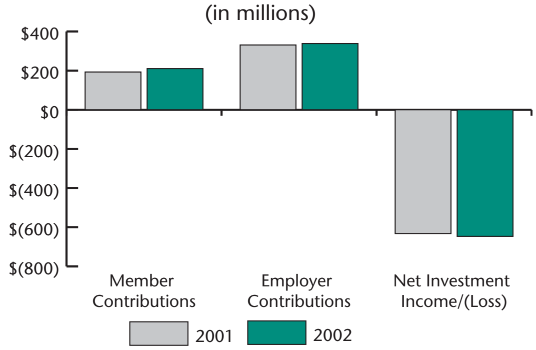
In addition to the combining financial statements and accompanying notes, certain required supplementary information (RSI) is provided. The schedule of funding progress shows on an actuarial basis whether SERS' ability to pay for benefits is improving or deteriorating over time. Also included in the required supplementary information is a schedule of employer contributions and notes to the required schedules. Both schedules provide data over the past six years. Following the RSI are schedules of investment expenses, payments to consultants and administrative expenses.

FINANCIAL ANALYSIS

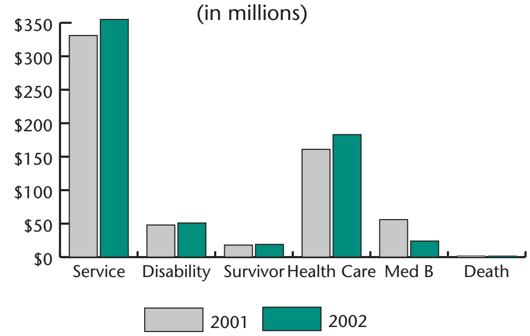
Additions - Contributions from employees and employers increased 5.0% in 2002 because of growth in the number of active members and average annual salary; the active member population increased by 4,570 to 120,254 and the average annual salary increased $1,029 to $18,093.

Investment net loss totaled $647 million. As the U.S. stock market continued downward so did the fair value of SERS' investment portfolio. Included in the net loss is income of $157 million from dividends, interest and securities lending.

ADDITIONS TO PLAN NET ASSETS
(in millions)



BENEFIT PAYMENT COMPARISON
(in millions)



Deductions - Health care expenses took another double-digit increase in 2002, albeit a slightly smaller jump than the 14.7% increase realized in 2001. The proportion of prescription drug costs relative to total health care expenses remained the same: 47.9% vs. 47.4% for 2002 and 2001, respectively. This trend mirrors that of health care nationally and there seems to be no end in sight to the continued increases; however SERS tries to control health care expenses whenever possible and yet continue to maintain the quality of the services available to retirees at an affordable cost.

SERS reimburses a portion of the Medicare Part B premium to retirees eligible for SERS' health care program and Medicare Part B. For calendar year 2002 the premium is $54.00, SERS reimburses $45.50. Medicare Part B payments in 2001 were greater because of a special one-time payment equal to the difference between $45.50 and the amount reimbursed since January 1993, totaling $39.1 million.

Benefit payments in the Pension Trust Fund to age and service, disability and survivors increased 7.2% from 2001. One component of the increase is the new automatic 3% cost of living adjustment; the remainder comes from the higher pensions of new retirees and a slight increase in the retiree population.

The significant decrease in SERS' assets over the last two fiscal years is a result of stock market declines. The impact can be seen in several ways - the decrease in the funding ratio of actuarial accrued liabilities, the increase in the funding period and the higher allocation of employer contributions to the Pension Trust Fund. The funding of health care in this economic environment is a constant struggle because of the lower earnings of SERS' member population.

COMBINING STATEMENT OF PLAN NET ASSETS AS OF JUNE 30, 2002

ASSETS	PENSION TRUST FUND	MEDICARE B FUND	DEATH BENEFIT FUND
Cash and Operating Short Term Investments (note 4)	$ 36,265,860	$ 734,189	$ 68,250
Receivables			
Contributions			
Employer (note 3)	54,252,968	7,827,126	291,913
Employee (note 3)	13,098,128		
Investments Receivable	243,529,655	3,597,283	706,655
Total Receivables	310,880,751	11,424,409	998,568
Investments, at Fair Value (note 2)			
US Equity	3,138,224,211	46,352,704	9,113,956
Non US Equity	1,209,135,536	17,859,368	3,511,543
Fixed Income Securities	2,028,162,681	29,956,695	5,890,142
Real Estate	746,995,935	11,033,400	2,169,408
Private Equity	89,424,106	1,320,826	259,702
Short-Term Investments	19,501,098	288,038	56,635
Total Investments	7,231,443,567	106,811,031	21,001,386
Security Lending Collateral (note 4)	261,124,072		
Property and Equipment, at Cost (note 5)	59,213,367		
Less Accumulated Depreciation	(4,078,827)		
	55,134,540		
Other Assets	716,242	148,355	(1,000)
TOTAL ASSETS	7,895,565,032	119,117,984	22,067,204
LIABILITIES			
Payables			
Accounts Payable and Accrued Expenses (note 8)	2,900,794		
Benefits Payable	548,054	928	163,000
Investments Payable	539,052,937	7,962,586	1,564,181
Security Lending Collateral (note 4)	261,124,072		
TOTAL LIABILITIES	803,625,857	7,963,514	1,727,181
NET ASSETS HELD IN TRUST FOR PENSION AND POSTEMPLOYMENT HEALTH CARE BENEFITS	$7,091,939,175	$ 111,154,470	$ 20,340,023

(A Schedule of Funding Progress is presented on page 30)

See accompanying notes to the combining financial statements.

HEALTH CARE FUND	TOTAL
$ 7,424,669	$ 44,492,968
120,660,829	183,032,836
	13,098,128
8,200,781	256,034,374
128,861,610	452,165,338
105,680,411	3,299,371,282
40,717,913	1,271,224,360
68,298,837	2,132,308,355
25,155,257	785,354,000
3,011,377	94,016,011
656,704	20,502,475
243,520,499	7,602,776,483
	261,124,072
	59,213,367
	(4,078,827)
	55,134,540
(39,104)	824,493
379,767,674	8,416,517,894
658,542	3,559,336
25,723,659	26,435,641
18,152,430	566,732,134
	261,124,072
44,534,631	857,851,183
$ 335,233,043	$7,558,666,711

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2002

ADDITIONS	PENSION TRUST FUND	MEDICARE B FUND	DEATH BENEFIT FUND
Contributions			
Employers (note 3)	$ 102,321,473	$ 16,178,916	$ 456,274
Employees (note 3)	210,098,081		
Transfers from other Ohio Systems	4,780,142		
Total Contributions	317,199,696	16,178,916	456,274
Income from Investment Activity			
Net Depreciation in Fair Value	(742,860,254)	(11,602,742)	(2,133,096)
Interest and Dividends	147,323,184	2,174,868	427,234
	(595,537,070)	(9,427,874)	(1,705,862)
Investment Expenses	(26,227,365)	(364,246)	(71,553)
Net Income/(Loss) From Investment Activity	(621,764,435)	(9,792,120)	(1,777,415)
Income from Security Lending Activity			
Gross Income	4,723,330	69,770	13,706
Brokers' Rebates	(2,474,256)	(36,548)	(7,180)
Management Fees	(355,348)	(5,249)	(1,031)
Net Income from Security Lending Activity	1,893,726	27,973	5,495
Total Net Investment Income/(Loss)	(619,870,709)	(9,764,147)	(1,771,920)
TOTAL ADDITIONS	(302,671,013)	6,414,769	(1,315,646)
DEDUCTIONS			
Benefits:			
Retirement	355,422,159	21,135,767	
Disability	51,081,315	1,155,196	
Survivor	19,250,740	1,305,343	
Healthcare			
Death			1,905,283
Total Benefits	425,754,214	23,596,306	1,905,283
Refunds and Lump Sum Payments	19,212,728		
Administrative Expenses	17,029,967	355,585	49,514
Transfers to other Ohio Systems	4,414,555		
	40,657,250	355,585	49,514
TOTAL DEDUCTIONS	466,411,464	23,951,891	1,954,797
NET INCREASE / (DECREASE)	(769,082,477)	(17,537,122)	(3,270,443)
NET ASSETS HELD IN TRUST FOR PENSION AND POSTEMPLOYMENT HEALTH CARE BENEFITS:			
Balance, Beginning of Year	7,861,021,652	128,691,592	23,610,466
Balance, End of Year	$7,091,939,175	$ 111,154,470	$ 20,340,023

See accompanying notes to the combining financial statements.

HEALTH CARE FUND	TOTAL
$ 218,967,729	$ 337,924,392
	210,098,081
	4,780,142
218,967,729	552,802,615
(19,742,242)	(776,338,334)
4,958,080	154,883,366
(14,784,162)	(621,454,968)
(830,376)	(27,493,540)
(15,614,538)	(648,948,508)
159,057	4,965,863
(83,320)	(2,601,304)
(11,967)	(373,595)
63,770	1,990,964
(15,550,768)	(646,957,544)
203,416,961	(94,154,929)
	376,557,926
	52,236,511
	20,556,083
182,946,777	182,946,777
	1,905,283
182,946,777	634,202,580
	19,212,728
951,010	18,386,076
	4,414,555
951,010	42,013,359
183,897,787	676,215,939
19,519,174	(770,370,868)
315,713,869	8,329,037,579
$ 335,233,043	$ 7,558,666,711

NOTES TO COMBINING FINANCIAL STATEMENTS JUNE 30, 2002

1. Description of the System

Organization - The School Employees Retirement System of Ohio (SERS) is a cost-sharing multiple-employer defined benefit public employee retirement system established by the Ohio General Assembly in 1937 to provide retirement benefits to employees of Ohio public schools who are not required to possess a certificate in order to perform their duties.

Four separate funds comprise the SERS retirement system. The Pension Trust Fund, the Medicare B Fund and the Death Benefit Fund are pension funds. The Pension Trust Fund hold the funds to pay the basic retirement benefits authorized under Ohio Revised Code (ORC) 3309. The Medicare B Fund pays the reimbursement for Medicare premiums paid by retirees and beneficiaries as set forth in ORC 3309.69. The Death Benefit Fund (ORC 3309.50) pays a $1,000 benefit upon the death of a retiree.

ORC 3309.375 and 3309.69 permit SERS to pay health care benefits to retirees and beneficiaries. Funds available for such benefits are recorded in a separate fund known as the Health Care Fund.

SERS does not have financial accountability over any entities. SERS is not considered part of the State of Ohio financial reporting entity. Responsibility for the organization and administration of SERS is vested in the Retirement Board. The Retirement Board is the governing body of SERS. It is comprised of four elected employee-members, one elected retiree-member and two statutory members.

Employer and employee membership data as of June 30 follows:

Employer Members	**2002**
Local	371
City	194
Educational service center	62
Village	49
Technical	63
Community	107
College	1
Other	6
Total	853

Employee Members	**2002**
Retirees and beneficiaries currently receiving benefits	59,349
Terminated employees entitled to but not yet receiving benefits	8,423
Total	67,772

Current Employees	
Vested	64,841
Non-vested	55,413
Total	120,254

Benefits - Members are eligible for retirement benefits based upon age and service credit as follows: age 60 and earning 5 years of service credit; age 55 and earning 25 years of service credit; or earning 30 years of service credit at any age. The benefit is equal to

2.2% of the member's final average salary, or a minimum of $86, multiplied by the number of years of credited service. Members retiring with more than 30 years of service credit receive an increased benefit multiplier of 2.5% for each year of earned service in excess of 30 years. Death benefits of $1,000 are payable upon the death of a retiree to a designated beneficiary. Members are eligible for disability benefits after completion of 5 years of service. Qualified dependents of a deceased member are eligible for monthly survivor benefits.

Qualified benefit recipients who pay Medicare B premiums may apply for and receive a monthly reimbursement from SERS. The current reimbursement amount is $45.50.

Members with credited service in the State Teachers Retirement System (STRS) or Public Employees Retirement System (PERS) are eligible to receive transferred credited service and funds from either or both of those systems. Any service which is not concurrent with service within SERS will be included in the determination of retirement benefits. Similarly, a member with credited service and funds in SERS may transfer such service to STRS or PERS upon retirement.

Retirees of any of the five state retirement systems must contribute to SERS if they are employed in a non-certificated position in the public schools. These contributions are credited to a separate money purchase annuity payable after age 65 in either monthly payments if the monthly amount is $25 or more, or in a lump sum.

Prior to July 1, 1986, all members receiving a benefit from SERS were eligible to receive health care benefits. Members who elect a service retirement effective July 1, 1986 or later must have at least ten or more years of service credit to qualify for the health care benefits. Effective August 1, 1989, members retiring with less than 25 years of service credit were required to pay from 25% to 75% of the health insurance premium.

2. Summary of Significant Accounting Policies

Basis of Accounting — SERS' financial statements are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Administration costs are financed by investment earnings.

In June 1999 the GASB issued Statement No. 34, *Basic Financial Statements–Management's Discussion and Analysis–for State and Local Governments* (GASB 34). In June 2001 the GASB issued Statement No. 37, *Basic Financial Statements–and Management's Discussion and Analysis–for State and Local Governments: Omnibus*, which amended certain provisions of GASB 34, which is effective for SERS for fiscal years ending after June 15, 2002. The adoption of GASB 34 required the presentation of SERS Management's Discussion and Analysis (MD&A). The MD&A is considered to be required supplementary information and precedes the financial statements. Also adopted was GASB Statement No. 38 - *Certain Financial Statement Note Disclosures*. This Statement modifies, establishes, and rescinds certain financial statement disclosure requirements and should be simultaneously implemented with GASB 34. The adoption of GASB 34 did not have any impact on the display of the net assets of SERS' funds.

Investments — Plan investments are reported at fair value. Fair value is "the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller." Fixed income securities and common and preferred stocks are valued based on published market prices and quotations from national security exchanges and securities pricing services. International stocks are then adjusted to reflect the current exchange rate of the underlying country. Securities which are not traded on a national security exchange, including real estate and venture capital, are valued by the respective fund manager or independent appraisers. Short term securities are valued at amortized cost, which approximates fair value.

Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment expense consists of those expenses directly related to SERS' investment operations, as well as the internal administrative expenses associated with the SERS' investment program.

Office Building, Equipment and Fixtures (Non-Investment Assets) — Office building and equipment and fixtures in excess of $5,000 are capitalized at cost when acquired. Improvements which increase the useful life of the property are capitalized. Maintenance and repairs are charged to expense as incurred. Depreciation has been provided using the straight-line method over the following useful lives:

Description	**Estimated Lives (years)**
Furniture and equipment	3-10
Building and improvements	40

Federal Income Tax Status — The SERS Pension Trust Fund is considered a qualified entity under Section 501(a) of the Internal Revenue Code (IRC) and is therefore exempt from federal income taxes. The Medicare B Fund is established pursuant to IRC Section 401(h). The Death Benefit Fund is an insurance fund and is in compliance with IRC 101(a). The Health Care Fund is structured to meet the requirements of IRC Section 105(e).

Health Care Benefits Incurred and Unpaid — Amounts accrued for health care benefits payable are based upon estimates furnished by the claims administrators. Such estimates have been developed from prior claims experience.

3. Contributions

The Ohio Revised Code requires contributions by active members and their employers. Contribution rates are established by the Retirement Board within the allowable rates established by the Ohio Revised Code. The adequacy of employer contribution rates is determined annually by actuarial valuation using the entry age normal cost method. Active members and their employers are required to contribute 9% and 14%, respectively, of active member payroll.

The current employer contribution rate is allocated among the four funds of the system by the Retirement Board, upon the advice of the Actuary. For fiscal year 2002, the allocation of the employer contribution rate to pension fund benefits was established as the rate necessary to cover normal cost. Of the 14% contribution rate paid by employers, 5.46%

was allocated to the pension funds in the following rates:

Pension Trust Fund	4.73%
Medicare B Fund	.71%
Death Benefit Fund	.02%

During fiscal year 2002, the remaining 8.54% of the 14% employer contribution rate went to the Health Care Fund. The Health Care Fund balance at June 30, 2002 was $335.2 million, which is $60.8 million above the minimum reserve amount.

Employer and employee contributions required and made represented 14% and 9%, respectively, of active member payroll and amounted to $318.6 million and $204.8 million, respectively, in 2002. The employee contribution amounts in the financial statements include employee contributions for purchased service credit.

The minimum reserve for health care benefits equals 150 percent of annual health care expenses. A health care surcharge on employers is collected for employees earning less than an actuarially determined minimum pay, pro-rated according to service credit earned. For fiscal year 2002, the minimum has been established as $12,400. The surcharge accrued for fiscal year 2002 included in contribution revenue from employers in the Combining Statement of Changes in Plan Net Assets is $24.0 million.

The following investment summary identifies the level of custodial credit risk assumed by SERS as of June 30, 2002 (amounts expressed in thousands).

	Total Fair Value	Category 1	Category 2	Category 3	Non-Categorized
US government and agency obligations	$1,015,293	$ 869,089	$ -	$ -	$ 146,204
US corporate bonds & obligations	810,118	810,118			
Non-US bonds	21,468	21,468			
US equity	1,162,430	1,116,755		571	45,104
Non-US equity	415,128	352,851			62,277
Overnight Discount Notes	151,525	151,525			
Commercial paper	87,483	87,483			
Repurchase agreements	119,700	119,700			
Real estate investment trusts	154,740	154,740			
Commingled funds:					
US equity	2,125,137				2,125,137
Non-US equity	856,097				856,097
Real estate	625,409				625,409
Private equity	93,445				93,445
Security lending collateral:					
Mutual fund	261,124				261,124
Total investments, operating short-term securities, and security lending collateral	**$7,899,097**	**$3,683,729**	**$0**	**$571**	**$4,214,797**

4. Cash Deposits and Investments

Cash Deposits — By statute, the Treasurer of the State of Ohio (Treasurer) serves as custodian for all SERS' deposits. Deposits are classified into three categories of credit risk to give an indication of the level of custodial credit risk assumed by SERS. Category 1 includes deposits insured or collateralized with securities held by SERS or its agent in the name of SERS. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the name of the Treasurer. Category 3 includes deposits which are uncollateralized.

As of June 30, 2002, the carrying amount of SERS' operating cash and the investment cash deposits was $44,492,793 and the bank balances were $48,613,790. Of the bank balances, $200,000 was insured by the Federal Deposit Insurance Corporation. Additional bank balances of $2,989,941were covered by collateral held in the name of SERS' pledging financial institutions, as required by state statute. The remaining balances are held in segregated trust accounts and are not assets of the banks. The carrying amount of deposits is separately displayed on the balance sheet as "Cash".

Investments — The Retirement Board (the Board) has the responsibility to invest available funds of the System, in accordance with applicable state law and the guidelines set forth by the Board. SERS does not hold investments in any one organization representing five percent or more of plan net assets.

Ohio Revised Code Section 3309.15 and the Board's "Investment Objectives and Policies" (adopted September 2000) direct that the funds of the system will be invested following the "prudent expert standard." This fiduciary standard dictates that the Board consider the probable safety of investments, avoid speculative investments, and invest as persons of prudence, discretion, and intelligence would manage their own affairs. The Board accomplishes this through a combination of internal and external investment professionals.

The chart on page 25 is prepared in accordance with Statement No. 3 of the Governmental Accounting Standards Board, and shows SERS' investments categorized to give an indication of the level of custodial credit risk assumed by SERS at year-end. Category 1 includes investments that are insured or registered, with securities held by the Treasurer or custodial agent bank in SERS' name. Category 2 includes uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in SERS' name. Category 3 includes uninsured and unregistered investments, with securities held by the counterparty, or by its trust department or agent, but not in SERS' name.

Non-US Securities — The System invests in the securities of non-US developed and undeveloped countries. The objective of these investments is to obtain the highest total return consistent with a reasonable degree of risk for this asset class. These investments are diversified by investment style, country, capitalization range and economic sector. Managers may occasionally use futures contracts, in the major non-US equity markets, to facilitate trading and temporarily invest cash.

Derivatives — Derivatives can be defined as investment instruments whose cash flows or fair values are derived from the value of some other asset or index. SERS uses a variety of derivatives primarily in an effort to maximize yields and offset volatility due to interest rate and currency fluctuations. The System is exposed to various types of credit, market and legal risks related to these investments. Investment staff monitors these types of investments with extreme care and is not aware of any undue risks at this time.

Forwards — Forward currency contracts are legal agreements between two parties to purchase and sell a foreign currency, for a price specified at the contract date, with delivery and settlement in the future. SERS enters into these contracts to hedge the foreign currency movements of assets held in the underlying funds. The System hedges 50% of the fair value of its assets in non-US developed countries. As of June 30, 2002, SERS had outstanding contracts in the amount of $572,075,290 which had a maturity date of September 6, 2002, and net loss on rejoined contracts of $63,146,857 for the fiscal year.

Futures — Futures are contracts between two parties to transfer some commodity in the future and are executed in formal commodities exchange markets. Normally, these contracts do not result in delivery of these said commodities, as futures have no formal settlement process. Rather, the gains/losses resulting from these transactions are transferred between the parties on a daily basis and collateral of 5% of the anticipated fair value is required as a good faith agreement. The System uses only the most liquid equity futures to directly hedge the temporary and transactional cash held in domestic equity portfolios in an effort to obtain an equity return for the entire equity allocation. The System also used equity and fixed income futures during a portion of fiscal 2002 to rebalance its asset allocation.

As of June 30, 2002, SERS held S&P 500 and Russell 2000 equity index futures in the amount of $16,756,000 with an expiration date of September 20, 2002. Equity futures realized a net gain of $30,152,919 during the fiscal year.

The System also held fixed income futures at year-end. US Treasury Bond/Note Futures in the net amount of $4,214,330 had an expiration date of September 19, 2002. Fixed income futures realized a net gain of $4,549,457 during the fiscal year.

Other — The System also has investments in various types of fixed income securities for which it does not hold the underlying securities. Funds are invested in mortgage-backed, asset-backed, interest-only strips, principal-only strips and adjustable-rate securities. These securities serve to maximize yields and to offset volatility in the fund due to interest rate fluctuations. The fair value of these securities totaled $1,078,545,638 at June 30, 2002, representing 14.2% of the fair value of all investments.

Security Lending — SERS participates in two security lending programs, as authorized by Board policy. SERS receives prorated income from participation in the security lending programs of several commingled funds. SERS has no direct responsibility for these programs and the collateral held by these security lending programs is not held in SERS' name. Total net proceeds from these commingled funds were $1,124,876 during fiscal year 2002.

SERS also has a direct security lending program for the System's direct US security investments using a third-party lending agent. Securities are transferred to independent brokers/dealers in exchange for cash collateral equal to approximately 102% of the market value of domestic securities on loan and 105% of the market value of international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. SERS continues to recognize ownership of the loaned securities in the financial statements. At the same time, SERS records a liability for the collateral held by the system in the security lending program. Total net proceeds from this program were $866,088 during fiscal year 2002.

At June 30, 2002 SERS had no credit risk exposure on the security lending collateral because the collateral exceeded the value of the securities loaned. Securities on loan at year-end totaled $253,584,649 and total collateral held for those securities was $261,124,072. Under the terms of the lending agreement, SERS is fully indemnified against loss for any losses that might occur in the program due to the failure of a broker to return a security that was borrowed.

Securities on loan can be recalled on demand by SERS or returned by the borrower at any time. There is no matching of the securities lent with the invested cash collateral. Cash collateral is invested in government and/or agency obligations or bank or corporate debt with limits on quality and duration of instruments that can be purchased. At June 30, 2002 the collateral portfolio had an average weighted maturity of 41 days.

Commitments — As of June 30, 2002, outstanding commitments related to the real estate and venture capital investment portfolios totaled $293,546,221.

5. Property and Equipment (Non-Investment Assets)

A summary of property and equipment at June 30 follows:

	2002
Land	$ 3,315,670
Building and improvements	48,634,259
Furniture and equipment	7,263,438
	59,213,367
Less accumulated depreciation	4,078,827
	$55,134,540

6. Deferred Compensation

Employees of SERS may elect to participate in the Ohio Public Employees Deferred Compensation Program (Program), created in accordance with Internal Revenue Code (IRC) Section 457. Under the Program, employees may elect to defer a portion of their pay until a later date, usually after retirement. The deferred pay and any income earned thereon is not subject to income taxes until actually received by the employee.

IRC Section 457 requires that the amount of compensation assets deferred under a plan, all property and rights, and all income attributable to those amounts, property, or rights be held in trust for the benefit of the participants. This insulates 457 benefits from the claims of an employer's general creditors. Accordingly, the employer does not include the deferred compensation assets or liabilities in its financial statements.

7. Defined Benefit Pension Plan

SERS contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer defined benefit plan. Under the authority granted by Section 145 of the Ohio Revised Code, PERS provides retirement, disability and survivor benefits for the public employees of Ohio. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing PERS, 277 East Town Street, Columbus, Ohio 43215.

Plan members are required to contribute 8.5% of earnable salary and employers are required to contribute at an actuarially determined rate. The rate for miscellaneous employers during fiscal year 2002 was 13.55% of covered payroll. The contribution requirements for employees and employers are established and may be amended within statutory limits by the PERS Board. The payroll for employees covered by PERS for the year ended June 30, 2002 was $7,348,775; SERS' total payroll was $7,897,178. SERS' contributions to PERS for the years ending June 30, 2002, 2001, and 2000 were $995,759, $658,221, and $773,894 respectively, equal to the required contributions for each year.

In addition to pension benefits, PERS provides postemployment health care benefits, in accordance with state statutes, to all employees who retire with 10 or more years of qualifying Ohio service credit and to disability recipients. At December 31, 2001, the plan had 411,076 active participants.

A portion of each employer's contribution to PERS is set aside for the funding of postemployment health care. The current rate is 4.3% of member covered payroll. For the year ended June 30, 2002, approximately $316,000 of employee payroll contributed by SERS to PERS was the portion used to fund health care. Net assets held in trust at December 31, 2001 for postemployment health care benefits were $9.9 billion.

The actuarial present value of accrued postemployment benefits was determined based on the entry age normal method of funding. Significant actuarial assumptions used in the December 31, 2000 valuation (most recent available) were: an investment rate of return of 7.75%, investments valued at book value plus or minus realized or unrealized investment gains and losses amortized at 25% per annum over a four-year period, no change in the number of active employees, base pay rate increases of 4.75% and annual pay increases over and above the 4.75% base increase ranging from .54% to 3.1%.

8. Compensated Absences

As of June 30, 2002, $1,025,800 was accrued for unused vacation and sick leave for SERS' employees. Employees who retire or resign are entitled to full compensation for all earned unused vacation. Unused sick leave pay is forfeited upon termination. However, employees who retire, become disabled or deceased after five years of service are entitled to receive payment for a percentage of unused sick leave.

9. Contingent Liabilities

SERS is a party in various litigation. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material adverse effect on SERS' financial position.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress* (In Millions)

Valuation Year	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
1997[2]	$6,504	$5,521	$ 983	85%	$1,552	63
1998[3]	7,037	6,413	624	91	1,652	38
1999[4]	7,535	7,332	203	97	1,768	11
2000	8,100	8,281	(181)	102	1,866	–
2001[1,3]	8,852	8,791	61	99	1,974	3
2001[5]	9,257	8,791	466	95	1,974	24
2002	9,986	8,879	1,107	89	2,176	51

* The amounts reported in this schedule do not include assets or liabilities for postemployment health care benefits.
(1) After change in actuarial assumptions.
(2) After change in asset valuation method.
(3) After change in benefit provisions.
(4) After change in normal cost method.
(5) Revised valuation.

Schedule of Employer Contributions*

Year Ended June 30	Annual Required Contributions	Percentage Contributed
1997	$144,487,949	100
1998	139,955,108	100
1999	127,195,004	100
2000	98,148,589	100
2001	78,459,360	100
2002	110,795,693	100

* The amounts reported in this schedule do not include contributions for postemployment health care benefits.

NOTE TO REQUIRED SUPPLEMENTARY SCHEDULES

Description of Schedule of Funding Progress

Each time a new benefit is added which applies to service already rendered, an "unfunded accrued liability" is created. Laws governing the System require that these unfunded accrued liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to unfunded accrued liabilities.

The Schedule of Funding Progress includes two ratios that provide information about whether the financial strength of the System is improving or deteriorating over time. An improvement is indicated when the funded ratio (assets expressed as a percentage of the actuarial accrued liability) is increasing and the ratio of the unfunded actuarial liability to payroll is decreasing.

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date: June 30, 2002
Actuarial cost method: Entry age normal
Amortization method: Closed basis as a level percent of active member payroll
Remaining amortization period: 30 Years
Asset valuation method: 4-Year smoothed market
Actuarial Assumptions:
Investment rate of return* - 8.25%
Projected salary increases* - 4.75% to 25.0%
Cost of living adjustments - 3% simple

*Includes inflation at 4.25%

SUMMARY OF INVESTMENT EXPENSES FOR THE YEAR ENDED JUNE 30, 2002

Description of Expense	Gross Assets Under Management June 30, 2002	Direct Fees
US equity	$ 3,299,371,282	$ 8,227,852
Non-US equity	1,271,224,360	2,939,975
Fixed income	2,132,308,355	3,091,685
Real estate	785,354,000	6,581,894
Private equity	94,016,011	3,692,233
Short-term investments	20,502,475	-
Total investment management fees		$ 24,533,639
Custodial fees		682,025
Investment consultant fees		709,291
Investment pool administrative expenses (see note 2)		1,568,585
Total other investment expenses		2,959,901
Total investment expenses		$ 27,493,540

SCHEDULE OF PAYMENTS TO CONSULTANTS

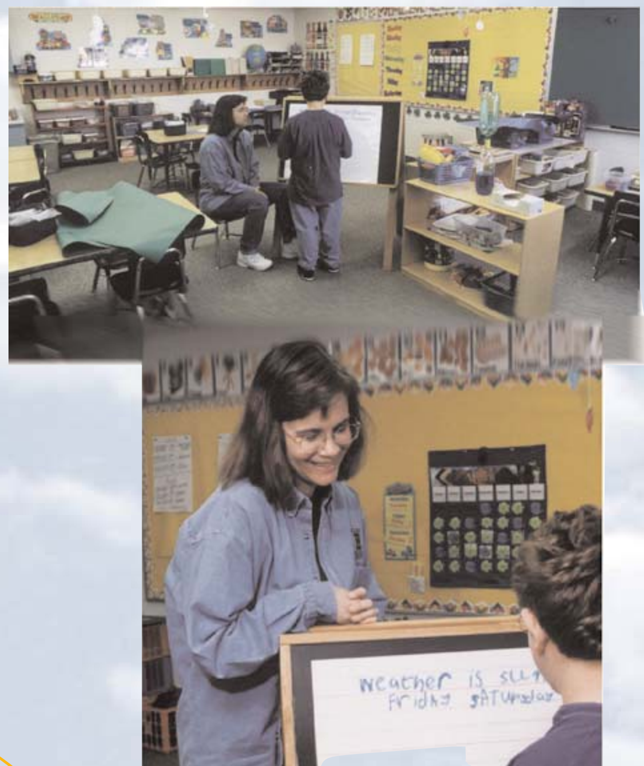
SERS paid the following consulting fees in fiscal 2002:

Actuarial	$ 111,750
Audit	78,951
Legal counsel	116,823
Medical consultant	23,520
Information technology consultants	50,104
Health care consultants	56,977
Other consultants	572,879
Disability exams	476,961
Total	$1,487,965

Schedule of Brokers' Fees is presented on page 44.

ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2002

	Administrative Expenses	Investment Expenses
Personnel Services		
Salaries	$ 7,116,432	$ 780,747
Retirement contributions	898,297	97,462
Insurance	860,880	106,778
Total personnel services	8,875,609	984,987
Professional Services		
Medical	500,481	-
Technical	473,053	323,730
Actuarial	111,750	-
Auditing	78,951	-
Total professional services	1,164,235	323,730
Communications		
Postage	387,219	-
Telephone	149,124	-
Retirement counseling services	57,684	-
Printing and publications	253,093	-
Total communications	847,120	-
Other Services		
Computer support services	3,401,260	90,092
Equipment repairs and maintenance	106,535	-
Building occupancy and maintenance	816,803	-
Supplies	62,561	819
Employee training	134,252	13,115
Transportation and travel	211,310	48,758
Equipment rental	28,116	90,994
Surety bonds and insurance	190,536	-
Memberships and subscriptions	63,163	13,564
Retirement study commission	42,916	-
Bank fees	108,080	-
Miscellaneous	179,896	2,526
Total other services	5,345,428	259,868
Total administrative expenses before depreciation	16,232,392	1,568,585
Depreciation (Non-Investment)		
Furniture and equipment	1,305,262	-
Building	848,422	-
Total depreciation	2,153,684	-
Total administrative expenses	$ 18,386,076	$ 1,568,585



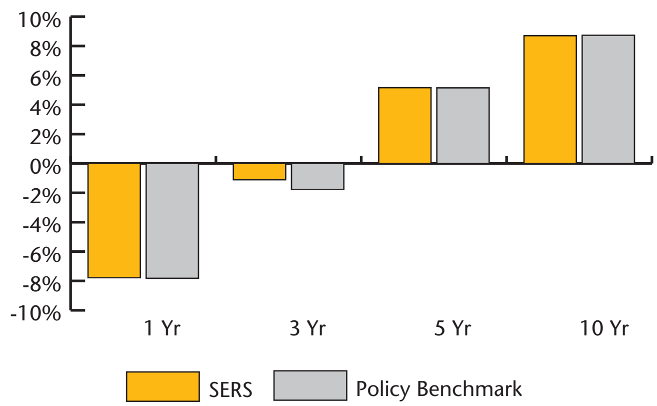
INVESTMENT SECTION

INVESTMENT SUMMARY AS OF JUNE 30, 2002

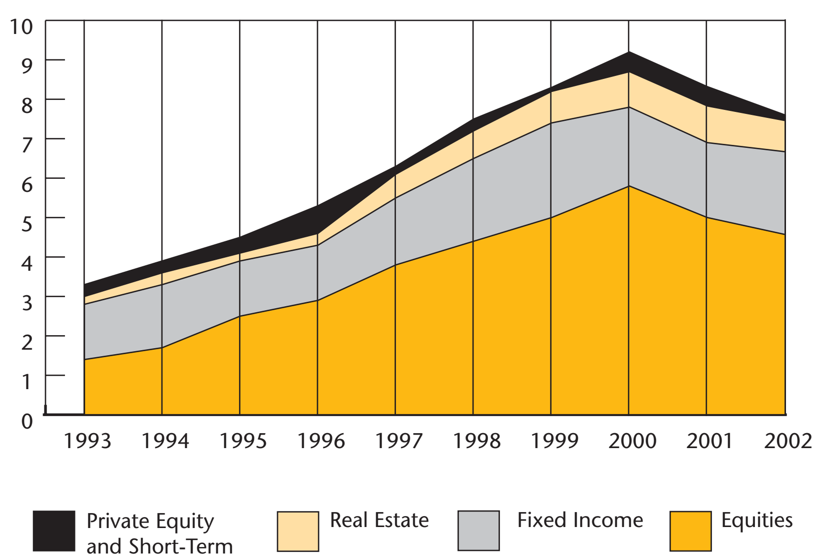
Portfolio Type	Fair Value[1]	% of Total Fair Value
US Equity	$ 3,299,371,282	43.4%
Non-US Equity	1,271,224,360	16.7%
Fixed Income	2,132,308,355	28.0%
Real Estate	785,354,000	10.4%
Private Equity	94,016,011	1.2%
Short-Term	20,502,475	0.3%
	$ 7,602,776,483	100.0%

[1]The dollar value of each portfolio type is shown at fair value, without regard to associated payables and receivables.

INVESTMENT RATES OF RETURN VS POLICY BENCHMARK



TEN YEAR INVESTMENT COMPARISON AT FAIR VALUE (IN BILLIONS)



School Employees Retirement System

THOMAS R. ANDERSON
Executive Director

JOHN D. LeHOCKEY
Deputy Executive Director

300 EAST BROAD ST., SUITE 100 • COLUMBUS, OHIO 43215-3746 • (614) 222-5853

VIRGINIA BRIZENDINE
Finance

JIMMIE L. KINNAN
General Counsel

KAREN G. KLOSS
Member Services

MILO M. ROUSE, JR.
Health Care Services

DOUGLAS L. SISSON
Investments

TERESA R. WOOLLEY
Information Technology

Board of Trustees
Members of the System

On behalf of the SERS Investment Department, I respectfully present the Investment Section of the Comprehensive Annual Financial Report for the year ending June 30, 2002. Information presented in this section was compiled by our investment staff, in cooperation with members of our Finance Department and Board consultant Frank Russell. It is presented in accordance with time-weighted rate of return methodology based on market rate of return.

It has been a very difficult year for financial markets. Historians no doubt will characterize the year as extraordinary; we hope they will characterize it as anomalous as well. This year, the U.S. economy fell into recession for the first time in ten years, and corporate profits suffered their worst decline in decades. Economic woes continued throughout the year. Exacerbated by the September attacks, uncertainty over subsequent military action around the world, and extraordinary corporate scandals that wracked investor and consumer confidence, equity markets spiraled downward. Between July 1, 2001 and June 30, 2002 credit rating agencies downgraded corporate credit, while the S&P 500 Index lost almost 17% of its value and the NASDAQ declined 27%. Long-term perspectives exist for times like these.

We are confident in our ability to manage SERS assets in the current market environment. SERS investment policies, guidelines and strategies not only will enable us to endure current financial markets, but will position us to take advantage of opportunities going forward. Amid the doom and gloom of fiscal year 2002, there were a number of positive highlights and significant events to report, including:

- Russell/Mellon was hired as master record keeper beginning fiscal year 2003.
- The Board approved and adopted a Securities Litigation Policy.
- Boston Global Advisors, a division of Goldman Sachs Trust Company, was hired to manage our securities lending program.
- Russell Securities was hired to manage our cash equitization and futures rebalancing programs.
- Three new employees joined the Investment Department, including an administrative assistant, an investment analyst, and a fixed income manager.
- We implemented a successful futures rebalancing two days after markets opened in the wake of September 11, and by fiscal year-end we had begun implementation of a second rebalancing program.
- We increased our commitment to private equity, including the addition of an international private equity fund-of-funds partnership.

SERS is committed to following a disciplined plan that will result in long-term success. Staff appreciates the opportunity to be of continued service to the Board and to our Members.

Sincerely,

Douglas L. Sisson

Douglas L. Sisson
Director of Investments

INVESTMENT REPORT

The Board of the School Employees Retirement System ("SERS") of Ohio is responsible for investing the assets of the fund solely for the benefit of its participants and beneficiaries. Chapter 3309 of the Ohio Revised Code and the Board-adopted Investment Policy govern investment activity at SERS.

INVESTMENT POLICY

During fiscal year 2002, the Board adopted a Securities Litigation Policy, establishing guidelines for evaluating and participating in securities class-action litigation.

INVESTMENT OBJECTIVES

The primary objective of the investment portfolio is to achieve investment returns, net of management fees and other expenses, exceeding the weighted return of our investment policy portfolio. On June 30, 2002, the composition of SERS' policy portfolio was as follows:

- 47% US Equities - Russell 3000 Index
- 16% Non-US Equities - MSCI-All Country World Ex-US Index
- 2% Private Equity - S&P 500 + 3%
- 23% Fixed Income - Lehman Brothers Aggregate Index
- 2% Short-Term - 30-day Treasury Bill
- 10% Real Estate - NCREIF Property Index

INVESTMENT STRATEGIES

Asset Allocation

Every three to five years the Board conducts an asset allocation study to determine the most efficient allocation of asset classes to achieve its overall return/risk objectives. Initial planning for the next study occurred this fiscal year. The study is scheduled for completion in fiscal year 2003.

Diversification

The value of diversification was reaffirmed this year as the US equity market lost nearly one-fifth of its value. Diversification of SERS investment assets significantly curtailed the impact of equity market losses, and helped ensure the security of benefit payments to future retirees.

In addition to diversifying across and within asset classes, SERS diversifies its investment managers (investment strategies). For example, the equity portfolio consists of individual accounts spread across managers specializing in large, medium, or small cap companies, having either a growth or value orientation, and utilizing security selection models based on quantitative, fundamental or other unique methodologies. As of June 30, 2002, forty-two leading investment management firms were under contract with SERS to manage a diversified share of its portfolio. Investment activities by all firms are guided by, and subject to agreements and investment guidelines which conform to the Board's investment policy.

INVESTMENT RESULTS

Long-Term Investment Results

Long-term fund performance remained positive despite three consecutive years of negative returns. For the ten-year period ending June 30, 2002, the fund returned 8.7%, matching its policy benchmark. On a five-year basis, returns were notably less at 5.2%, but still equal to the policy benchmark.

The *Schedule of Investment Results* on the following page summarizes "fund vs. benchmark" performance for the total fund, and for each asset class over selected time periods.

Fiscal Year 2002 Results

For the fiscal year ending June 30, 2002, SERS' total fund returned (7.8)%. The Board's investment policy benchmark also was (7.8)%. Equity values have fallen almost steadily since their mid-2000 peak, and this decline has been largely responsible for negative fund performance since that time.

SCHEDULE OF INVESTMENT RESULTS FOR THE YEARS ENDED JUNE 30

	2002	2001	2000	1999	1998	Annualized Rates of Return 3-Year	5-Year	10-Year
US Equity								
SERS [1]	(15.6)%	(15.4)%	11.6%	18.7%	28.1 %	(7.1)%	4.1 %	11.0%
Russell 3000 Index	(17.2)	(13.9)	9.6	20.1	28.8	(7.9)	3.8	11.3
Non-US Equity								
SERS	(11.9)	(17.4)	18.4	10.4	12.6	(4.8)	0.6	-
Custom non-US Equity Benchmark[2]	(12.9)	(18.8)	18.6	10.2	9.8	(5.7)	0.3	-
Fixed Income								
SERS	9.1	12.5	4.8	2.7	10.8	8.7	7.9	7.2
Lehman Bros. Aggregate Bond Index	8.6	11.2	4.6	3.1	10.5	8.1	7.6	7.3
Real Estate								
SERS [3]	3.2	12.4	12.9	9.6	12.2	8.9	10.4	8.4
NCREIF Property Index (one quarter in arrears)	6.4	12.0	11.2	14.5	16.0	9.9	12.0	8.2
Short-Term								
SERS	2.6	9.1	5.6	4.9	5.6	5.8	5.6	5.1
Salomon Smith Barney 30 Day Treas. Bill Index	2.3	5.2	4.9	4.3	4.9	4.1	4.3	4.2
Private Equity [4]								
SERS	(30.9)	(32.7)	118.5	39.6	10.5	3.3	9.7	23.5
Standard & Poor's 500 Index + 300bps[2]	3.3	(11.8)	11.4	27.7	35.3	1.0	14.3	17.9
Total Fund								
SERS [5]	(7.8)	(6.8)	12.1	12.1	18.6	(1.1)	5.2	8.7
Policy Benchmark [6]	(7.8)	(6.3)	9.7	13.7	19.3	(1.8)	5.2	8.7

Source: Russell/Mellon Analytical Services

All returns are reported gross of fees, unless otherwise indicated, using a time-weighted rate of return methodology based on the market rate of return in accordance with the Performance Presentation Standards of the Association for Investment Management and Research.

(1) This composite includes cash equitization as of November 1998.

(2) From inception to 7/97 100% MSCI EAFE (50% hedged); 8/97 to 6/99 96.7% MSCI EAFE (50% hedged) and 3.3% MSCI EMF; 7/99 to 12/99 93.3% MSCI EAFE (50% hedged) and 6.7% MSCI EMF; 1/00 to current 100% MSCI ACWF x/US (Dev Mkts 50% hedged).

(3) Real Estate Composite returns are reported one quarter in arrears beginning with the quarter ending June 30, 2002. To implement quarter in arrears reporting, returns for private real estate assets were recorded as zero for the quarter ending June 30, 2002. REIT returns are reported in the quarter in which they are earned.

(4) Private Equity returns and Private Equity Benchmark are reported one quarter in arrears beginning with the quarter ending June 30, 2002. To implement quarter in arrears reporting, returns for private equity were recorded as zero for the quarter ending June 30, 2002.

(5) Composites include Net of Fee Real Estate and Venture Capital history prior to July 1, 1999. Real Estate and Private Equity classes are reported one quarter in arrears beginning with the quarter ending June 30, 2002. Total fund return is calculated for the quarter ending June 30, 2002 with Real Estate and Private Equity March 31, 2002 market values impacted with flows for the quarter ending June 30, 2002.

(6) As of 07/31/2001 SERS Policy Benchmark consists of: 47% Russell 3000, 16% MSCI AC World Free ex US (50% Hedged), 23% Lehman Brothers Aggregate, 10% NCREIF Property (1 qtr in arrears), 2% S&P 500 + 300bps, 2% Salomon Brothers 30 Day T-Bill. For the quarter ended June 30, 2002, the Private Equity Benchmark (1 qtr in arrears) reflects a 0% return.

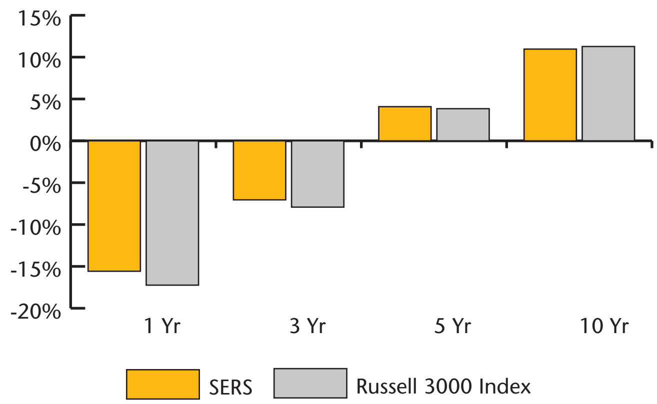
US EQUITIES

For the fiscal year ending June 30, 2002, the SERS US equity portfolio returned (15.6)%, outperforming the benchmark Russell 3000 Index by 1.6%. On an annualized basis, SERS' US Equity portfolio has outperformed its benchmark by 0.8% over the last three years.

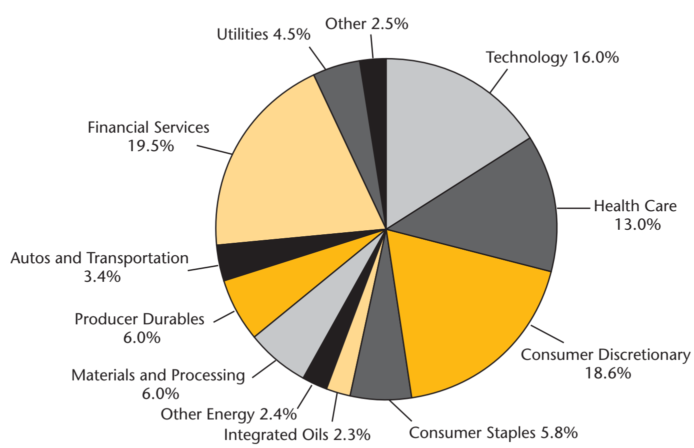
The US equity market fell 17.2% this fiscal year compared to one year ago, when it fell 13.9%. Corporate scandals, terrorist threats, and the potential of war were among the biggest factors contributing to continued weak performance of the US equity market. Value stocks continued to outperform growth stocks. This fiscal year, value stocks outperformed growth stocks by 33.5% among small cap stocks and 17.5% among large cap stocks. Small capitalization stocks outperformed large capitalization stocks by 9.3%. Fortunately, by design, the SERS US Equity portfolio is size and style neutral to the Russell 3000 Index.

A successful rebalancing of SERS' total portfolio in the fall of 2001 helped keep the US Equity portfolio neutral with regard to market capitalization and style and within its policy active/passive mix. In May 2002, to reduce manager risk in the small capitalization portion of the US equity portfolio, SERS added a third small capitalization value manager.

US EQUITY



ECONOMIC SECTORS



LARGEST INDIVIDUAL US EQUITY HOLDINGS (excludes commingled funds) **AS OF JUNE 30, 2002**

	Description	Shares	Market Price	Fair Value
1	GENERAL ELECTRIC CO.	580,740	$29.05	$16,870,497
2	MICROSOFT CORP.	298,200	54.70	16,311,540
3	CISCO SYSTEMS, INC.	1,076,500	13.95	15,017,175
4	INTEL CORP.	737,300	18.27	13,470,471
5	WAL MART STORES, INC.	218,700	55.01	12,030,687
6	EXXON MOBIL CORP.	276,406	40.92	11,310,534
7	VERIZON COMMUNICATIONS	261,960	40.15	10,517,694
8	BANK OF AMERICA, INC.	145,600	70.36	10,244,416
9	CITIGROUP, INC.	262,597	38.75	10,175,634
10	AMERICAN INTERNATIONAL GROUP, INC.	145,350	68.23	9,917,231

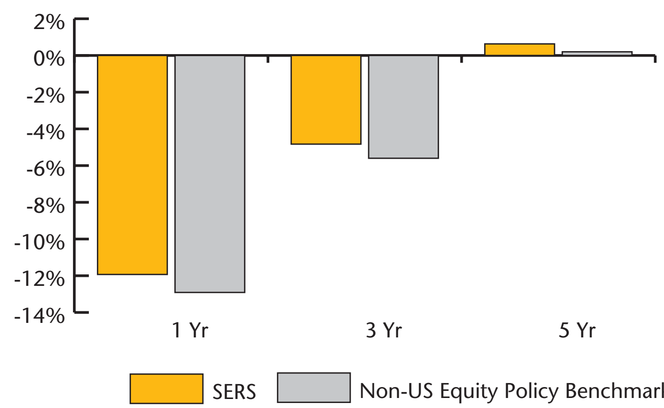
All monetary values stated in US dollars
A complete listing of holdings is available upon request.

NON-US EQUITIES

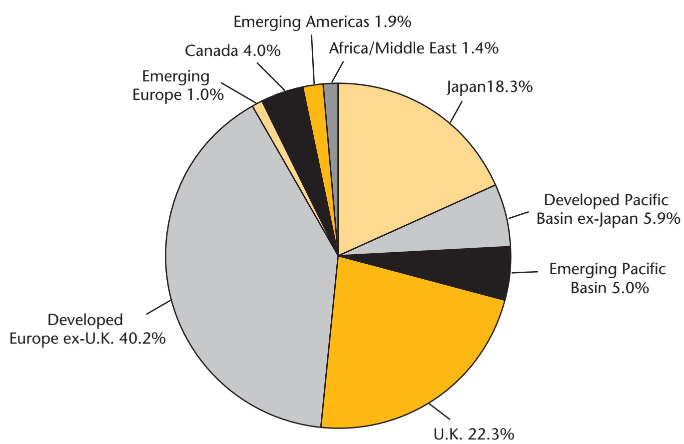
International equity markets suffered over the past fiscal year. The Europe, Australia, Far East Index sunk to levels not seen since 1997 and emerging markets fell back to levels experienced during the international crises of 1998. For the fiscal year ending June 30, 2002, SERS non-US equity portfolio returned (11.9)%, outperforming its policy benchmark (MSCI All Country World Free Excluding the US Index with developed countries 50% hedged) by 1.0%. On an annualized basis, the SERS non-US Equity portfolio has outperformed its benchmark by 0.8% over the past three years and by 0.4% over the past five years. On an unhedged basis, stocks in developed markets fell 9.2% but those in emerging markets actually rose 1.3% for the fiscal year.

For the fiscal year, Asia Pacific excluding Japan earned the highest returns among developed markets, while Japan experienced the lowest returns. Among emerging countries, Korea earned the highest returns, 52.3% on a hedged basis while Brazil dropped 24.6%. In general, Latin American markets were among the worst performers as political issues and currency weakness compounded their losses.

NON-US EQUITY



GEOGRAPHIC ALLOCATION



LARGEST INDIVIDUAL NON-US EQUITY HOLDINGS (excludes commingled funds) **AS OF JUNE 30, 2002**

	Description	Country	Shares	Market Price	Fair Value
1	ENI S.P.A.	Italy	597,964	$ 15.90	$9,507,843
2	CANON, INC.	Japan	223,000	37.79	8,428,083
3	PHILIPS ELECTRONICS NV	Netherlands	287,543	27.92	8,028,043
4	TOTAL FINA ELF S.A.	France	45,106	162.36	7,323,475
5	REED ELSEVIER PLC	United Kingdom	729,573	9.51	6,939,430
6	AVENTIS S.A.	France	97,377	70.86	6,900,163
7	ROYAL BANK OF SCOTLAND GROUP	United Kingdom	237,137	28.35	6,723,303
8	ASTRAZENECA PLC	United Kingdom	156,970	41.40	6,498,556
9	VODAFONE GROUP PLC	United Kingdom	4,673,731	1.36	6,349,750
10	BAE SYSTEMS PLC	United Kingdom	1,216,063	5.11	6,214,676

All monetary values stated in US dollars
A complete listing of holdings is available upon request.

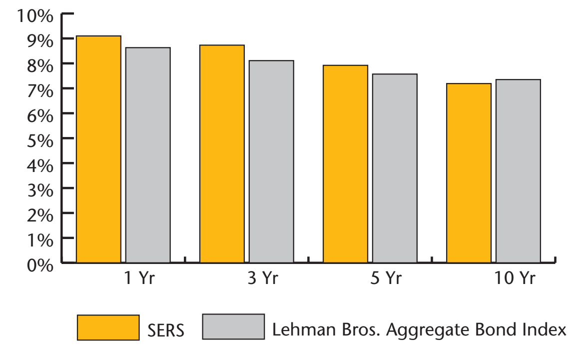
FIXED INCOME

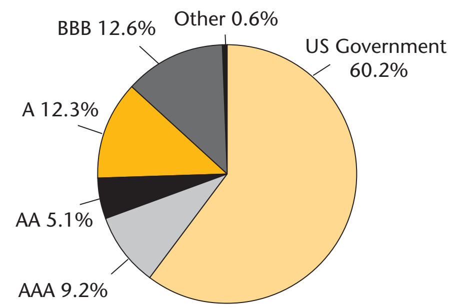
Characterized as an active core bond portfolio, the SERS fixed income portfolio is comprised principally of low-risk, high-quality debt securities. The portfolio is managed by a diverse group of active bond managers employing proven investment strategies to help SERS meet its goals and objectives.

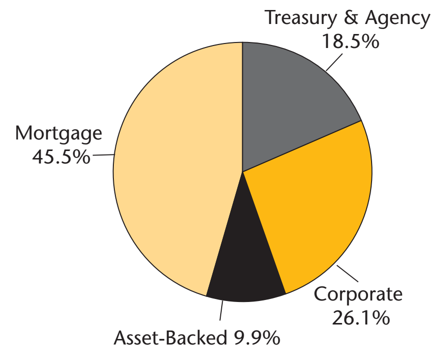
For the fiscal year ending June 30, 2002, SERS' fixed income portfolio outperformed the benchmark Lehman Aggregate Bond Index by 56 basis points, returning 9.19% against the index return of 8.63%. Relative to the benchmark, SERS managers strategically underweighted government bonds (treasuries and agencies) and overweighted commercial mortgages and asset-backed securities. The portfolio maintained an average quality rating of AA or higher.

During fiscal year 2002, bond markets were bolstered by declining interest rates and an inflow of investment capital. Unpredictable federal reserve policy shifts, chronic corporate fraud, and unprecedented credit downgrades by rating agencies hampered bond performance and narrowly restricted investment alternatives across sectors.

Last fiscal year the Board approved limited investment in extended sectors (e.g., high yield, international, and emerging markets). Given the poor performance of extended sectors in fiscal year 2002, it is fortuitous for SERS that implementation of this policy was delayed until fiscal year 2003. No policy changes affecting fixed income occurred this fiscal year.







LARGEST INDIVIDUAL FIXED INCOME HOLDINGS AS OF JUNE 30, 2002

	Description	Rating	Coupon	Maturity Date	Par Value	Market Price	Fair Value
1	GNMA	AAA	6.5000	07/01/2032	$73,700,000	$102.00	$75,174,000
2	FNMA	AAA	7.0000	07/01/2032	52,900,000	103.56	54,783,240
3	FNMA	AAA	6.0000	07/01/2032	50,990,000	99.75	50,862,525
4	FNMA	AAA	6.5000	08/01/2032	48,200,000	101.60	48,971,276
5	Treasury Note	AAA	3.3750	04/30/2004	41,415,000	101.05	41,851,928
6	Treasury Note Inflation Adjusted	AAA	3.6250	04/15/2028	25,995,000	119.99	31,192,004
7	Treasury Note	AAA	4.3750	05/15/2007	27,000,000	101.37	27,371,250
8	FHLMC	AAA	5.7500	01/15/2012	22,515,000	102.74	23,132,136
9	Treasury Note	AAA	4.8750	02/15/2012	20,105,000	100.41	20,186,687
10	Fannie Mae Grantor Trust 2001-T10	AAA	7.0000	12/25/2031	17,701,410	104.34	18,470,182

All monetary values stated in US dollars
A complete listing of holdings is available upon request.

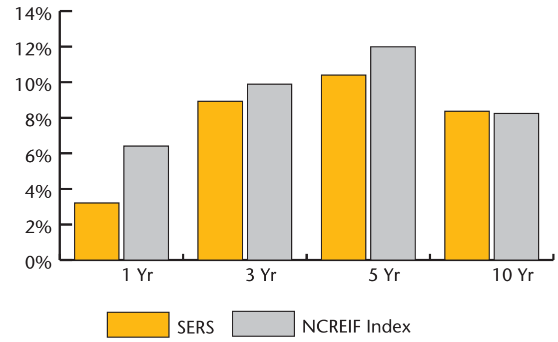
REAL ESTATE

SERS invests in real estate to provide stable long-term rates of returns and to diversify its assets in order to reduce total fund volatility. The real estate portfolio consists primarily of investments in office buildings, shopping centers, apartment communities, and industrial parks as well as shares of publicly traded real estate investment trusts (REITs).

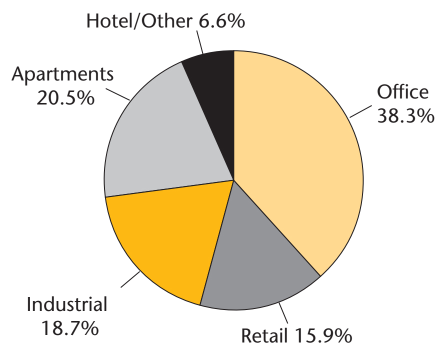
For fiscal 2002, the NCREIF Property Index, a barometer of private US real estate returns, had a total return of 6.4%. During the first half of fiscal 2002, real estate markets were affected by the slowing US economy - vacancy rates were up for most property types. Despite the economic slowdown, real estate continues to provide stable lease income. The outlook for real estate depends on the length and magnitude of an economic recovery.

During fiscal 2002, the SERS' real estate portfolio produced a total return of 3.2%. For three-, five-, and ten-year periods, the real estate portfolio produced returns of 8.9%, 10.4%, and 8.4% respectively.

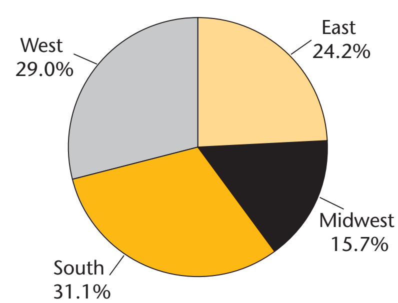
REAL ESTATE



PROPERTY TYPE DIVERSIFICATION



REGIONAL DIVERSIFICATION



LARGEST INDIVIDUAL REAL ESTATE HOLDINGS AS OF JUNE 30, 2002

	Description	**Fair Value**
1	INVESCO TAKEOVER	$91,979,250
2	UBS REALTY SEPARATE ACCOUNT	86,432,339
3	INVESCO REALTY	67,064,144
4	JP MORGAN TAKEOVER	55,903,510
5	TIMES SQUARE CHARTER OPEN-END ACCOUNT	55,610,967
6	JP MORGAN STRATEGIC	51,875,271
7	SENTINEL REAL ESTATE	50,435,807
8	CB RICHARD ELLIS	26,941,490
9	KOLL BREN V	25,729,852
10	UBS REALTY ALLEGIS MULTIFAMILY TRUST	22,975,286

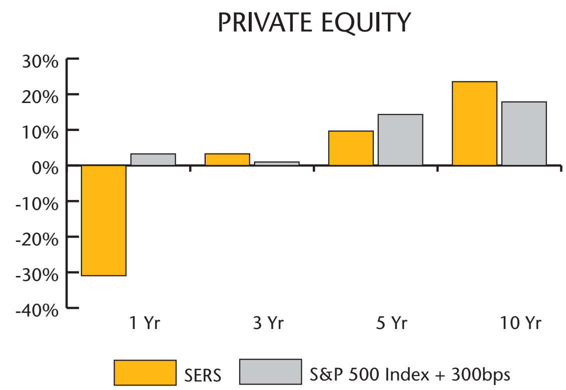
All monetary values stated in US dollars
A complete listing of holdings is available upon request.

PRIVATE EQUITY

SERS invests in private equity to provide returns in excess of those provided by stocks, bonds, and real estate. Private equity consists of investments in venture capital, buyout limited partnerships, and other "non-public" investments. Private equity also includes investments in fund-of-funds, which invest in a diversified portfolio of venture capital, buyout limited partnerships, and other non-public investments.

During fiscal year 2002, the Board approved commitments to two new private equity funds totaling $60 million. These funds are listed in the table below.

During fiscal 2002, SERS' private equity portfolio produced a total return of (30.9)%. The accompanying chart shows historical returns relative to the benchmark.



SERS PRIVATE EQUITY COMMITMENTS DURING FISCAL YEAR 2002

Fund	Type of Fund	Commitment
Goldman Sachs PEP 2002	Fund-of-Funds	$35,000,000
J.P. Morgan Corporate Finance II - Intl.	Fund-of-Funds	25,000,000
Total		$60,000,000

LARGEST INDIVIDUAL PRIVATE EQUITY HOLDINGS AS OF JUNE 30, 2002

	Description	Fair Value
1	MORGENTHALER VENTURE PARTNERS V LP	$11,557,981
2	MORGENTHALER VENTURE PARTNERS VI LP	10,856,797
3	PRIMUS CAPITAL IV L P	9,132,643
4	BRANTLEY VENTURE PARTNERS III	8,154,294
5	BLUE CHIP II	6,325,163
6	LINSALATA IV	6,053,847
7	BLUE CHIP III	5,723,528
8	CID EQUITY CAP V	5,310,202
9	MORGENTHALER VENTURE PARTNERS IV LP	4,139,626
10	HORSLEY BRIDGE FUND VII LP	3,860,523

All monetary values stated in US dollars
A complete listing of holdings is available upon request.

INVESTMENT CONSULTANT & MONEY MANAGERS

Investment Consultant

Frank Russell Company – Tacoma, Washington

Investment Managers – US Equities

Aronson + Partners – Philadelphia, Pennsylvania

Duncan-Hurst Capital Management, Inc. – San Diego, California

Fuller & Thaler Asset Management – San Mateo, California

Gardner Lewis Asset Management – Chadds Ford, Pennsylvania

Geewax, Terker & Co. – Chadds Ford, Pennsylvania

Lincoln Capital Management Company – Chicago, Illinois

Lord, Abbett & Co. – Jersey City, New Jersey

MacKay Shields Financial Corporation – New York, New York

Oak Associates – Akron, Ohio

State Street Global Advisors – Boston, Massachusetts

Suffolk Capital Management, Inc. – New York, New York

Investment Managers – Non-US Equities

F&C Emerging Markets – London, England

Oechsle International Advisors – Boston, Massachusetts

Alliance Bernstein, Inc. – New York, New York

State Street Global Advisors – Boston, Massachusetts

Investment Manager – Futures

Frank Russell Securities – Tacoma, Washington

Investment Manager – Foreign Currency

State Street Global Advisors – Boston, Massachusetts

Investment Managers – Private Equity

Alpha Capital Partners – Chicago, Illinois

Blue Chip Venture Company – Cincinnati, Ohio

Brantley Partners – Cleveland, Ohio

CID Equity Partners – Indianapolis, Indiana

Goldman Sachs & Co. – New York, New York

Horsley Bridge Partners – San Francisco, California

Linsalata Capital Partners – Cleveland, Ohio

Peppertree Partners – Cleveland, Ohio

Morgenthaler – Cleveland, Ohio

Primus Venture Partners – Cleveland, Ohio

Investment Managers – Fixed Income

BlackRock Financial Management - New York, New York

Dodge & Cox, Inc. – San Francisco, California

Johnson Investment Counsel, Inc. – Cincinnati, Ohio

J.P. Morgan Fleming Asset Management, Inc. – New York, New York

Western Asset Management Company – Pasadena, California

Investment Managers – Real Estate

AEW Capital Management – Boston, Massachusetts

CB Richard Ellis Investors – Los Angeles, California

Clarion CRA Securities – Radnor, Pennsylvania

INVESCO Realty Advisors – Dallas, Texas

J.P. Morgan Fleming Asset Management, Inc. – New York, New York

Koll Bren Schreiber Realty Advisors – Newport Beach, California

Lend Lease Real Estate – Atlanta, Georgia

Sentinel Real Estate – New York, New York

TimesSquare Real Estate Investors – Hartford, Connecticut

UBS Realty Advisors – Hartford, Connecticut

Master Custodians

Huntington National Bank – Columbus, Ohio

State Street Global Advisors – Boston, Massachusetts

SUMMARY SCHEDULE OF BROKERS' FEES FOR THE YEAR ENDED JUNE 30, 2002

Brokerage fees on US and non-US investment transactions for the fiscal year ended June 30, 2002 were $3,391,456 and $762,762 respectively. Separate lists of brokers receiving these fees during the year follow.

US TRANSACTIONS: **Broker Name**	**Fees Paid**	**# of Shares Traded**	**Avg. Price per Share**
Merrill Lynch Pierce Fenner	$ 412,411	9,609,676	$ 0.043
Jefferies & Co.	304,175	11,340,660	0.027
UBS Paine Webber	278,386	6,165,562	0.045
BNY ESI & Co., Inc.	214,047	7,562,250	0.028
National Financial Services	177,575	7,451,699	0.024
Instinet	172,092	6,614,867	0.026
Bear, Stearns	165,301	4,582,724	0.036
Lehman Brothers	129,327	4,571,347	0.028
Donaldson, Lufkin & Jenrette	121,314	3,862,622	0.031
Prudential Securities, Inc.	118,154	2,676,940	0.044
Deutsche Bank Alex Brown, Inc.	109,231	3,627,254	0.030
Goldman Sachs & Company	105,269	3,136,404	0.034
Cantor Fitzgerald & Co., Inc.	103,487	2,873,240	0.036
Salomon Smith Barney, Inc.	82,805	2,383,654	0.035
Credit Suisse First Boston Corp.	77,579	1,979,075	0.039
Spear, Leeds & Kellogg	63,282	1,740,945	0.036
Morgan Stanley	56,713	2,045,049	0.028
RBC Dain Rauscher	55,525	1,632,649	0.034
Legg, Mason	50,049	1,021,184	0.049
Frank Russell Securities	43,986	884,090	0.050
Banc Of America Securities, LLC	42,247	1,117,979	0.038
First Union Securities, Inc.	40,412	951,150	0.042
Baird, Robert W. & Company	36,001	783,320	0.046
J.P. Morgan Chase Bank	30,789	1,056,726	0.029
Robertson, Stephens & Co., LP	24,359	816,003	0.030
Janney, Montgomery & Scott	23,068	456,600	0.051
CI BC World Markets Corp.	23,036	760,486	0.030
U.S. Bancorp Piper Jafray	22,638	645,231	0.035
Sanford C Bernstein & Co.	22,195	442,600	0.050
SG Cowen Securities	21,780	485,943	0.045
William Blair & Co.	21,413	461,491	0.046
Brokers' fees less than $20,000 each	242,810	7,531,785	0.032
TOTAL - US	$3,391,456	101,271,205	$ 0.033
NON-US TRANSACTIONS: **Broker Name**			
Merrill Lynch Pierce Fenner	$ 191,044	10,718,735	$ 0.018
Salomon Smith Barney, Inc.	65,947	4,316,515	0.015
Deutsche Bank Alex Brown, Inc.	51,919	2,531,655	0.021
UBS Warburg LLC	51,190	5,486,435	0.009
Lehman Brothers	48,073	2,358,576	0.020
Morgan Stanley	42,275	2,193,608	0.019
ABN AMRO	35,349	2,035,810	0.017
Goldman Sachs & Company	33,304	1,752,050	0.019
Credit Lyonnais	30,484	471,767	0.065
Credit Suisse First Boston Corp.	30,473	1,403,792	0.022
HSBC Capital Markets	24,877	1,160,630	0.021
Brokers' fees less than $20,000 each	157,827	6,538,092	0.024
TOTAL - Non-US	$ 762,762	40,967,665	$ 0.019
GRAND TOTAL	$4,154,218	142,238,870	$ 0.029

INVESTMENT POLICY

PURPOSE

The purpose of this Statement of Investment Policy is to define the Retirement Board's investment philosophy and objectives for the School Employees Retirement System of Ohio. This statement sets forth policies and describes the organization and division of responsibilities to prudently implement the Board's philosophy and objectives in accordance with Section 3309.15 of the Ohio Revised Code. It also establishes the framework and specific objectives to monitor investment performance and proxy voting, and to promote effective communication between the Board, the Investment Staff, and Investment Managers.

The contents of this Statement of Investment Policy and the associated Guidelines and Objectives are subject to change at any time by the Board. The Statement will be reviewed and revised periodically to assure that it continues to reflect the attitudes, expectations and objectives of the Board.

BACKGROUND

The School Employees Retirement System of Ohio was established by the state legislature to provide retirement and disability benefits for all non-certificate holding persons employed by the state's school districts. This purpose is sustained by the member and employer contributions and returns realized from investment of those contributions.

INVESTMENT OBJECTIVES

1. Return Requirements

The Board realizes that its primary objective is to assure that the Fund meets its responsibilities for providing retirement and other benefits. In defining investment objectives the Board seeks to enhance the investment returns of the fund in order to permit higher benefits and to achieve lower costs. Therefore, it adopts the following general investment objectives:

a. Maximize Total Return on Assets: Recognizing that the System's obligations will increase as a result of inflation, to maximize the total return on assets available for the provision of benefits while operating in accordance with applicable regulatory restrictions and within prudent parameters of risk.

b. Preservation of Principal: To protect the System from severe depreciation in asset value during adverse market conditions. Broad diversification of assets and careful review of risks will be employed toward this objective.

c. Competitive Results: To achieve investment results competitive with those of the broad market and of similar funds. Over the long term, the investment objective of the Fund is to meet or exceed the actuarial assumed rate of return.

2. Risk Tolerance

The Board believes that over the long term there exists a relationship between the level of investment risk taken and rates of investment return realized. The Board further believes that the assumption of a moderate level of risk associated with investments is reasonable and justified in order to enhance potential long-term investment results. It shall always act to assure that the level of investment risk in the portfolio shall be prudent and shall not jeopardize the primary objective of assuring retirement and other benefits.

a. Stability: While the Board seeks higher long-term investment results, it also seeks to avoid major fluctuations in year-to-year results.

b. Risk Level: The Board seeks to maintain a reasonable degree of total portfolio risk, defined by what would be experienced by similar retirement systems.

The Board seeks diversification by asset class and by investment approach and individual investments within asset classes to reduce overall portfolio risk.

INVESTMENT CONSTRAINTS

1. Liquidity Requirements

The System anticipates positive cash flow over the near-term and intermediate-term. Liquidity, for the purpose of immediate and intermediate-term benefit payments, is therefore not a major consideration in the investment of funds for the foreseeable future.

2. Time Horizon

Retirement systems invest over the long term. The SERS time horizon is assumed to be 30 years.

3. Laws & Regulations

A seven-member board governs the System, including the Ohio Attorney General and State Auditor, with responsibility for the investment function as set forth in the Ohio Revised Code. In addition to the investment function, the Ohio Revised Code also sets forth the fiduciary responsibility of the Board and of other fiduciaries in discharging their duties with respect to the fund. This Statement of Investment Policy incorporates and is subject to all restrictions, guidelines and obligations set forth by the Ohio Revised Code.

4. Taxes

The SERS falls under IRS code 401(a) as a qualified retirement plan. Thus, under IRS code 501(a), SERS enjoys a tax-exempt status.

5. Unique Preferences and Circumstances

Ohio Investments: Where investment characteristics, including return, risk, and liquidity, are equivalent, the Board will give careful consideration to investments which will have a positive impact on the economy of Ohio.

IMPLEMENTATION APPROACH

In order to monitor and control the activities within the investment function, the Board has reserved certain responsibilities for itself. It has also delegated certain responsibilities to the Investment Staff, to organizations serving as Investment Managers and, from time to time, to other consultants or advisors. These are enumerated in the Investment Organization and Responsibilities section.

In fulfilling its fiduciary duties, the Retirement Board employs a competent and qualified Investment Staff. Investment Staff members are assigned oversight of professional external Investment Managers. These Investment Managers have expertise in the management of their specialized portions of SERS asset portfolio for which they are responsible. Criteria to be used in the selection of such Investment Managers are also enumerated in the Investment Organization and Responsibilities section. The Retirement Board authorizes the Investment Staff to direct funds in accordance with this investment policy.

The Board has also established a reporting process for regular and timely review and evaluation of investment results. The Asset Strategy Statement covers each asset class and each investment management accountability unit within those asset classes. This strategy also specifies long-term target ratios for asset allocation, as well as permissible ranges related to those target allocations. This Strategy Statement is regularly evaluated and updated based on market conditions, investment results and the recommendations of the Investment Staff, Investment Managers and other consultants or advisors.

INVESTMENT ORGANIZATION AND RESPONSIBILITIES

1. Responsibilities of the Retirement Board

The Retirement Board recognizes its responsibility to ensure that the assets of the Fund are managed effectively and prudently, in full compliance with all applicable laws, and for the exclusive benefit of participants and beneficiaries. The Board believes it can best manage those responsibilities by delegating certain specific duties to others, as described below. In addition, the Board may designate certain of its members to act as an Investment Committee or a Subcommittee from time to time, and may delegate certain decision-making or fact-finding responsibilities to that committee or subcommittee.

Specific responsibilities of the Retirement Board or its Investment Committee or Subcommittee are as follows:

a. Ensure that all fiduciaries comply with the Ohio Revised Code and any other applicable regulations and legislation.

b. Establish investment policies, guidelines and objectives for the assets of the Fund and communicate them to the Investment Staff and Investment Managers.

c. Appoint and discharge those with responsibility for managing the Fund's assets, including Investment Managers, consultants and any others involved.

d. Establish a proxy policy; review proxy governance issues and reports from the Investment Staff and Investment Managers at least annually.

e. Request, receive and review reports from the Investment Staff and Investment Managers.

f. Review and approve the Annual Plan.

2. Responsibilities of the Investment Staff

The Investment Staff, headed by the Executive Director and the Director of Investments, has the following responsibilities.

The Executive Director has the following responsibilities:

a. Obtain necessary reports on the investment results of the Fund's assets on a timely basis as specified in the Review and Evaluation section.

b. Retain any consultants or advisors deemed necessary or desirable for assistance in the investment of Fund assets, and for meeting his responsibilities.

c. Oversee the investment function.

The Director of Investments has the following responsibilities:

a. Administer the policies, guidelines and objectives adopted by the Retirement Board of the School Employees Retirement System of Ohio in compliance with the relevant sections of the Ohio Revised Code.

b. Inform and communicate to other Fund fiduciaries, including all Investment Managers, the requirements of the Ohio Revised Code and the policies, guidelines and objectives adopted by the Retirement Board including the proxy policy, and monitor their compliance.

c. Prepare and recommend an Annual Plan for the investment of the Fund's assets with recognition of the target asset mix ratios and the permissible ranges for asset allocation established by the Board.

d. Implement the Annual Plan, exercising the judgments allowed by the Board as to the asset allocation ranges for that year.

e. Report to the Board or its Investment Committee any intra-year changes in the Annual Plan, in the asset allocation among managers, or proposed changes in the policy, guidelines or objectives which the Investment Staff deems desirable or which are recommended by an Investment Manager or other consultants or advisors.

f. Oversee the activities of the Investment Staff.

3. Responsibilities of the Investment Managers

Each Investment Manager, including any Investment Staff member when internally managing assets, is responsible for the specified investment management accountability unit which it manages.

a. Manage the assets and the allocation of those assets within its control in compliance with the relevant sections of the Ohio Revised Code and with the policies, guidelines and objectives adopted by the Retirement Board.

b. Exercise investment discretion within the guidelines and objectives specified, including decisions to buy, hold or sell securities based on the manager's current investment strategy and outlook and compatible with such objectives.

c. Inform the Retirement Board or the Investment Committee of any substantial changes in investment strategy, portfolio structure, value of assets, and of any organizational changes, including that of ownership, affiliation, organizational structure, financial condition, or changes in professional personnel staffing the investment management organization.

d. Prepare reports for the Board or Investment Committee prior to any scheduled meetings but at least on a quarterly basis.

e. Recommend to the Board or Investment Committee any changes in policy, guidelines or objectives which the Investment Manager believes to be desirable.

4. Criteria for Investment Managers

In instances where the Retirement Board has determined it is desirable to employ the services of an outside Investment Manager, the following criteria shall be used in the selection of such firms:

a. Organizational Qualifications: To be selected, the organization shall be qualified to serve as a fiduciary to the System, shall comply with all applicable nondiscrimination and affirmative action requirements, shall adequately address potential conflicts of interest and shall have a history of professionalism and ethical performance.

b. Investment Approach: The approach utilized by the organization shall be compatible with the System's objectives and guidelines. It shall also be complementary to the System's other Investment Managers.

c. Personnel: The organization shall have an experienced professional staff with adequate research and support personnel and a credible program or history demonstrating the ability to retain key personnel.

d. Performance: The organization and/or its personnel shall have demonstrated the ability to achieve above average performance in implementing the investment approach for which it is being considered. Satisfactory client references shall also be available.

5. Responsibilities of the Custodian

By law, the custodian for the School Employees Retirement System Fund is the Treasurer for the State of Ohio. As custodian, the Treasurer may contract the custodian duties to one or more financial institutions. Each contracted Custodian is responsible for the management and accountability for the units that it manages.

a. Settle security trades as authorized by the Investment Managers and accurately record all transactions.

b. Safehold all assets within its control in compliance with the relevant sections of the Ohio Revised Code.

c. Capture and record all monies due SERS from investment activities and investment income.

6. Responsibilities of the Finance Director

The Finance Director has the following responsibilities:

a. Review of all policy, plan, guideline, and objective changes made in the Investment Department and report any anomalies, foreseeable problems, or conflicts to both the Investments Director and the Retirement Board.

b. Oversee financial staff in the recording and reconciliation of investment account records in relationship with our custodians.

c. Oversee financial staff in the recording and reconciliation of investment account records in relationship with our Investment Managers.

d. Report calculated performance of each investment account and the overall performance of the fund.

7. Responsibilities of the Investment Consultant

Serves as fiduciary to the Board for independent outside performance reviews, manager searches, assists in defining the investment objectives and policies, and makes recommendations concerning the structure and diversification of the investments within the public securities market. The consultant makes recommendations for US equities, non-US equities, fixed income, real estate and variations of such markets (tactical asset allocation, currency management, etc.).

REVIEW AND EVALUATION

The Board shall review and evaluate periodic reports on the investment results of the Fund's assets. In these reviews, it is intended that greater emphasis shall be given to long-term results than to short-term results. The following is the intended frequency for review and evaluation, although the Board, as deemed necessary, may alter these:

1. Quarterly

Summary Investment Reports -- including highlights and commentary of investment performance, asset composition and holdings for each asset class and each investment management accountability unit. These reports shall identify any results requiring the attention of the Board.

Investment Policy was adopted September 2000.

ACTUARIAL SECTION

BUCK CONSULTANTS®
A Mellon Financial Company℠
One Pennsylvania Plaza
New York, New York 10119-4798

November 14, 2002

Board of Trustees
School Employees Retirement System of Ohio
300 East Broad Street
Columbus, OH 43215

Dear Board Members:

The basic financial objective of the School Employees Retirement System of Ohio (SERS) is to establish and receive contributions which when expressed in terms of percents of active member payroll will remain approximately level from generation to generation of Ohio citizens, and which when combined with present assets and future investment return will be sufficient to meet the present and future financial obligations of SERS.

In order to measure progress toward this fundamental objective, SERS has an actuarial valuation performed each year. The valuation (i) measures present financial position, and (ii) establishes contribution rates that provide for the current cost and level percent of payroll amortization of the unfunded actuarial accrued liability over a reasonable period. The valuation performed as of June 30, 2002 indicates that a contribution rate of 8.17% of payroll for 120,254 school employees meets the basic financial objective.

The statutory employer contribution is 14% of pay. A SERS policy decision now provides the following allocations of that contribution:

- to basic benefits, the post-retirement death benefit and the Medicare Part-B supplement, the portion which will pay normal cost and 30 year amortization of unfunded actuarial accrued liabilities; and

- to health care benefits, the remainder of employer contributions.

The actuarial valuation of the basic benefits, the post-retirement death benefit and the Medicare Part-B supplement is based upon financial and participant data which is prepared by Retirement System staff, assumptions regarding future rates of investment return and inflation, and rates of retirement, turnover, death, and disability among SERS members and their beneficiaries. The data is reviewed by us for internal and year-to-year consistency as well as general reasonableness prior to its use in the actuarial valuations. It is also summarized and tabulated for the purpose of analyzing trends. The assumptions were adopted by the Board of Trustees and were based upon actual experience of SERS during the fiscal years 1996-2000. Assets are valued according to a method that fully recognizes expected investment return and averages unanticipated market return over a four-year period. The assumptions and methods utilized in this valuation, in our opinion, meet the parameters established by Governmental Accounting Standards Board Statement No. 25.

Buck Consultants, Inc.
212 | 330-1000 Fax 212 | 695-4184

Board of Trustees
School Employees Retirement System of Ohio
November 14, 2002
Page 2

The financial condition of health care benefits is different and is being significantly affected by the provisions of Act 290 of 1988 and Act 270 of 2001. Act 290 established a health care surcharge, a program to determine a minimum annual pay for use in calculating employer contribution dollars. Act 270 placed limits on the amount of health care surcharge that can be assessed to each employer and in total.

On the basis of our projections of health care fund activity, the allocated contributions are sufficient to provide for a health care reserve equal to at least 150% of estimated annual claim costs, the funding target established by the Board in 1995. As of June 30, 2002, the value of the health care fund was equal to about 183% of health care benefits paid during the year ending on that date.

The current benefit structure is outlined in the Plan Summary. There have been no changes made since the last valuation.

We provided the June 30, 2002 information used in the schedules of Actuarial Accrued Liabilities, Active Member Valuation Data, Retirees and Beneficiaries Added to and Removed From Rolls, Analysis of Financial Experience, and the Short-Term Solvency Test for basic benefits that are found in the Actuarial Section, and the Schedule of Funding Progress in the Financial Section. Earlier years' information was provided by the previous actuary.

Based upon the results of the valuation of the basic benefits, the post-retirement death benefit and Medicare Part-B supplement, it is our opinion that the School Employees Retirement System of Ohio continues in sound condition in accordance with actuarial principles of level percent of payroll financing.

Sincerely yours,

Thomas J. Cavanaugh, FSA, FCA, MAAA, EA
Principal and Consulting Actuary

Philip Bonanno, MAAA, EA
Senior Consultant and Actuary

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A Mellon Financial Company

ACTUARIAL COST METHOD AND ASSUMPTIONS

The following methods and assumptions used for the actuarial valuation were adopted by the Retirement Board after consulting with the actuary. The actuarial assumptions used in the valuation were revised as set forth in the Gabriel, Roeder, Smith & Company Review of Actuarial Assumptions dated June 15, 2001 and were adopted for use in the valuation as of June 30, 2001. All historical information and data shown in this report with a valuation date prior to June 30, 2002 were obtained from the previous actuary's, Gabriel, Roeder, Smith & Company, valuation report.

Basic Retirement Benefits

Employer contribution rates for basic benefits are determined using the entry age normal actuarial cost method. This method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), and (2) the amount for amortization of the unfunded actuarial accrued liability. The maximum statutory rate is 14%.

The present employer contribution rate of 14% is allocated between basic benefits and health care on the basis of SERS' policy decision. For the year ended June 30, 2002, the policy required the determination of a rate for basic benefits which will amortize the unfunded actuarial accrued liabilities over a 30-year period, with the remainder of the employer contribution rate allocated to providing health care benefits. The rate determined for the funding of basic retirement benefits for the year ended June 30, 2002 is 5.46%.

Health Care Benefits

Initially, in 1974, the contribution rate for health care benefits was established at 0.75%, included in a total employer contribution rate of 12.5%. Health care contribution rates have since been increased at various times, and the total employer contribution rate has been increased to the statutory 14% maximum. The portion of the employer contribution rate allocated to health care for the year ended June 30, 2002 is 8.54%. Effective with the 1995 fiscal year the Retirement Board replaced the level cost financing of health care with pay-as-you-go financing. To provide program security and stability, the asset target level for the health care fund is 150 percent of annual health care. For 2002, this resulted in a health care reserve of $335.2 million versus a targeted level of $274.4 million.

In 1988, House Bill 290 provided for an employer contribution surcharge as an additional source of funding for health care. The surcharge is equal to 14% of the difference between the minimum pay and the member's pay, pro-rated for partial service credit. For the fiscal year 2002, the minimum pay has been established as $12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. Senate Bill 270, effective April 2001, caps the employer surcharge at 2.0% of each employer's payroll and 1.5% statewide.

Actuarial Assumptions

Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. When these differences between assumed and actual experience have been observed to be sizable and persistent, a change is made to the actuarial assumptions.

The valuation assets as of June 30, 2002 were determined on a market-related basis. The asset valuation method recognizes assumed investment income fully each year. Differences between actual and assumed investment income are phased in over a closed four-year period.

The following significant assumptions were used in the actuarial valuation as of June 30, 2002:

(1) a rate of return on the investments of 8.25% compounded annually (net after all System expenses). The real rate of return is the portion of total investment return which is more than the inflation rate. Considering inflation recognition of 4.25 percent, the 8.25 percent investment return rate translates to an assumed real rate of return of 4 percent;

(2) projected salary increases of 4.25%, compounded annually, attributable to inflation;

(3) additional projected salary increases ranging from .5% to 20.75% per year, attributable to seniority and merit. Pay increase assumptions for individual active members are shown for service durations in the following table.

Projected Salary Increases

Years of Service	Merit & Seniority	Salary Inflation	Total
0	20.75%	4.25%	25.00%
1	13.25	4.25	17.50
2	10.75	4.25	15.00
3	8.75	4.25	13.00
4	7.75	4.25	12.00
5	5.75	4.25	10.00
6	4.75	4.25	9.00
7	3.75	4.25	8.00
8	2.75	4.25	7.00
9	1.75	4.25	6.00
10-14	0.75	4.25	5.00
15+	0.50	4.25	4.75

(4) eligibility for age and service retirement was assumed to be: age 50 with 30 or more years of service, age 55 with 25 or more years of service, or age 60 with 5 or more years of service. Probabilities of retirement with age and service allowance are shown in the following table for sample ages.

Probabilities of Age & Service Retirement
Percent of Eligible Active Members
Retiring within Next Year

Sample Ages	Men	Women
50	45%	36%
55	30	27
60	11	23
65	35	30
70	25	38
75	100	100

(5) mortality rates for retirees and survivors are based on the 1994 Group Annuity Mortality Table with male ages set back three years and female ages set back one year;

(6) rates of separation from active service due to death or disability before retirement are developed on the basis of actual plan experience. Probabilities of separation for sample ages are shown in the following table.

Probabilities of Separation from Active Employment before Age & Service Retirement
Percent of Active Members
Separating within Next Year

Men

Sample Ages	Death	Disability
20	0.03%	0.00%
30	0.05	0.15
40	0.06	0.54
50	0.13	1.10
60	0.39	1.10

Women

Sample Ages	Death	Disability
20	0.02%	0.00%
30	0.02	0.10
40	0.04	0.21
50	0.07	0.52
60	0.21	0.81

(7) rates of separation from active service for reasons other than retirement, disability or death. Sample probabilities are shown in the following table:

Years of Service	Rate of General Termination
0	50.00%
1	24.00
2	14.00
3	9.00
4	8.00
5	7.50
10	4.25
15	2.50
20	1.75

(8) benefits will increase 3% per year after retirement.

Actuarial Accrued Liabilities

Accrued liabilities are the present value of plan promises to pay benefits in the future, based upon service already rendered. A liability has been established (accrued) because the service has been performed, but the resulting monthly cash benefit may not be payable until years in the future. Accrued liabilities are the result of complex mathematical calculations performed by a group of specialists, the plan's actuaries. The results of the computed actuarial accrued liabilities, using the entry age normal actuarial cost method, are disclosed in the following schedule.

Actuarial Accrued Liabilities June 30, 2002

Present value of:	Basic Pension	Medicare Part B	Death Benefit	Total
Future benefits to present retirees and survivors	$4,378,760,955	$200,796,412	$19,784,478	$4,599,341,845
Monthly benefits and refunds to present inactive members	285,075,010	6,882,890	889,064	292,786,964
Allowances to present active members:				
Service	4,700,808,277	81,598,059	4,240,914	4,786,647,250
Disability	320,428,438	3,543,070	525,826	324,497,334
Survivor benefits	68,472,914	1,641,223	—	70,114,137
Refunds	(87,081,375)	—	—	(87,081,375)
Total AAL for active members	5,002,628,254	86,782,352	4,766,740	5,094,177,346
Total AAL	$9,666,464,219	$294,401,654	$25,440,282	$9,986,306,155

Active Member Valuation Data, 1997 to 2002

Actuarial Valuation as of June 30	Number of Active Members	Annual Payroll (millions)	Average Annual Salary	% Increase in Average Salary
1997	103,739	$ 1,551.6	$ 14,957	3.1%
1998	106,878	1,651.9	15,456	3.3
1999	110,175	1,768.1	16,048	3.8
2000	113,811	1,866.3	16,398	2.1
2001	115,684	1,974.1	17,064	4.0
2002	120,254	2,175.7	18,093	6.0

Retirees and Beneficiaries Added To and Removed From Rolls, 1997 to 2002

	Added to Rolls		Removed from Rolls		Rolls at end of year		Percent increase	Average
Year	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	in Annual Allowances	Annual Allowances
1997	3,993	$ 24,576,881	2,917	$ 2,342,248	54,554	$ 305,385,702	7.9%	$ 5,598
1998	4,174	25,356,252	3,165	2,470,168	55,563	328,271,786	7.5	5,908
1999	4,127	24,975,211	3,058	2,665,604	56,632	350,581,393	6.8	6,191
2000	4,647	29,849,378	3,455	3,775,345	57,824	376,655,426	7.4	6,514
2001	4,051	30,406,522	3,080	2,555,087	58,795	404,506,861	7.4	6,880
2002	4,468	31,076,560	3,914	3,366,365	59,349	432,217,056	6.9	7,283

Analysis of Financial Experience

Gains & Losses in Accrued Liabilities Resulting From Differences Between Assumed Experience & Actual Experience

Type of Risk Area	Gain (or Loss) For Year $ In Millions 2000*	1999	1998	1997	1996
Age & Service Retirements If members retire at older ages than assumed, there is a gain. If younger ages, a loss.	$ 27.4	$ 24.4	$ 20.1	$ (8.1)	$ (9.7)
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	0.5	2.7	(0.2)	(2.4)	(8.9)
Death-In-Service Benefits If claims costs are less than assumed, there is a gain. If more claims, a loss.	(0.4)	(0.7)	(0.0)	0.6	0.2
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	(22.8)	47.3	50.5	76.1	76.6
Investment Return If there is greater investment return than assumed, there is a gain. If less return, a loss.	465.6	487.7	486.6	256.1	126.4
Withdrawal If more liabilities are released by other separations from active membership than assumed, there is a gain. If smaller releases, a loss.	(5.7)	(18.0)	(20.0)	3.1	4.3
Retired Lives If more deaths than assumed, there is a gain. If fewer deaths than assumed, there is a loss.	14.4	1.0	(1.3)	(1.4)	4.2
Other Gains and losses resulting from employment fluctuations, timing of financial transactions, and miscellaneous unidentified sources, as well as differences covered by changes in membership records.	(136.2)	(84.6)	(75.9)	(34.2)	(33.5)
Total Gain During Year	$342.8	$459.8	$459.8	$289.8	$159.6

* Latest available data.

Short-Term Solvency Test

The SERS financing objective is to pay for the benefits through contributions that remain approximately level from year to year as a percent of member payroll.

If the contributions to the System are level in concept and soundly executed, the System will pay all promised benefits when due - the ultimate test of financial soundness. Testing for level contribution rates is the long-term test.

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (cash and investments) are compared with:

1) Active member contributions on deposit;

2) The liabilities for future benefits to present retired lives;

3) The liabilities for service already rendered by active members.

In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. The larger the funded portion of liability 3, the stronger the condition of the system. Liability 3 being fully funded is rare.

Basic Benefits ($ In Millions)

June 30	(1) Member Contributions	(2) Retired Lives	(3) Present Members (Employer Portion)	(4) Valuation Assets	(1)	(2)	(3)
1997	$1,177	$2,996	$2,332	$5,402	100%	100%	53%
1997[3]	1,177	2,996	2,332	5,521	100	100	58
1998	1,255	3,208	2,474	6,413	100	100	79
1998[2]	1,255	3,269	2,513	6,413	100	100	75
1999	1,341	3,469	2,725	7,332	100	100	93
2000	1,429	3,734	2,937	8,281	100	100	106
2001[1,2]	1,407	3,889	3,555	8,791	100	100	98
2001[4]	1,407	4,294	3,555	8,879	100	100	87
2002	1,525	4,599	3,862	8,879	100	100	71

(1) Revised assumptions.
(2) Legislated benefit increases.
(3) Revised asset valuation method.
(4) Revised valuation.

STATISTICAL SECTION

ADDITIONS BY SOURCE

Table I

Fiscal Year	Member Contributions	Employer Contributions	Employer Contribution Rate as a Percent of Covered Payroll	Investment Income/(Loss)	Other Revenues	Total
1997	$146,156,369	$259,243,355	14.0%	$ 981,931,142	$2,026,549	$1,389,357,415
1998	155,059,879	266,408,260	14.0	1,148,717,399	2,118,231	1,572,303,769
1999	166,864,847	283,227,401	14.0	865,332,342	3,170,634	1,318,595,224
2000	179,646,558	303,129,460	14.0	949,985,546	3,194,230	1,435,955,794
2001	192,563,026	331,307,417	14.0	(632,419,714)	2,660,220	(105,889,051)
2002	210,098,081	337,924,392	14.0	(646,957,544)	4,780,142	(94,154,929)

DEDUCTIONS BY TYPE

Table II

Fiscal Year	Benefits	Administrative Expenses	Transfers to other Ohio Retirement Systems	Refunds	Total
1997	$410,337,997	$10,811,907	$2,863,606	$19,618,499	$443,632,009
1998	447,705,667	12,051,740	3,915,463	18,467,794	482,140,664
1999	507,255,292	14,491,266	3,444,287	22,177,533	547,368,378
2000	528,461,302	15,716,748	4,123,815	22,332,580	570,634,445
2001	617,167,500	16,004,407	4,198,302	21,817,451	659,187,660
2002	634,202,580	18,386,076	4,414,555	19,212,728	676,215,939

BENEFIT PAYMENTS BY TYPE

Table III

Year Ending June 30	Service	Disability	Survivor	Health Care	Death Benefits and Refunds	Total
1997	$260,069,372	$37,135,003	$14,918,620	$ 97,429,197	$20,404,304	$429,956,496
1998	278,195,664	40,874,401	15,735,855	111,900,575	19,466,966	466,173,461
1999	317,125,829	44,116,363	18,127,793	126,380,984	23,681,856	529,432,825
2000	321,397,961	46,244,407	18,315,432	140,696,340	24,139,742	550,793,882
2001	381,682,104	50,904,070	21,128,389	161,439,934	23,830,454	638,984,951
2002	376,557,926	52,236,511	20,556,083	182,946,777	21,118,011	653,415,308

NUMBER OF BENEFIT RECIPIENTS BY TYPE

Table IV

Years Ending June 30	Service	Disability	Survivor	Total
1997	46,431	4,641	3,482	54,554
1998	47,238	4,792	3,533	55,563
1999	47,959	4,859	3,814	56,632
2000	48,956	4,975	3,893	57,824
2001	49,776	5,052	3,967	58,795
2002	50,253	5,091	4,005	59,349

NUMBER OF BENEFIT RECIPIENTS

Table V

Amount of Monthly Benefit	Service	Disability	Survivor	Total
$ 1 — 250	16,235	477	1,613	18,325
251 — 500	12,378	1,242	1,341	14,961
501 — 750	8,039	1,061	584	9,684
751 — 1,000	4,780	755	241	5,776
1,001 — 1,500	5,113	930	155	6,198
1,501 — 2,000	2,029	399	44	2,472
over 2,000	1,679	227	27	1,933
	50,253	5,091	4,005	59,349

RETIREMENT AVERAGES

Table VI

Service Retirement

Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
1997	21.149	$678.65	63.66	$18,682
1998	21.473	671.89	63.61	18,496
1999	21.505	716.38	63.68	19,419
2000	21.957	761.47	63.51	20,230
2001	22.128	851.00	62.31	21,125
2002	22.414	892.11	62.28	22,065

Disability Retirement

Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
1997	15.540	$ 848.33	56.31	$19,531
1998	15.709	906.25	56.33	20,568
1999	16.014	897.75	56.28	20,252
2000	16.058	1,004.00	55.85	21,807
2001	20.124	1,123.46	52.35	21,668
2002	21.210	1,047.52	52.24	22,637

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Table VII

Retirement Effective Dates July 1, 1996 to June 30, 2002	Years Credited Service 5-9	10-14	15-19	20-24	25-29	30+
Period 7/1/96 to 6/30/97						
Average Monthly Benefit	$ 143	$ 294	$ 468	$ 622	$ 775	$1,488
Average Final Average Salary*	777	1,324	1,455	1,538	1,594	2,313
Number of Retirees	201	356	336	376	640	340
Period 7/1/97 to 6/30/98						
Average Monthly Benefit	$ 146	$ 281	$ 458	$ 615	$ 742	$1,411
Average Final Average Salary*	922	1,257	1,448	1,521	1,534	2,219
Number of Retirees	184	373	346	371	696	391
Period 7/1/98 to 6/30/99						
Average Monthly Benefit	$ 214	$ 286	$ 472	$ 631	$ 797	$1,470
Average Final Average Salary*	1,005	1,271	1,501	1,558	1,655	2,301
Number of Retirees	201	337	349	352	689	406
Period 7/1/99 to 6/30/00						
Average Monthly Benefit	$ 238	$ 287	$ 483	$ 677	$ 805	$1,496
Average Final Average Salary*	995	1,270	1,562	1,690	1,685	2,322
Number of Retirees	192	356	403	389	780	518
Period 7/1/00 to 6/30/01						
Average Monthly Benefit	$ 306	$ 308	$ 522	$ 707	$ 887	$1,670
Average Final Average Salary*	1,030	1,335	1,593	1,674	1,756	2,474
Number of Retirees	190	326	358	399	696	526
Period 7/1/01 to 6/30/02						
Average Monthly Benefit	$ 156	$ 333	$ 560	$ 752	$ 958	$1,653
Average Final Average Salary*	1,057	1,368	1,690	1,747	1,895	2,426
Number of Retirees	162	313	355	351	666	548

* Final average salary is presented on a monthly basis for ease of comparison.

NUMBER OF PARTICIPATING EMPLOYERS

Table VIII

Year	Total	Educational Service Centers	Local School Districts	City School Districts	Exempted Village Districts	Colleges	Vocational & Technical Schools	Community Schools	Other
1997	749	67	371	193	49	2	62	0	5
1998	748	65	371	193	49	2	62	0	6
1999	760	61	370	193	49	2	62	17	6
2000	795	60	372	192	49	2	63	51	6
2001	821	59	371	194	49	1	64	77	6
2002	853	62	371	194	49	1	63	107	6

PLAN SUMMARY

Purpose

The School Employees Retirement System of Ohio was established in 1937 by the state legislature to provide retirement and disability benefits for all non-certificated persons employed by the state's 853 school districts. This purpose is sustained by the member and employer contributions and the income realized from investment of those contributions.

Administration

The functioning of SERS is supervised by a seven member Board which works in conjunction with the System's Executive Director. Four of the seven Board members are elected by the general membership (those who contribute to SERS) and one is elected by retirees. The Ohio Attorney General and State Auditor, by virtue of their elected office, serve as the remaining two Board members in an ex officio capacity.

The Executive Director is appointed by the Board. This person oversees the administrative operation of the System, and is aided by six directors. Their areas of responsibility are finance, legal and legislation, investments, member services, health care, and information technology.

Employer Participation

The school employers served by SERS include public schools within the state's cities, villages and counties, as well as local districts, vocational and technical schools, community schools, and The University of Akron.

Employers contribute to SERS at the rate of 14.0% of payroll. Some employers pay the System directly on a monthly, quarterly, or annual basis, while others make payments through participation in the Ohio Department of Education's School Foundation Fund.

In addition to forwarding appropriate contribution amounts to SERS, it is the responsibility of the employers to supply SERS with new membership records, members' contribution information, and any data needed at the time of a member's application for benefits or refund of deposits on termination of employment.

Employee Participation

Membership in SERS is divided into several groups based on the activity of a member's SERS account. Member groups are:

A. Active Members - These are persons currently employed by a school employer. Membership is required for most employees working in a position that does not require certification by the Ohio Department of Education. These persons include clerical workers, maintenance personnel, bus drivers, food service workers, playground supervisors, data processing personnel, etc. Two exceptions to the membership requirements are: (1) persons with student status within a school district may choose to become members of SERS; and (2) temporary employees for emergency purposes. Active members have an amount equal to 9.0% of their earnings deducted from their gross salaries for each payroll period. These amounts are then forwarded to SERS by the payroll officer and applied to the member's account at SERS.

B. Inactive Members - These are persons who have contributions on deposit with SERS, but are not currently employed by a school district in the state of Ohio.

C. Retired/Disabled Members - These are persons who have either (1) met the age and service requirements for retirement from service; or (2) become eligible to receive benefits as a result of an injury or illness that prevents the member from performing regularly assigned duties.

D. Member's Survivors - When a member dies before retirement, the qualified beneficiaries become eligible for monthly benefits from SERS.

Refund of Contributions

A member is entitled to a full refund of contributions with SERS upon termination of school employment. Only the money the member has contributed is refundable.

In accordance with the Ohio Revised Code, there is a 90-day waiting period after the member's last day of service before the refund can be paid. A refund cancels any claim to benefits offered by SERS.

The refunded amount, plus interest, may be redeposited if, at some later date, the member returns to school service or to any other public service with the state of Ohio. This purchase may be made after the member has been credited with 1.5 years of contributing service.

Service Retirement

Members may retire from school employment if they have attained one of three combinations of age or service:

1. Five years of service and age 60; or
2. Twenty-five years of service and age 55; or
3. Thirty years of service at any age.

A member's age is defined to be the actual age a person has reached on the day of retirement. Any change of the date of birth on our records must be substantiated by submitting proof of date of birth to the System.

Service Credit

Service credit is the actual number of years or fraction thereof a person worked within a school district or districts in Ohio schools, plus any other free or purchased service the System recognizes.

Free service is service for which no contributions are required. This includes military service performed while on leave from the school district; and service granted for a period (three years or less) spent off the district's payroll while drawing state worker's compensation for a school job-related accident.

Purchased service is service for which payment plus interest is required. The interest rate is 7.5%. Service must be purchased before the date of retirement if it is to be considered in calculating the member's benefits. Payment may be made in a lump sum, in multiples of one month or more, or by tax deferred payroll deduction. The types of service that can be purchased are:

Military - A member may purchase up to five years of credit in SERS for active service in the armed forces of the U.S. There is no restriction placed on time elapsed between school employment and the time spent in the military.
A member may purchase additional service credit if the military service includes prisoner of war time. Purchased credit may not be greater than the member's actual Ohio contributing credit.

Federal, Other State, or School Service - The member may purchase credit for service rendered in a school or government position outside the State of Ohio. The service cannot be greater than the member's contributing service nor can it exceed five years.

Refunded Service - Service lost due to the payment of a refund may be restored after the member has returned to work and accrued 1.5 years of service covered by SERS, STRS, PERS, PFDPF, or SHPRS. An interest charge is payable in addition to the restored funds.

Compulsory Service - This is service for which the member should have made contributions while working, but did not, for whatever reason.

Optional Service - This is service during a period when the member was given a choice of contributing. The member must pay back contributions and may be responsible for the employer’s share.

Leave of Absence - A member returning to work after a period of authorized leave may purchase service credit for the period involved. An employer contribution is required for this service to be granted, but the employer is under no obligation to make payment.

A member who has contributions not only at SERS, but also at State Teachers (STRS) or Public Employees (PERS) Retirement Systems is eligible to receive transferred credit from either or both of those systems. Any service which is not concurrent with (served at the same time as) SERS service will be included in determination of retirement benefits.

Early Retirement Credit

Employers may purchase up to five years of service credit for their eligible employees under an early retirement incentive plan authorized by 1983 legislation.

Adoption of a plan is optional and only employers may purchase up to five years of such credit.

Benefit Calculation

The final average salary is the average of the member's highest three years of earnings while in the school service.

The benefit amount is calculated in this way:

The final average salary amount is multiplied by 2.2% to determine the value of a year of service credit. The formula is 2.5% for credit over 30 years. This value cannot be less than $86. If it is, $86 is used. The value is then multiplied by the number of years of service credit. This calculation yields the annual retirement benefit amount for a person who has service at retirement time.

For "early retirement" (the member is under age 65 or has less than 30 years of service) there is a corresponding percentage of decrease in the required benefit amount to allow for an extended period of retirement. Reduction factors are required by Ohio state law.

Retirement Options

Should the retiring member wish to provide a benefit amount for a beneficiary upon the retiree's death, this may be done by the selection of one of the optional retirement plans provided for this purpose. Optional plans may be altered by the retired member should the beneficiary die before the retiree or in the event of a divorce, with consent of the ex-spouse or a court order.

Disability Retirement

A member prevented from performing regular duties on the job after incurring an injury or illness may apply for monthly disability benefits. To qualify, the member must have at least 5 years of service credit.

In addition to the age and service requirements, the member must:

- Have developed the disabling illness or injury after last becoming a member of SERS;
- Have been recommended for approval by a SERS-sponsored medical review board;
- Have applied for benefits within 2 years of the last day of service with the school district;
- Not have withdrawn contributions or retired on service retirement.

There are two disability plans with differing benefits. All new members are under the new plan. Benefits range from 30% of final average salary to 75%. Benefits are lifetime under the old plan, subject to re-examination; and may be converted to service retirement under the new plan.

Death Benefits

The designated beneficiary of any SERS retiree will receive a $1,000 lump sum payment upon the retiree's death. If there is no beneficiary, payment is made to the person responsible for the burial expenses or to the retiree's estate.

Survivor Benefits

Qualified dependents of a deceased member may apply for monthly survivor benefits. Such benefits are payable if the member had at least 18 months of Ohio service credit, three of which were served in the 2.5 years prior to the member's death, or if the member was receiving a disability benefit.

If the member was eligible for service retirement but had not yet applied for benefits, the surviving spouse or other single dependent beneficiary of any age can draw a monthly lifetime benefit known as the joint survivor option.

Health Care and Other Benefits

Eligible benefit recipients receive medical insurance from SERS. Coverage for a spouse and/or dependent children can be provided by means of a monthly deduction from the benefit. Coverage is offered by the selection of the Aetna or Medical Mutual plans, AultCare, or HMOs available in certain counties.

If the benefit recipient participates in Medicare B, SERS reimburses the recipient $45.50 per month.

A prescription drug program is available to benefit recipients of SERS and their dependents who are covered under one of the health plans. Participants may either choose to obtain prescription drugs from a participating local pharmacy and pay 20% of the cost or they may elect to receive the drugs by mail from a licensed mail order pharmacy for a minimal fee per medication.

Members retiring after June 1, 1986 must have 10 or more years of service credit to qualify for the health care benefits.

Members retiring on and after August 1, 1989 with less than 25 years of qualified service credit pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

Cost of Living Increases

After 12 months on the benefit rolls, and each year thereafter, SERS retirees are entitled to an automatic cost of living increase of 3%. In addition, the legislature has granted several permanent ad hoc increases to SERS retirees, the last such increase being in 1988.

Re-Employed Retirees' Annuity

Ohio public system retirees who work in a SERS covered position are entitled to an annuity at age 65. The annuity is based on a money purchase formula and may be paid in monthly payments if the monthly amount is $25 or more. If the monthly amount is less than $25, the annuity will be paid in a lump sum.