School Employees Retirement System

OF OHIO

FOR THE YEAR ENDED JUNE 30, 2003

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Comprehensive Annual Financial Report

For the Year Ended June 30, 2003
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: *Standing* - Orris Fields, Attorney General's representative James Winfree, State Auditor's representative James Tilling, Thomas Anderson
Seated - Darlene Mulholland, Barbara Miller, Jeannie Knox, Barbara Overholser.

President:	**Jeannie Knox**, Cincinnati, Ohio *Term Expires June 30, 2007*
Vice President:	**Barbara Miller**, Malvern, Ohio *Term Expires June 30, 2004*
Employee-Member:	**Barbara Overholser**, Columbus, Ohio *Term Expires June 30, 2005*
Employee-Member:	**Darlene Mulholland**, Cleveland, Ohio *Term Expires June 30, 2005*
Retiree-Member:	**Orris E. Fields**, Wilmington, Ohio *Term Expires June 30, 2004*
ExOfficio Member:	**Betty Montgomery** *Auditor of State*
ExOfficio Member:	**Jim Petro** *Attorney General*

Thomas R. Anderson
Executive Director

John D. LeHockey
Deputy Executive Director/COO

Directors:

Virginia S. Brizendine
Finance

Robert G. Cowman
Investments

Jimmie L. Kinnan
General Counsel

Karen G. Kloss
Member Services

Milo M. Rouse, Jr.
Health Care Services

Teresa R. Woolley
Information Technology

SERS RETIREMENT BOARD

Jeannie Knox, President
Barbara Miller, Vice President
Barbara Overholser, Employee-Member
Darlene Mulholland, Employee-Member
Orris Fields, Retiree-Member
Betty Montgomery, Auditor of State
Jim Petro, Attorney General

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
Robert Cowman
- 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, Jr.
- Retiree Health Plan
- Employee Health Plan

PROFESSIONAL CONSULTANTS

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

Independent Auditor
KPMG LLP - Columbus, Ohio

Actuary
Mellon Human Resources & Investor Solutions - New York, New York

Investment Consultant & Investment 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, 2002
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

ROBERT G. COWMAN
Investments

JIMMIE L. KINNAN
General Counsel

KAREN G. KLOSS
Member Services

MILO M. ROUSE, JR.
Health Care Services

TERESA R. WOOLLEY
Information Technology

December 15, 2003

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, 2003. 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. Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors in the Financial Section of this report.

The report is divided into six sections:

- the Introductory Section which contains this 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, KPMG 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, Mellon Human Resources & Investor Solutions 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

During fiscal year 2003 we continued to add new services to members, including a toll free phone number in September for members and employers and a complete re-design of our Internet site. In July 2003, members were able to access their personal accounts on-line and obtain pension estimates. On October 1, 2002, SERS began offering the partial lump-sum payments enabled by S.B. 247. The law allows a retiring member to take between 6 and 36 months of the original pension amount in a lump sum, so long as the remaining monthly payment is not reduced below 50% of the original monthly pension. More than 200 retirees have taken this option in the short time this program has been offered.

This was the third year of our participation in the Cost Effective Management Study. Compared to our peer group SERS is delivering excellent service at below average cost, and our service scores improved 25% from the previous year's report. Although we will not participate in the study this year we will continue to study the recommendations to find ways to enhance our services to members and retirees.

Much of our attention has focused on the escalating cost of health care. We began by hosting a meeting of our stakeholders on the state of SERS' health care financing. Representatives from employee, employer, and retiree groups attended and were provided the latest information from actuaries and consultants. Later, our health care consultant, Watson Wyatt, briefed the Board on recommendations to maintain solvency of the health care fund. The Board began to hold monthly health care committee meetings as they reviewed all possible alternatives to save the health care fund in the face of a projected deficit in 2006. After carefully considering the options, the Board approved the changes at their July 2003 meeting. These changes, effective January 2004, include premiums for retirees and dependents who previously had not had to pay, elimination of free dental coverage for HMO participants, increased deductibles and co-pays, and other modifications to health care plan design. On July 23, the Ohio Association of Public School Employees filed suit in state court alleging that the changes to the health care program violated vested rights. The plaintiffs seek to prevent the changes from taking effect. An unfavorable ruling could have a material effect on the financial condition of the System and its health care programs for current and future retirees. However we believe that Ohio statutes are clear in this matter and that we will prevail.

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.

The fair value of the net investments in custody on an accrual basis was $7.24 billion at June 30, 2003, a decrease of $30 million from the previous year. Our portfolio returned 1.8% for the year ended June 30, 2003, slightly exceeding our investment policy benchmark. The continued drop in the Non-US equity markets led to a decline in the portfolio value which was offset by positive returns in fixed income instruments and real estate. Annualized rates of return for three, five and ten years are (4.3)%, 2.0% and 7.9% 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 a post-retirement health care program. 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 contributions that, when expressed in terms of percents of active member payroll, will remain approximately level from one generation to the next; and which, when combined with present assets and future investment return will be sufficient to meet the present and future financial obligations of the System. The actuarial accrued liability for pension benefits on June 30, 2003 and June 30, 2002 is $10,634 million and $9,986 million, respectively, and the actuarial value of assets at June 30, 2003 and June 30, 2002 is $8,772 million and $8,879 million, respectively. SERS' funded ratio dropped from 89% in 2002 to 82.5%, however we have remained at the 30-year funding period limit for pensions.

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 remainder goes toward the post-retirement health care program, which is 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 2003 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, 2002. This was the eighteenth consecutive year that SERS has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government entity must publish an easily readable and efficiently organized comprehensive annual financial report, which must satisfy both accounting principles generally accepted in the United States of America 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

The preparation of this report is the combined effort of the System's staff under the direction of the Retirement Board. It will be provided 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.

Earlier this year I announced that I would retire on December 31, 2003, having served as Executive Director for almost twenty-five years. After a thorough search the board on November 7 selected James R. Winfree as SERS' next Executive Director. Given his experience in private practice and on the senior staff of the Attorney General's office, I am confident that Jim has the skills to be a successfull leader for SERS. Finally, I need to acknowledge the hard work of the board and staff of SERS. It is only through the efforts and dedication of these fine people that SERS has been able to follow its mission to secure the well-being and financial security of our members and beneficiaries through soundly financed and prudently administered benefit programs. Thank you.

Respectfully submitted,

Thomas R. Anderson
Executive Director

Virginia S. Brizendine
Director - Finance

LEGISLATIVE SUMMARY

SERS and its members can be significantly affected by legislation enacted by Congress and the Ohio General Assembly. The impact of legislation and federal regulatory activities on SERS and other public retirement systems has increased in recent years. SERS closely monitors legislative activities, and when appropriate, gives testimony or otherwise educates legislators, congressional representatives, and regulatory agencies on the impact of these proposals.

The following pieces of legislation became effective or were introduced this year:

STATE LEGISLATION

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

Enabled SERS to develop a ***partial lump-sum option plan (PLOP)*** for its members. With the PLOP, new retirees have the option of taking a portion of their pension as a lump-sum payment at the time of retirement with a reduced monthly pension thereafter.

H.B. 364 (Effective 4/8/03)

Expanded the sponsorship and area of the state in which ***community schools***, also known as charter schools, could be established, and made other changes in community school law. Clarified 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.

H.B. 95 (Effective 6/26/03; SERS provision effective 9/26/03)

Amended SERS' ***re-employment*** provisions to require that any public employer rehiring a SERS retiree into the same position must provide public notice and hold a public hearing if the position is one filled by the vote of a governing body.

H.B. 227 (Passed by the House 11/13/03)

Modifies the ***governance of Ohio's five public retirement systems*** – SERS, STRS, OPERS, OP&F and HPRS. In addition to significantly changing the composition of the state retirement boards and requiring increased reporting to the Ohio Retirement Study Council, the bill mandates that at least 70% of all equity and fixed income trades be executed through Ohio brokers, and at least 50% of externally managed assets be invested with Ohio-based investment managers. The bill also makes the state treasurer a "super" board member with administrative and investment control over the retirement systems.

S.B. 133 (Passed by the Senate 11/13/03)

Modifies the ***governance of Ohio's five public retirement systems.*** This bill also significantly changes the composition of the SERS retirement board by replacing the attorney general with the state treasurer and adding two members appointed by the governor – one public school board member and an Ohio resident who is an independent financial or investment expert; requires increased ethics and operational reporting to the Ohio Ethics Commission and Ohio Retirement Study Council; and requires new state licensure of retirement system investment professionals.

H.B. 32 (Introduced 2/3/03)

Changes membership of ***non-teaching employees of the University of Akron*** from SERS to OPERS. On 5/29/03, SERS submitted opposition testimony to the House Banking, Pensions and Securities committee on the adverse impact this bill would have on the retirement system's retiree health care fund. The bill had several hearings and was continued.

H.B. 98 (Introduced 3/4/03)

Makes the following changes in retirement benefits paid by SERS: requires that a former spouse receiving a portion of the benefit under a division of property order receive a proportionate share of the annual cost of living increase; authorizes a new optional payment plan that would allow a member to name more than one survivor beneficiary to receive monthly benefits; and, provides for continuation of payments after a retiree's death to a former spouse receiving a portion of the benefit under a division of property order. This bill was passed by the House on 6/25/03, and was referred to the Senate Health, Human Services and Aging committee.

FEDERAL LEGISLATION

Public Company Accounting Reform Legislation

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

Protects investors by improving the accuracy of corporate disclosures made with regard to securities laws. Introduced by Rep. Michael Oxley (R-OH), the major provisions of the law are the creation of a new Public Company Accounting Oversight Board, new standards for auditor independence and significant new penalties for offenders. The legislation was merged with S. 2673 in the House-Senate conference committee and renamed the Sarbanes-Oxley Act.

Medicare Prescription Drugs

H.R. 1 (Passed the House and Senate on 11/22/03 and 11/24/03) Sponsored by Rep. J. Dennis Hastert (R-IL) – adds a prescription drug benefit to Medicare and overhauls the government-run health care program.

Mandatory Social Security

H.R. 3055 Sponsored by Rep. Nick Smith (R-MI) – forces all newly hired public employees to participate in Social Security. Also amends the Social Security Act to create an optional Individual Retirement Security Program within Social Security for personal retirement savings accounts. No action has been taken.

Social Security Offset and Windfall Elimination

H.R. 75 Sponsored by Rep. E. Clay Shaw (R-FL) – reduces the offset from two-thirds to one-third. No action has been taken on this bill.

H.R. 594 Sponsored by Rep. Howard McKeon (R-CA) and **S. 349** sponsored by Senator Dianne Feinstein (D-CA) – seeks a total repeal of both the Social Security offset and windfall penalties. No action has been taken on either bill.

H.R. 743 Sponsored by Rep. E. Clay Shaw (R-FL) – changes the offset's "last-day loophole" provision from one day in covered employment before exemption, to five years. The bill was passed by the House, but in the Senate picked up an amendment that would increase enforcement of the offset and windfall penalties by imposing additional reporting requirements on pension funds. The bill was further amended to include the ability for any state to operate a "divided retirement system," with public employees given the right to vote by referendum to join Social Security. The bill is pending.

H.R. 887 Sponsored by Rep. William Jefferson (D-LA) – eliminates the offset penalty if a recipient's combined monthly Social Security and public pension benefit is $2,000 or less. **S. 363**, introduced by Senator Barbara Mikulski (D-MD), eliminates the offset penalty if a recipient's combined monthly Social Security and public pension benefit is $1,200 or less. No action has been taken on either bill.

H.R. 2011 Sponsored by Rep. Barney Frank (D-MA) – eliminates the windfall penalty if a recipient's combined monthly Social Security and public pension benefit is $2,000 or less, and provides a graduated penalty over $2,000. **S. 1011**, sponsored by Sen. John Kerry (D-MA), is the companion bill. No action has been taken on either bill.

Social Security Number Privacy

H.R. 637 Sponsored by Rep. John Sweeney (R-NY) – limits the use of Social Security numbers and establishes criminal penalties for misuse. Specifically, the bill prohibits display to the general public of Social Security account numbers and personal identification numbers possessed by governmental agencies, and Social Security numbers on checks issued for payment by government agencies. **S. 228**, sponsored by Sen. Dianne Feinstein, (D-CA), is the Senate companion bill. No action has been taken on either bill.

Bankruptcy Reform

H.R. 975 Sponsored by Rep. F. James Sensenbrenner, Jr. (R-WI) – provides protection of retirement savings in bankruptcy, and excludes employee plan participant contributions and other property from the bankruptcy estate. The bill was passed by the House and placed on the Senate calendar.

Pension Portability

H.R. 1776 Sponsored by Rep. Rob Portman (R-OH) – encourages companies to keep or establish pension and retirement plans, and encourages workers to save more. The bill makes today's retirement savings opportunities permanent, and expands and improves retirement savings vehicles. It was reported out of the Ways and Means committee on 7/18/03.

FINANCIAL SECTION

KPMG

191 West Nationwide Boulevard
Suite 500
Columbus, OH 43215-2568

Telephone 614 249 2300
Fax 614 249 2348

Independent Auditors' Report

To the Retirement Board
The School Employees Retirement System of Ohio:

We have audited the accompanying statement of plan net assets of the School Employees Retirement System of Ohio (SERS) as of June 30, 2003, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of SERS' 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 financial statements referred to above present fairly, in all material respects, the financial position of SERS as of June 30, 2003, and the changes in its plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 16 and 17 and the schedules of funding progress and employer contributions on page 30 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 4, 2003, on our consideration of SERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial information included on pages 31 and 32 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introduction section on pages 4 through 12, the investments section on pages 34 through 48, the actuarial section on pages 50 through 56, and the statistical section on pages 58 through 60 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

December 9, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

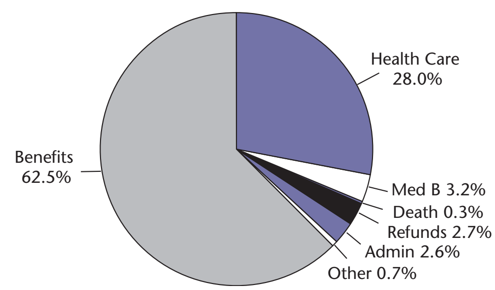
This discussion and analysis of the School Employees Retirement System's financial performance provides a narrative overview of financial activities for the fiscal year ended June 30, 2003. Please read it in conjunction with additional information that we have furnished in our Letter of Transmittal, which can be found in the Introductory Section of this report.

FINANCIAL HIGHLIGHTS

Contributions and investment income for fiscal year 2003 totaled $695,117,036. This amount includes realized and unrealized investment gains and losses. The employee and employer contribution rates during fiscal 2003 remained unchanged from the prior year at 9% and 14%, respectively.

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 2003 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 2003 totaled $731,369,596, an increase of 8.2% over fiscal 2002 deductions.

DEDUCTIONS FROM PLAN NET ASSETS



OVERVIEW OF FINANCIAL STATEMENTS

Following the management's discussion and analysis are the financial statements: the Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets. Reviewing these statements, along with the accompanying notes will give the reader a sense of SERS' financial position. SERS' financial statements are prepared using the accrual basis of accounting and are in compliance with applicable Governmental Accounting Standards Board statements.

The 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 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 plan.

CONDENSED STATEMENTS OF PLAN NET ASSETS
(in millions)

	2003	2002	Change Amount	Change Percent
Cash	$ 59.1	$ 44.5	$ 14.6	32.8%
Receivables	443.6	452.2	(8.6)	(1.9)
Investments	7,555.2	7,863.9	(308.7)	(3.9)
Property & Equipment	55.0	55.1	(0.1)	(0.3)
Other Assets	3.5	0.8	2.7	325.5
Total Assets	8,116.4	8,416.5	(300.1)	(3.6)
Benefits & Accounts Payable	28.8	29.9	(1.1)	(4.0)
Investments Payable	565.2	827.9	(262.7)	(31.7)
Total Liabilities	594.0	857.8	(263.8)	(30.8)
Net Assets Held in Trust	$ 7,522.4	$ 7,558.7	$ (36.3)	0.0%

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

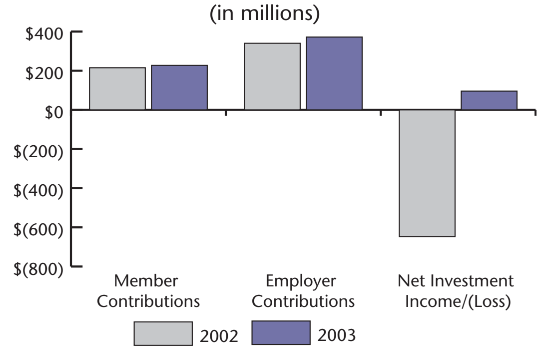
	2003	2002	Change Amount	Change Percent
Contributions	$ 599.3	$ 552.8	$ 46.5	8.4%
Net Investment Income/(Loss)	95.8	(647.0)	742.8	114.8
Total Additions	695.1	(94.2)	789.3	838.3
Benefits	687.6	634.2	53.4	8.4
Refunds & Transfers	24.5	23.6	0.9	3.5
Admin. Expenses	19.3	18.4	0.9	4.9
Total Deductions	731.4	676.2	55.2	8.2
Net Decrease	$ (36.3)	$ (770.4)	$ 734.1	95.3%

In addition to the 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 RSI 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.

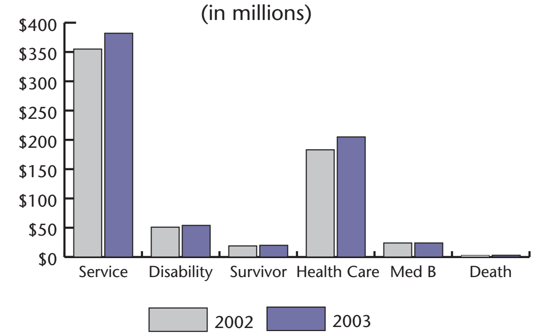
FINANCIAL ANALYSIS

Additions – Benefit payments are funded from three sources: employee and employer contributions and investment income. Contributions from employees and employers increased 8.4% in 2003 because of growth in the number of active members and average annual salary, and an increase in the amount of the employer's health care surcharge; the active member population increased by 2,061 and the average annual salary increased by $730 to $18,823. Investment net income totaled $96 million. SERS' net assets declined for the third straight year, however the decrease was much smaller than the last two years as the equity market rallied after reaching its low in October 2002.

ADDITIONS TO PLAN NET ASSETS
(in millions)



BENEFIT PAYMENT COMPARISON
(in millions)



Deductions – Health care expenses had another double-digit increase in 2003, albeit a slightly smaller jump than the 12% increase realized in 2002. The proportion of prescription drug costs relative to total health care expenses remained approximately the same – 48.4% vs. 47.9% for 2003 and 2002, respectively. Premiums paid by retirees as a percentage of total health care expense remained at 7%. Funding for the health care program comes from employers' contributions, retiree premium payments and investment earnings. The Board approved the recommendation of the actuaries to increase the minimum salary of the calculation of the employer surcharge from $12,400 to $14,500 in fiscal year 2003 and to $25,400 for fiscal year 2004. The rise in health care expenses continues to be a significant concern for SERS and as noted in the transmittal letter, substantial changes have been made to our health care program for both calendar years 2003 and 2004 to control expenses.

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 2003 the premium is $58.70; SERS reimburses $45.50. Benefit payments in the Pension Trust Fund to age and service, disability and survivors increased 7.0% from 2002. One component of the increase is the 3% cost of living adjustment; the remainder comes from the higher pensions of new retirees and a slight increase in the retiree population.

This is the third straight year of market declines that resulted in a decrease of SERS' assets. The impact is evident in the following measures – the decrease in the funding ratio of actuarial accrued liabilities, and the higher allocation of employer contributions to the Pension Trust Fund. Although pension funds take a long-term view of their liabilities, SERS faces an imminent deficit in the funds used for health care. The value to retirees of SERS' health care program cannot be underestimated and we continue to strive to preserve health care benefits without adversely affecting pension funding.

STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2003

ASSETS	PENSION TRUST FUND	MEDICARE B FUND	DEATH BENEFIT FUND
Cash and Operating Short Term Investments	$ 57,618,092	$ $230,223	$ 102,272
Receivables			
Contributions			
Employer	85,480,540	6,993,845	297,362
Employee	11,543,152	-	-
Investments Receivable	226,952,150	3,172,961	615,953
Total Receivables	323,975,842	10,166,806	913,315
Investments, at Fair Value			
US Equity	3,324,119,368	46,473,683	9,021,733
Non-US Equity	1,173,726,832	16,409,582	3,185,520
Fixed Income Securities	1,517,083,189	21,209,961	4,117,397
Real Estate	663,086,977	9,270,453	1,799,633
Private Equity	91,389,207	1,277,690	248,032
Short-Term Investments	313,039,977	4,376,534	849,597
Total Investments	7,082,445,550	99,017,903	19,221,912
Securities Lending Collateral	114,562,438	1,601,669	310,925
Property and Equipment, at Cost	61,736,386	-	-
Less Accumulated Depreciation	(6,785,288)	-	-
	54,951,098	-	-
Other Assets	3,574,714	-	-
TOTAL ASSETS	7,637,127,734	111,016,601	20,548,424
LIABILITIES			
Payables			
Accounts Payable and Accrued Expenses	1,798,400	-	-
Benefits Payable	465,771	8,554	190,000
Investments Payable	423,821,852	5,925,347	1,150,262
Obligations under Securities Lending	114,562,438	1,601,669	310,925
TOTAL LIABILITIES	540,648,461	7,535,570	1,651,187
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER POSTEMPLOYMENT BENEFITS	$7,096,479,273	$ 103,481,031	$ 18,897,237

(An unaudited Schedule of Funding Progress is presented on page 30)

See accompanying notes to the financial statements.

HEALTH CARE FUND	TOTAL
$ 1,129,206	$ 59,079,793
101,040,639	193,812,386
-	11,543,152
7,507,551	238,248,615
108,548,190	443,604,153
109,961,491	3,489,576,275
38,826,750	1,232,148,684
50,184,940	1,592,595,487
21,934,841	696,091,904
3,023,145	95,938,074
10,355,327	328,621,435
234,286,494	7,434,971,859
3,789,712	120,264,744
-	61,736,386
-	(6,785,288)
-	54,951,098
(66,489)	3,508,225
347,687,113	8,116,379,872
1,255,252	3,053,652
25,065,560	25,729,885
14,019,979	444,917,440
3,789,712	120,264,744
44,130,503	593,965,721
$ 303,556,610	$7,522,414,151

STATEMENT OF CHANGES IN PLAN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2003

ADDITIONS	PENSION TRUST FUND	MEDICARE B FUND	DEATH BENEFIT FUND
Contributions			
Employers	$ 182,919,583	$ 15,609,515	$ 471,868
Employees	225,014,540	-	-
Transfers from other Ohio Systems	3,968,047	-	-
Total Contributions	411,902,170	15,609,515	471,868
Income from Investment Activity			
Net Depreciation in Fair Value	(29,730,486)	(293,856)	(52,454)
Interest and Dividends	147,435,997	1,454,834	259,689
	117,705,511	1,160,978	207,235
Investment Expenses	(27,611,794)	(303,088)	(51,293)
Net Income From Investment Activity	90,093,717	857,890	155,942
Income from Securities Lending Activity			
Gross Income	2,933,905	28,999	5,176
Brokers' Rebates	(1,189,544)	(11,757)	(2,099)
Management Fees	(239,854)	(2,371)	(423)
Net Income from Securities Lending Activity	1,504,507	14,871	2,654
Total Investment Income, Net	91,598,224	872,761	158,596
TOTAL ADDITIONS	503,500,394	16,482,276	630,464
DEDUCTIONS			
Benefits:			
Retirement	382,324,194	21,342,363	-
Disability	53,859,560	1,163,920	-
Survivor	20,650,428	1,320,318	-
Health Care	-	-	-
Death	-	-	2,027,422
Total Benefits	456,834,182	23,826,601	2,027,422
Refunds and Lump Sum Payments	19,575,616	-	-
Administrative Expenses	17,664,721	329,114	45,828
Transfers to other Ohio Systems	4,885,777	-	-
	42,126,114	329,114	45,828
TOTAL DEDUCTIONS	498,960,296	24,155,715	2,073,250
NET INCREASE / (DECREASE)	4,540,098	(7,673,439)	(1,442,786)
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER POSTEMPLOYMENT BENEFITS:			
Balance, Beginning of Year	7,091,939,175	111,154,470	20,340,023
Balance, End of Year	$7,096,479,273	$ 103,481,031	$ 18,897,237

See accompanying notes to the financial statements.

HEALTH CARE FUND	TOTAL
$ 171,313,952	$ 370,314,918
-	225,014,540
-	3,968,047
171,313,952	599,297,505
(1,014,245)	(31,091,041)
5,021,353	154,171,873
4,007,108	123,080,832
(868,484)	(28,834,659)
3,138,624	94,246,173
100,089	3,068,169
(40,581)	(1,243,981)
(8,182)	(250,830)
51,326	1,573,358
3,189,950	95,819,531
174,503,902	695,117,036
-	403,666,557
-	55,023,480
-	21,970,746
204,930,737	204,930,737
-	2,027,422
204,930,737	687,618,942
-	19,575,616
1,249,598	19,289,261
-	4,885,777
1,249,598	43,750,654
206,180,335	731,369,596
(31,676,433)	(36,252,560)
335,233,043	7,558,666,711
$ 303,556,610	$7,522,414,151

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

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 classified as pension funds. The Pension Trust Fund holds 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. Funds available for health care benefits are recorded in a separate fund known as the Health Care Fund.

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.

Pension 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 Ohio Public Employees Retirement System (OPERS) are eligible to receive transferred credited service and funds from either or both of those systems. Any such service 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 OPERS 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 at age 65 in either monthly payments (if the monthly amount is $25 or more) or in a lump sum.

Employer and Employee Membership Data
(as of June 30, 2003)

Employer Members	
Local	371
City	194
Educational service center	61
Village	49
Higher Education	14
Vocational/Technical	50
Community Schools	126
Other	6
Total	871
Employee Members	
Retirees and beneficiaries currently receiving benefits	59,999
Terminated employees entitled to but not yet receiving benefits	8,796
Vested active employees	67,440
Non-vested active employees	54,875
Total	191,110

2. Health Care Benefits

ORC 3309.375 and 3309.69 permit SERS to pay health care benefits to retirees and beneficiaries. However, the payment of statutorily-mandated pension benefits is SERS' highest priority, and SERS reserves the right to change or discontinue any health plan or program.

Eligible benefit recipients and dependents (a total of 64,251 at June 30) currently receive insurance from SERS. A prescription drug program is also available to those who are covered by one of the health care plans. The health care program is funded through employer contributions, premium payments and investment earnings.

Prior to July 1, 1986, all members who received a benefit from SERS at retirement were eligible to receive health care benefits. Members retiring July 1, 1986 or later must have at least ten years of service credit to qualify for the health care benefits. Under the current plan, members retiring with less than 25 years of service credit after July 31, 1989 are required to 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. The premium structure will change effective January 2004, and further changes may be made in the future.

The portion of the employer contribution not required to actuarially fund the pension plans (Pension Trust Fund, Medicare B Fund and Death Benefit Fund) is available for the Health Care Fund. During fiscal year 2003, the amount of employer contributions directed to the Health Care Fund was 5.83% of covered payroll, or $139.9 million. The net assets available for future health care benefits totaled $303.6 million at June 30, 2003.

Health care costs have risen in excess of assumed levels over the past several years. These increases, together with three straight years of investment losses, have had a severe negative impact on the future funding of the Health Care Fund. The Board has set a goal of maintaining the Health Care Fund at 150% of the previous year's health care expenses. Increased expenses during fiscal year 2003 as well as reduced investment income resulted in a fund balance at June 30 of $303.6 million, which is $5.7 million below the target amount. The Board has made several modifications in contributions and plan design effective in fiscal years 2003 and 2004, and additional future changes may be made to improve the status of the Health Care Fund.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of total statewide SERS-covered payroll for the health care surcharge.

For fiscal year 2003, the minimum compensation payment level was established at $14,500. The surcharge accrued for fiscal year 2003 included in contribution revenue from employers in the Statement of Changes in Plan Net Assets is $31.4 million.

3. 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.

Employer Contributions Receivable — SERS recognizes long-term receivables from employers whose contributions are deducted from the money paid to them through the School Foundation Program, administered by the Ohio Department of Education. Employer contributions for fiscal year 2003 will be received by the end of calendar year 2003; the health care surcharge charged for fiscal year 2003 will be received by the end of calendar year 2004.

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

Allocation of Expenses to Funds — Direct expenses are charged to the Fund for which they are incurred. All indirect expenses are paid by the Pension Trust Fund, which is reimbursed by the Medicare B, Death Benefits and Health Care Funds based on relative fund size.

Investments — Investment purchases and sales are recorded as of the trade date. Dividend income is recognized on the ex-dividend date. Other investment income is recognized when earned.

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 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 SERS' investment program.

The funds of the Pension Trust, Medicare B, Death Benefit and Health Care Funds are pooled for the purpose of the investment of those funds. Each fund holds units of the investment pool, which are adjusted on a monthly basis. The value of one unit of the Pool on June 30, 2003 was $820.45384. The unit holdings and value of each of the funds at the close of the fiscal year were:

	Units	Value
Pension Trust Fund	8,404,842.91680	$6,895,785,598
Medicare B Fund	117,506.01021	96,408,257
Death Benefits Fund	22,810.92732	18,715,313
Health Care Fund	278,031.24920	228,111,804
Total	8,823,191.10353	$7,239,020,972

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 that increase the useful life of the property are capitalized. Maintenance and repairs are charged to expense as incurred. Software costs in excess of $25,000 are also capitalized. Depreciation has been provided using the straight-line method over the following useful lives:

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

Reserves — State Statute (ORC 3309.60) establishes various reserves to account for future and current benefit payments. The state statutes give these reserves the title of “Funds”, but for accounting and reporting purposes they are treated as accounts. These are:

- **The Employees' Savings Account** — Accumulated members' contributions are held in trust pending refund or transfer to a benefit disbursement account.
- **The Employers' Trust Account** — Accumulated employer contributions are held for future benefit payments.
- **The Annuity and Pension Reserve Account** — This reserve contains the monies set aside to pay all annuities and pensions. Money is transferred to this account from the Employees' Savings and Employers' Trust Accounts at the time of retirement.
- **The Survivors' Benefit Account** — Monies in this account are set aside to finance payments to beneficiaries of deceased members. Money is transferred to this account from the Employees' Savings and Employers' Trust Accounts in an amount to fund all liabilities at the end of each year.
- **The Guarantee Account** — Income derived from the investment pool and any gifts or bequests are accumulated in this account. The balance in this account is transferred to other reserve accounts to aid in the funding of future benefit payments and administrative expenses.
- **The Expense Account** — This account provides for the payment of administrative expenses with the necessary money allocated to it from the Guarantee Account.

RESERVE ACCOUNT BALANCES AS OF JUNE 30, 2003

	Pension Trust Fund	Medicare B Fund	Death Benefits Fund	Health Care Fund	**Reserve Account Totals**
Employees' Savings Acct.	$1,793,974,495	$ –	$ –	$ –	**$1,793,974,495**
Employers' Trust Acct.	642,132,183	–	–	303,556,610	**945,688,793**
Annuity & Pension Reserve Acct.	4,453,259,346	103,481,031	18,897,237	–	**4,605,637,614**
Survivors' Benefit Acct.	207,113,249	–	–	–	**207,113,249**
Guarantee Acct.	–	–	–	–	–
Expense Acct.	–	–	–	–	–
Fund Totals	**$7,096,479,273**	**$103,481,031**	**$18,897,237**	**$303,556,610**	**$7,552,414,151**

The above chart shows the balances of reserve accounts as of June 30, 2003.

4. Contributions

The Ohio Revised Code requires contributions by active members and their employers. The Retirement Board establishes contribution rates 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. During fiscal year 2003, active members and their employers were required to contribute 9% and 14%, respectively, of active member payroll.

The Retirement Board, acting with the advice of the Actuary, allocates the current employer contribution rate among the four funds of the system. For fiscal year 2003, 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, 8.17% was allocated to the pension funds in the following rates:

Pension Trust Fund	7.46%
Medicare B Fund	.69%
Death Benefit Fund	.02%

During fiscal year 2003, the remaining 5.83% of the 14% employer contribution rate was allocated to the Health Care Fund.

Employer and employee contributions required and made amounted to $338.9 million and $217.9 million, respectively, in 2003. The employee contribution amounts in the financial statements include employee contributions for purchased service credit.

5. 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 that are uncollateralized.

As of June 30, 2003, the carrying amount of SERS' operating cash deposits was $2,991,060 and the bank balances were $5,023,076. Of the bank balances, the Federal Deposit Insurance Corporation insured $328,766. Additional bank balances of $4,000,216 were covered by collateral held in the name of SERS' pledging financial institutions, as required by state statute. Bank deposits of $595,994 were uncollateralized (category 3).

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 below 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 emerging 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 are generally 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.

Foreign exchange 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 contracts do not subject SERS

The following investment summary identifies the level of custodial credit risk assumed by SERS as of June 30, 2003 (amounts expressed in thousands).

	Total Fair Value	Category 1	Category 2	Category 3	Non-Categorized
US government and agency obligations	$ 956,959	$ 923,164	$ _	$ _	$ 33,795
US corporate bonds & obligations	607,839	607,839			
Non-US bonds	27,861	27,861			
US equity	1,189,025	1,143,585		732	44,708
Non-US equity	398,986	362,965			36,021
Overnight Discount Notes	232,838	232,838			
Commercial paper	18,654	18,654			
Repurchase agreements	122,500	122,500			
Real estate investment trusts	142,100	142,100			
Commingled funds:					
US equity	2,301,284				2,301,284
Non-US equity	833,225				833,225
Real estate	553,992				553,992
Private equity	95,206				95,206
Securities lending collateral:					
Mutual fund	120,265				120,265
Total investments, operating short-term securities, and securities lending collateral	**$7,600,734**	**$3,581,506**	**$ 0**	**$ 732**	**$4,018,496**

to risk due to exchange rate movements as gains and losses on the contracts offset gains and losses on the transactions being hedged. SERS could be at risk for replacing these contracts at current market rates, should the counterparty default. SERS seeks to control this risk through contracting only with counterparties who meet credit guidelines.

The system hedges 50% of the fair value of its assets in non-US developed countries. As of June 30, 2003, SERS had outstanding contracts in the amount of $555,633,796, which had a maturity date of September 4, 2003, and a net loss on rejoined contracts of $90,637,573 for the fiscal year.

A futures contract is a contract to buy or sell units of an index or financial instrument on a specified future date at a price agreed upon when the contract is originated. SERS uses futures contracts 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 2003 to rebalance its asset allocation.

When SERS enters into a futures contract, the broker receives cash or US Government securities equal to the minimum "initial" margin. Each day thereafter, SERS receives or pays cash to the broker equal to the daily fluctuation in the contract's value. Collateral of 5% of the anticipated fair value is required as a good faith agreement. Only the most liquid equity futures are used by SERS to directly hedge the temporary and transactional cash held in domestic equity portfolios. The maximum risk from the purchase of a futures contract (long position) is the contract value. The risk from the sales of futures contracts (short positions) depends upon the amount that the contract increases in value.

As of June 30, 2003, SERS held S&P 500 and Russell 2000 equity index futures with the notional value of $14,455,025 and an expiration date of September 18, 2003. Equity futures realized a net gain of $3,336,805 during the fiscal year.

At the end of June 2003, SERS held various non-US equity index futures with the notional value of $12,107,689 to gain exposure to markets in Canada, Western Europe, Japan and Hong Kong. These contracts had expiration dates ranging from July 18, 2003 to September 30, 2003. Non-US equity futures realized a net gain of $1,578,157 during fiscal year 2003.

The system also held fixed income futures at year-end. US Treasury Bond/Note futures with the net notional value of $(113,165,688) had an expiration date of September 19, 2003 or December 19, 2003 at the end of June. Fixed income futures realized a net loss of $13,427,421 during the fiscal year.

The system also has investments in various types of fixed income securities reported in the Statement of Plan Net Assets 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 $693,583,963 at June 30, 2003, representing 9.6% of the fair value of all investments.

Securities Lending — SERS participates in two securities lending programs, as authorized by Board policy. SERS receives prorated income from participation in the securities lending programs of several commingled funds. SERS has no direct responsibility for these programs and the collateral held by these securities lending programs is not held in SERS' name. Total net proceeds from these commingled funds were $820,543 during fiscal year 2003.

SERS also has a securities lending program for the system's directly held investments using Boston Global Advisors as a third-party lending agent. Securities are loaned 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 securities lending program. Total net proceeds from this program were $752,815 during fiscal year 2003.

At June 30, 2003, SERS had no credit risk exposure on the securities lending collateral because the collateral exceeded the value of the securities loaned. Securities on loan at year-end totaled $114,524,002 and total collateral held for those securities was $120,264,744. Under the terms of the lending agreement, SERS is fully indemnified against losses that might occur in the program due to the failure of a broker to return a security that was borrowed where the collateral is inadequate to replace the security. SERS is also indemnified should the borrower fail to pay distributions of earnings on securities lent.

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. The lending agent reinvests the cash collateral in accordance with contractual investment guidelines that are designed to ensure the safety of principal and obtain a moderate rate of return. Earnings generated from the collateral investments, less the amount of rebates paid to the dealers, results in the gross earnings from lending activities, which is then split on a 75/25% basis with the lending agent. SERS is at risk to contribute additional funds should the earnings from the invested SERS collateral not be sufficient to pay the negotiated dealer rebate. At June 30, 2003 the collateral portfolio had an average weighted maturity of 12 days.

Commitments — As of June 30, 2003, unfunded commitments related to the real estate and private equity investment portfolios totaled $245,154,156.

6. Property and Equipment (Non-Investment Assets)

A summary of property and equipment at June 30, 2003 follows:

Land	$ 3,315,670
Building and improvements	50,735,766
Furniture and equipment	7,684,950
	61,736,386
Less accumulated depreciation	6,785,288
	$ 54,951,098

7. 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 are 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.

8. Defined Benefit Pension Plan

For its employees, SERS contributes to the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer defined benefit plan. Under the authority granted by Section 145 of the Ohio Revised Code, OPERS provides retirement, disability and survivor benefits for the public employees of Ohio. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing OPERS, 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 2003 was 13.55% of covered payroll. The contribution requirements for employees and employers are established and may be amended within statutory limits by the OPERS Board. The payroll for employees covered by OPERS for the year ended June 30, 2003 was $8,257,815; SERS' total payroll was $8,590,339. SERS' contributions to OPERS for the years ending June 30, 2003, 2002, and 2001 were $1,118,934, $995,759, and $658,221, respectively, equal to the required contributions for each year.

In addition to pension benefits, OPERS provides post-employment 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, 2002, the plan had 402,041 active participants.

A portion of each employer's contribution to OPERS is set aside for the funding of post-employment health care. The current rate is 5.0% of member covered payroll. For the year ended June 30, 2003, approximately $413,000 of employee payroll contributed by SERS to OPERS was the portion used to fund health care. Net assets held in trust at December 31, 2002 for post-employment health care benefits were $8.9 billion.

The actuarial present value of accrued post-employment benefits was determined based on the entry age normal method of funding. Significant actuarial assumptions used in the December 31, 2001 valuation (most recent available) were: an investment rate of return of 8.0%, 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 4.0% and annual pay increases over and above the 4.0% base increase ranging from 0.5% to 6.3%.

9. Compensated Absences

As of June 30, 2003, $1,213,900 was accrued for unused vacation and sick leave for SERS' employees. This was an increase of $188,100 from June 30, 2002. 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 die after five years of service are entitled to receive payment for a percentage of unused sick leave.

10. Self-insured Health Care for Employees

SERS is self-insured for employee benefits for dental, general health and hospitalization. A third-party professional administrator administers the program. SERS holds a stop-loss policy of $150,000 per employee per year and maximum lifetime coverage per employee of $2,000,000.

11. 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).

12. Risk Management

SERS is exposed to various risks of loss from personnel actions, injuries to employees, theft or destruction of assets, and legal challenges to fiduciary decisions. To cover these risks, SERS maintains commercial insurance and holds fidelity bonds on employees. There was no reduction in coverage and no claims exceeded insurance coverage for the past three years. SERS is registered and insured through the Ohio Bureau of Workers' Compensation for injuries to employees. SERS maintains self-insured health care coverage for employees (see note 10).

13. Contingent Liabilities

On July 23, 2003, the Ohio Association of Public School Employees and a number of individual members and retirees filed a suit in state court against the SERS Board, the System and its executive director alleging that changes to the SERS health care program approved by the Board violate vested rights. The suit is captioned <u>Ohio Association of Public School Employees, et al. v. School Employees Retirement System Board, et al.</u> The plaintiffs seek declaratory and injunctive relief to prevent the changes in the health care program from taking effect. A ruling against SERS in this lawsuit could have a material adverse effect on the financial condition of the system. Management is of the opinion that the Ohio statutes are clear in this matter and that SERS' position will prevail.

SERS is also a defendant in various other cases relating to claims concerning individual benefits and accounts (denial of disability benefits or domestic relations suits to determine spousal interests). While the final outcome of these lawsuits 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
1998(1)	$ 7,037	$6,413	$ 624	91%	$1,652	38%
1999(2)	7,535	7,332	203	97	1,768	11
2000	8,100	8,281	(181)	102	1,866	–
2001(1)(3)	9,257	8,791	466	95	1,974	24
2002	9,986	8,879	1,107	89	2,176	51
2003(1)	10,634	8,772	1,862	82	2,302	81

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

Schedule of Employer Contributions*

Year Ended June 30	Actuarial Annual Required Contributions	Percentage Contributed
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
2003	181,236,112	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, 2003
Actuarial cost method: Entry age
Amortization method: Open 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 3.75%

SUMMARY OF INVESTMENT EXPENSES FOR THE YEAR ENDED JUNE 30, 2003

Description of Expense	Net Assets Under Management June 30, 2003	Direct Fees
US equity	$ 3,503,838,981	$ 6,695,641
Non-US equity	1,248,753,148	3,082,703
Fixed income	1,641,675,948	2,748,762
Real estate	698,692,659	6,786,405
Private equity	95,938,074	5,804,414
Short-term investments	50,122,161	–
Total investment management fees		$ 25,117,925
Custodial fees		704,413
Master recordkeeper fees		1,012,230
Investment consultant fees		674,056
Investment pool administrative expenses		1,326,035
Total other investment expenses		3,716,734
Total investment expenses		$ 28,834,659

SCHEDULE OF PAYMENTS TO CONSULTANTS

SERS paid the following consulting fees in fiscal 2003:

Actuarial	$ 33,122
Audit	181,425
Legal counsel	52,111
Medical consultant	24,900
Information technology consultants	95,729
Health care consultants	157,410
Other consultants	661,983
Disability exams	542,259
Total	$1,748,939

Schedule of Brokers' Fees is presented on page 44.

ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2003

	Administrative Expenses	Investment Expenses
Personnel Services		
Salaries	$ 7,709,348	$ 880,991
Retirement contributions	1,004,087	114,847
Insurance	1,348,702	110,680
Total personnel services	10,062,137	1,106,518
Professional Services		
Medical	567,159	–
Technical	929,886	37,347
Actuarial	33,122	–
Auditing	181,425	–
Total professional services	1,711,592	37,347
Communications		
Postage	481,202	–
Telephone	130,710	–
Retirement counseling services	35,423	–
Printing and publications	202,712	–
Total communications	850,047	–
Other Services		
Computer support services	1,781,245	698
Equipment repairs and maintenance	100,357	–
Building occupancy and maintenance	1,162,998	–
Supplies	35,214	880
Employee training	169,594	19,739
Transportation and travel	206,357	53,168
Equipment rental	5,547	86,229
Surety bonds and insurance	173,691	–
Memberships and subscriptions	51,532	19,644
Retirement study commission	37,136	–
Bank fees	154,773	–
Miscellaneous	68,353	1,812
Total other services	3,946,797	182,170
Total administrative expenses before depreciation	16,570,573	1,326,035
Depreciation (Non-Investment)		
Furniture and equipment	1,466,907	–
Building	1,251,781	–
Total depreciation	2,718,688	–
Total administrative expenses	$ 19,289,261	$ 1,326,035

INVESTMENT SECTION

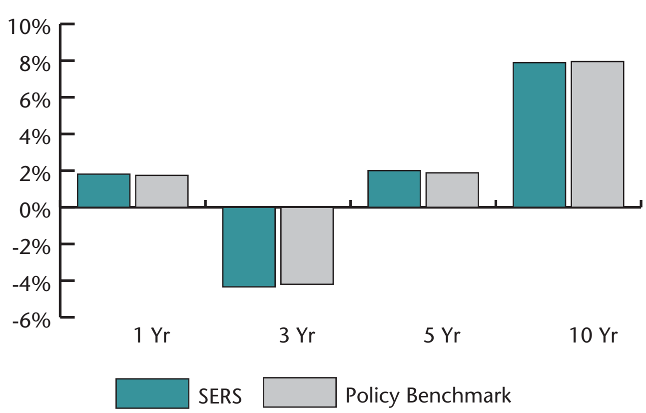
INVESTMENT SUMMARY AS OF JUNE 30, 2003

Portfolio Type	Fair Value	% of Total Fair Value
US Equity	$3,503,838,981	48.4%
Non-US Equity	1,248,753,148	17.3%
Fixed Income	1,641,675,948	22.7%
Real Estate	698,692,659	9.6%
Private Equity	95,938,074	1.3%
Short-Term	50,122,161	0.7%
Net Portfolio Value	$7,239,020,971	100.0%

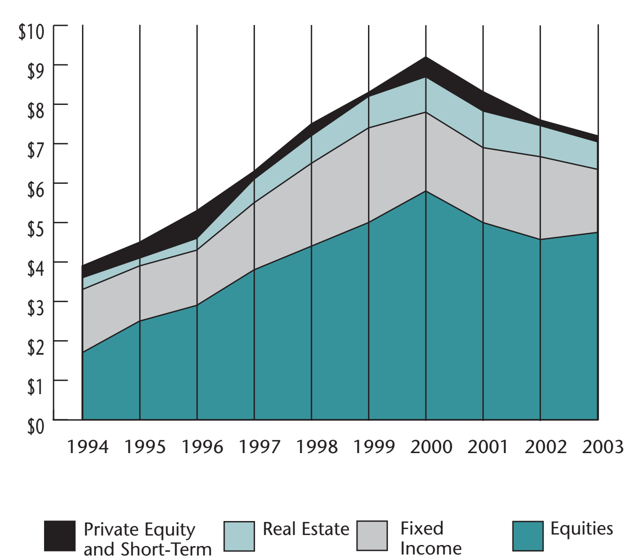
Reconciliation to Statement of Plan Net Assets

Net Portfolio Value	$7,239,020,971
Accrued Income	(17,474,062)
Accounts receivable, securities sold	(214,432,670)
Accounts receivable, currency forward contracts	(6,341,883)
Accounts payable, securities purchased	444,917,440
Cash and STIF	(10,717,937)
Investments per Statement of Plan Net Assets	$7,434,971,859

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

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VIRGINIA BRIZENDINE
Finance

ROBERT G. COWMAN
Investments

JIMMIE L. KINNAN
General Counsel

KAREN G. KLOSS
Member Services

MILO M. ROUSE, JR.
Health Care Services

TERESA R. WOOLLEY
Information Technology

December 15, 2003

Board of Trustees
Members of the System

On behalf of the SERS Investment Department, I respectfully submit the Investment Section of the Comprehensive Annual Financial Report for the year ending June 30, 2003. Information presented in this section was compiled by our Investment Staff, members of the Finance Department and Russell/Mellon Analytical Services.

Fiscal year 2003 started much like 2002 ended. Equities continued to trend downward in price reaching their apparent lows in October 2002. As the year progressed it appeared that the U.S. economy was recovering from the recession of 2001. Equities started to rally late in 2002 only to test the October lows in March 2003. But since March the equity market has been predominately up. During most of the last fiscal year, interest rates have trended down, reaching their lows in June 2003. As we look forward into fiscal year 2004, the stage seems to be set for continued growth in the U.S. economy which should lead to higher equity prices. Interest rates will probably not be able to decline much from the lows seen in June 2003.

Several events occurred in the Investment Department during the fiscal year:

- SERS' Director of Investments left the Fund in October 2002.
- SERS' new Director of Investments assumed the reins in January 2003.
- Restructuring of SERS' fixed income portfolio started in January 2003 and was completed shortly after the end of the fiscal year.
- Restructuring of the large cap equity portfolio began in November 2002 and concluded shortly after the end of the fiscal year.
- The Board's investment consultant completed its regular asset liability study and concluded that no changes were needed in the asset allocation of the Fund.
- The Board approved reducing the amount of passive management in the equity portfolios.
- Shortly after the end of the fiscal year, two new people were added to Staff to deepen our experience and resources.

SERS is committed to following a disciplined investment plan that will result in long term success. The Fund participated in the equity and fixed income rallies experienced in the second half of the fiscal year. We believe that the portfolio is structured to perform well in 2004. SERS' Investment Staff is an experienced, dedicated group who appreciate the opportunity to serve SERS' Board and its members.

Sincerely,

Robert G. Cowman
Director of Investments

INVESTMENT SUMMARY

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

INVESTMENT POLICY

During fiscal year 2003, the Board revised SERS' passive allocations in the US and Non-US equity portfolios. Prior to this change at least 60% of the US equity portfolio had to be passively invested (i.e. invested in index funds); and 55% of the Non-US equity portfolio had to be passively invested. In April, 2003 the Board lowered the passive percentages to 40% for US equities and 20% for Non-US equities. These changes will be implemented gradually during 2004.

INVESTMENT OBJECTIVES

The primary objective of the investment portfolio is to achieve investment returns exceeding the weighted return of our investment policy portfolio within prudent risk parameters. On June 30, 2003, the composition of SERS' policy portfolio and its corresponding benchmark was as follows:

- 46% US Equities - Russell 3000 Index
- 16% Non-US Equities - MSCI-All Country World Ex-US Index
- 3% Private Equity - S&P 500 + 3%
- 23% Fixed Income - Lehman Brothers Aggregate Bond Index
- 2% Short-Term - 30-day Treasury Bill
- 10% Real Estate - 80% NCREIF Property Index & 20% NAREIT Index

INVESTMENT STRATEGIES

Asset Allocation

Frank Russell Company (FRC), SERS' investment consultant, conducted its periodic asset liability study. Asset liability studies are normally conducted every 3 to 5 years. FRC recommended maintaining the asset allocation structure of the Fund at the current levels.

Diversification

The need for diversification within the Fund was affirmed again this fiscal year. US equities rallied in the second half of the fiscal year and recovered the declines experienced in the first half of the year, finishing the fiscal year with a small positive return. Disappointing Non-US equity returns in the fiscal year were offset by positive returns on the fixed income portfolio. The total fund had a positive return for the fiscal year.

SERS continues to employ a diverse group of managers across the various asset classes who follow different strategies within their respective asset class. As of June 30, 2003, SERS had 37 investment managers managing parts of the Fund. Each of the managers is subject to investment guidelines and objectives which conform to the Board's investment policy.

INVESTMENT PERFORMANCE

Long-Term Investment Performance

Long-term fund performance remained positive despite disappointing equity returns over the last three years. For the ten-year period ending June 30, 2003, the fund returned 7.9%, matching its policy benchmark. On a five-year basis, the Fund return was notably less at 2.0%, but still slightly ahead of its policy benchmark.

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

Fiscal Year 2003 Results

For the fiscal year ending June 30, 2003, SERS' total fund returned 1.8%. The Board's investment policy benchmark return was 1.7%. The positive returns on the fixed income portfolio offset the negative returns in the Non-US equity portfolio.

SCHEDULE OF INVESTMENT RESULTS FOR THE YEARS ENDED JUNE 30

	2003	2002	2001	2000	1999	Annualized Rates of Return 3-Year	5-Year	10-Year
US Equity								
SERS (1)	0.2%	(15.6)%	(15.4)%	11.6 %	18.7 %	(10.9)%	(1.2)%	9.5 %
Russell 3000 Index	0.8	(17.2)	(13.9)	9.6	20.1	(10.5)	(1.1)	9.7
Non-US Equity								
SERS	(8.1)	(11.9)	(17.4)	18.4	10.4	(12.5)	(3.1)	–
Custom Non-US Equity Benchmark (2)	(8.7)	(12.9)	(18.8)	18.6	10.2	(13.5)	(3.2)	–
Fixed Income								
SERS	11.1	9.1	12.5	4.8	2.70	10.9	8.0	7.3
Lehman Bros. Aggregate Bond Index	10.4	8.6	11.2	4.6	3.10	10.1	7.5	7.2
Real Estate								
SERS (3)	5.6	(1.2)	12.4	12.9	9.6	5.4	7.7	9.2
Custom Real Estate Benchmark (4)	6.6	6.4	12.0	11.2	14.5	8.4	10.1	9.3
Short-Term (5)								
SERS	1.3	2.6	9.1	5.6	4.9	4.3	4.7	4.9
Citigroup 30 Day Treasury Bill Index	1.4	2.3	5.2	4.9	4.3	3.0	3.6	4.1
Private Equity								
SERS (6)	(18.0)	(30.9)	(32.7)	118.5	39.6	(25.9)	4.4	18.6
Custom Private Equity Benchmark (7)	(21.8)	3.3	(11.8)	11.4	27.7	(12.6)	(1.2)	12.5
Total Fund								
SERS (8)	1.8	(7.8)	(6.8)	12.1	12.1	(4.3)	2.0	7.9
Policy Benchmark (9)	1.7	(7.8)	(6.3)	9.7	13.7	(4.2)	1.9	7.9

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. Prior to October 1994, the US Equity benchmark was the S&P 500.

(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 ex 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. Public Real Estate assets are reported in the current quarter.

(4) From inception to June 2002, benchmark consisted of 100% NCREIF Property Index (Arrears). Starting in July 2002, benchmark consists of 80% NCREIF Property Index (Arrears) and 20% NAREIT index

(5) For fiscal year 2001, Short-term return was impacted by cash flows from different asset classes in addition to overnight investments.

(6) Private Equity returns are reported one quarter in arrears beginning with 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.

(7) From Inception to December 1999, Custom Private Equity Benchmark consists of S&P 500 Index plus 500 basis points annualized. From January 2000 to current, Custom Private Equity Benchmark consists of S&P 500 Index plus 300 basis points annualized. Custom Benchmark is reported one quarter in arrears June 30, 2002 to current. Methodology change results in a 0% return for June 30, 2002.

(8) Composite includes 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 is impacted beginning June 30, 2002 with Real Estate and Private Equity March 31, 2002 market values impacted with flows for the quarter ending June 30, 2002.

(9) As of 07/01/2002, SERS Policy Benchmark consists of: 46% Russell 3000, 16% MSCI AC World Free ex US (50% Hedged), 23% Lehman Brothers Aggregate, 10% SERS Real Estate Custom Benchmark, 3% S&P 500 + 300bps, 2% CitiGroup 30 Day T-Bill. For the quarter ended June 30, 2002, Private Equity Benchmark (Arrears) reflects 0% return.

US EQUITY

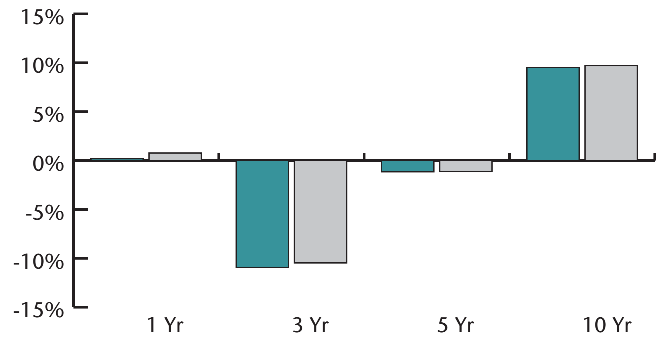
For the fiscal year ending June 30, 2003, the SERS US equity portfolio returned 0.19%, underperforming the benchmark Russell 3000 Index by 0.58%. On an annualized basis, SERS' US equity portfolio has underperformed its benchmark by 0.46% over the last three years.

The US equity market rose 0.77% this fiscal year compared to one year ago, when it fell 17.2%. The turnaround in the US equity market occurred as investors focused more on the improving economy and less on troubling news like the war in Iraq. Double-digit returns were the norm during the last quarter of the fiscal year.

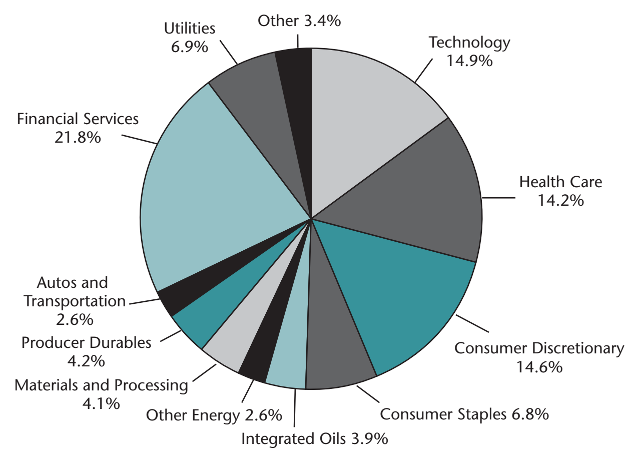
The improvement in US equity returns contained reversals in performance based upon style and capitalization. Last fiscal year, value stocks outperformed growth stocks by 33.5% among small cap stocks and by 17.5% among large cap stocks. Small capitalization stocks outperformed large capitalization stocks by 9.3%. This fiscal year, growth stocks outperformed value stocks by almost 5.0% among small cap stocks and by 3.9% among large cap stocks. This fiscal year large capitalization stocks outperformed small capitalization stocks by 2.6%. SERS believes that these return cycles are difficult to forecast and as a result, the SERS US Equity portfolio is size and style neutral to the Russell 3000 Index.

Consistent with this strategy, SERS began a restructuring of its large cap growth portfolio in November 2002.

US EQUITY



ECONOMIC SECTORS



LARGEST INDIVIDUAL US EQUITY HOLDINGS (excludes commingled funds) **AS OF JUNE 30, 2003**

	Description	Shares	Market Price	Fair Value
1	CITIGROUP, INC.	629,897	$42.80	$26,959,592
2	PFIZER, INC.	691,040	34.15	23,599,016
3	BANK OF AMERICA CORP.	266,800	79.03	21,085,204
4	MICROSOFT CORP.	719,400	25.61	18,423,834
5	GENERAL ELECTRIC CO.	480,340	28.68	13,776,151
6	WASHINGTON MUTUAL, INC.	330,500	41.30	13,649,650
7	CISCO SYSTEMS, INC	789,000	16.69	13,168,410
8	EXXONMOBIL CORP.	342,006	35.91	12,281,435
9	WAL MART STORES, INC.	203,900	53.67	10,943,313
10	MEDTRONICS, INC.	224,100	47.97	10,750,077

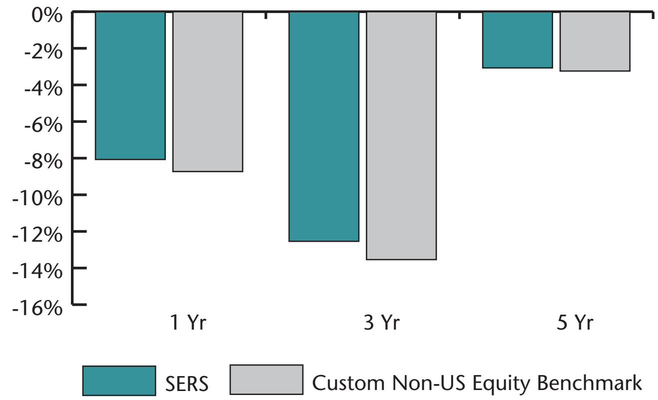
All monetary values are stated in US dollars.
A complete listing of holdings is available upon request.

NON-US EQUITY

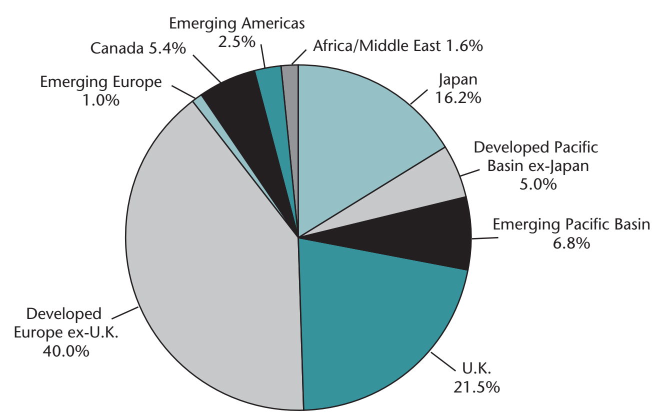
For the fiscal year ending June 30, 2003, SERS Non-US equity portfolio returned -8.1%, outperforming its policy benchmark (MSCI All Country World Free Excluding the US Index with developed countries 50% hedged) by 0.6%. On an annualized basis, the SERS Non-US equity portfolio has outperformed its benchmark by 1.0% over the past three years and outperformed its benchmark by 0.1% over the past five years. On an unhedged basis, stocks in developed markets fell 6.1% but those in emerging markets actually rose 7.0% for the fiscal year.

For the fiscal year, New Zealand earned the highest returns among developed markets, while the Netherlands experienced the worst returns. Among emerging countries, Argentina earned the highest returns while Taiwan fell the most.

NON-US EQUITY



GEOGRAPHIC ALLOCATION



LARGEST INDIVIDUAL NON-US EQUITY HOLDINGS (excludes commingled funds) **AS OF JUNE 30, 2003**

	Description	Country	Shares	Market Price	Fair Value
1	VODAFONE GROUP PLC	United Kingdom	549,929	$ 19.55	$10,753,478
2	TELEFONICA S.A.	Spain	800,295	11.61	9,291,280
3	NISSAN MOTOR	Japan	880,800	9.56	8,421,057
4	TOTAL FINA ELF S.A.	France	54,284	151.12	8,203,553
5	VOLKSWAGEN AG	Germany	187,396	42.03	7,876,181
6	ENI S.P.A.	Italy	512,076	15.12	7,744,519
7	CANON, INC.	Japan	164,000	45.89	7,525,630
8	BANK OF NOVA SCOTIA	Canada	160,625	44.23	7,104,738
9	GLAXOSMITHKLINE	United Kingdom	4,673,731	1.46	6,819,273
10	HONDA MOTOR CO.	Japan	171,300	37.89	6,491,068

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

FIXED INCOME

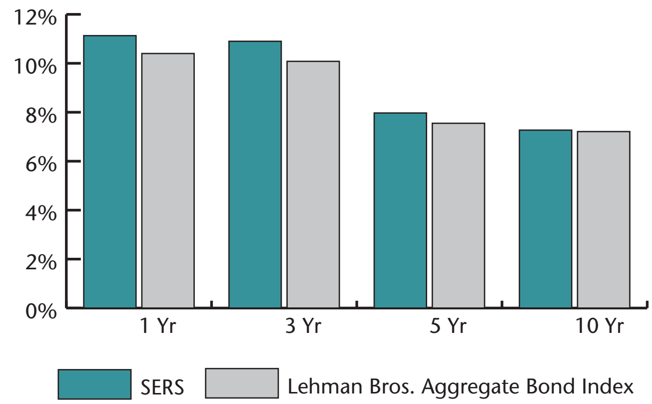
Characterized as an active core bond portfolio, the SERS fixed income portfolio is comprised principally of low-risk, high-quality debt securities. The portfolio is managed by a diverse group of active bond managers employing proven investment strategies to help SERS meet its goals and objectives.

For the fiscal year ending June 30, 2003, SERS' fixed income portfolio outperformed the benchmark Lehman Aggregate Index by 73 basis points, returning 11.13% against the index return of 10.40%. 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.

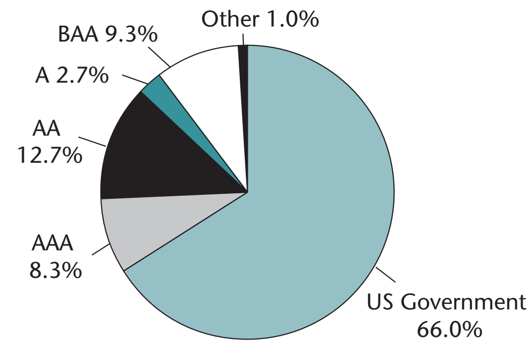
Double-digit returns characterized fixed income sectors again this year as low interest rates continued to bolster bond values. The year was atypical in many ways. Usually differing by a measure of years, duration of mortgage securities and treasury bills was equal in 2003. Moreover, the market saw unprecedented moves in corporate spreads. Fixed income returns are expected to return to more traditional levels as bond markets enter the "bear" phase of their cycle.

No policy changes affecting fixed income occurred this fiscal year, although the Board approved hiring new fixed income managers to implement core plus and intermediate duration investment strategies.

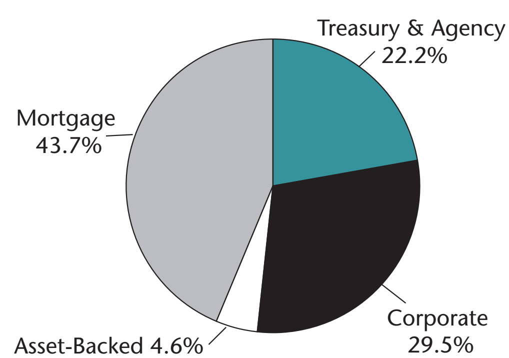
FIXED INCOME



CREDIT SECTORS



SECURITY SECTORS



LARGEST INDIVIDUAL FIXED INCOME HOLDINGS AS OF JUNE 30, 2003

	Description	Rating	Coupon	Maturity Date	Par Value	Market Price	Fair Value
1	GNMA	AAA	6.5000	07/15/2033	$48,310,000	$104.98	$50,717,952
2	TREASURY NOTE	AAA	3.3750	04/30/2004	30,000,000	102.00	30,598,830
3	TREASURY BOND	AAA	8.1250	08/15/2019	21,005,000	144.90	30,436,749
4	FNMA	AAA	6.0000	07/01/2033	27,600,000	103.89	28,673,813
5	TREASURY BOND	AAA	8.1250	08/15/2019	19,075,000	144.66	27,593,933
6	TREASURY NOTE	AAA	4.0000	11/15/2012	26,310,000	104.09	27,386,053
7	TREASURY NOTE	AAA	3.2500	12/21/2003	25,000,000	101.16	25,291,025
8	TREASURY BOND	AAA	5.3750	02/15/2031	20,720,000	112.64	23,338,345
9	FNMA	AAA	7.0000	07/01/2033	21,100,000	105.34	22,227,531
10	TREASURY NOTE	AAA	1.6250	04/30/2005	21,410,000	100.69	21,557,215

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

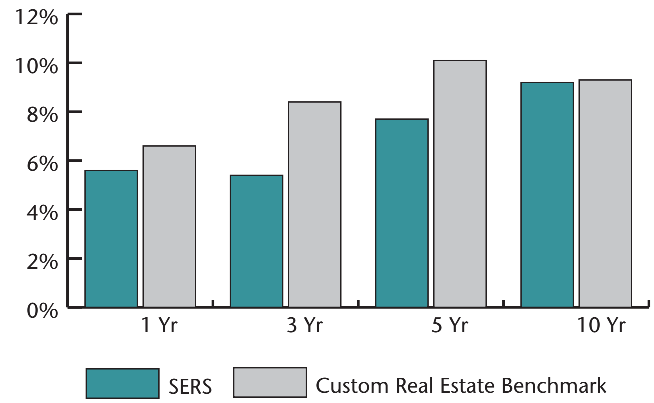
REAL ESTATE

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. SERS' 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).

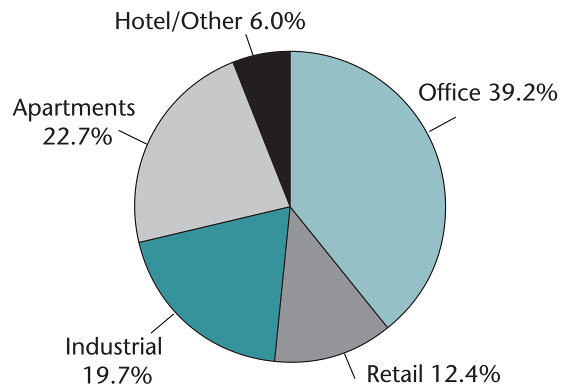
For fiscal 2003, private real estate assets as measured by the NCREIF Property Index (one quarter in arrears) returned 7.1%, consisting of 8.3% income and (1.1)% appreciation. During fiscal 2003, real estate markets were affected by a slow US economy - vacancy rates were up for most property types. Even with the slow economy, real estate continues to provide stable lease income. REITs, as measured by the NAREIT Equity Index, returned 4.0% during fiscal 2003.

During fiscal year 2003, SERS' real estate portfolio produced a total return of 5.6% vs. the custom real estate benchmark of 6.6%. For three-, five-, and ten-year periods, the real estate portfolio produced returns of 5.4%, 7.7%, and 9.2% respectively.

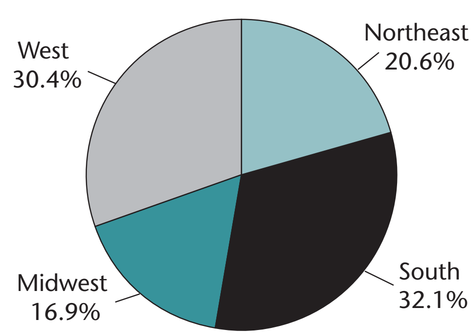
REAL ESTATE



PROPERTY TYPE DIVERSIFICATION



REGIONAL DIVERSIFICATION



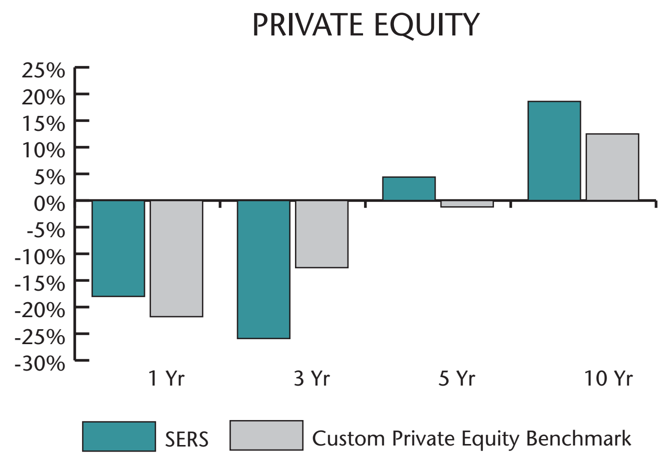
LARGEST INDIVIDUAL REAL ESTATE HOLDINGS AS OF JUNE 30, 2003

	Description	Fair Value
1	UBS REALTY SEPARATE ACCOUNT	$88,224,972
2	INVESCO TAKEOVER	85,566,845
3	JP MORGAN STRATEGIC	70,591,245
4	INVESCO REALTY	68,802,998
5	SENTINEL REF	49,746,783
6	UBS REALTY AMT	27,011,549
7	CB RICHARD ELLIS STRATEGIC PARTNERS	26,863,380
8	JP MORGAN SPECIAL FUND	22,240,616
9	KOLL BREN VI	20,611,746
10	KOLL BREN V	19,443,446

All monetary values are 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 limited partnerships, 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.



LARGEST INDIVIDUAL PRIVATE EQUITY HOLDINGS
AS OF JUNE 30, 2003

	Description	Fair Value
1	MORGENTHALER VENTURE PARTNERS VI, LP	$11,082,412
2	LINSALATA CAPITAL PARTNERS FUND IV, LP	8,993,330
3	GS PRIVATE EQUITY PARTNERS 2000–MANAGER FUND, LP	8,436,712
4	PRIMUS CAPITAL IV, LP	7,775,124
5	MORGENTHALER VENTURE PARTNERS V, LP	6,794,710
6	BRANTLEY VENTURE PARTNERS III, LP	6,567,805
7	PRIMUS CAPITAL V, LP	5,967,818
8	MORGENTHALER VENTURE PARTNERS VII, LP	5,089,457
9	THE PEPPERTREE FUND, LP	4,959,647
10	HORSLEY BRIDGE INTERNATIONAL FUND II, LP	4,938,861

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

INVESTMENT CONSULTANT & INVESTMENT MANAGERS

Investment Consultant

Frank Russell Company – Tacoma, Washington

Investment Managers – US Equity

Aronson + Johnson + Ortiz – 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

State Street Global Advisors – Boston, Massachusetts

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

Investment Managers – Non-US Equity

F&C Emerging Markets – London, England

Oechsle International Advisors – Boston, Massachusetts

Alliance Capital Management – 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

J.P. Morgan Investment Management – New York, New York

Linsalata Capital Partners – Cleveland, Ohio

Morgenthaler Venture Partners – Cleveland, Ohio

Peppertree Partners – 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

Western Asset Management Company – Pasadena, California

Investment Managers – Real Estate

AEW Capital Management – Boston, Massachusetts

CB Richard Ellis Investors – Los Angeles, California

ING Clarion Real Estate Securities – Radnor, Pennsylvania

INVESCO Realty Advisors – Dallas, Texas

J.P. Morgan Investment 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 Investors – Hartford, Connecticut

Master Custodians

Huntington National Bank – Columbus, Ohio

State Street Global Advisors – Boston, Massachusetts

Master Recordkeeper

Mellon Bank – Pittsburgh, Pennsylvania

Investment Analytics

Russell/Mellon Analytical Services – Pittsburgh, Pennsylvania

SUMMARY SCHEDULE OF BROKERS' FEES FOR THE YEAR ENDED JUNE 30, 2003

Brokerage fees on US and non-US investment transactions for the fiscal year ended June 30, 2003 were $4,427,522 and $602,323 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**
Broadcort Capital Corp.	$ 314,972	6,364,444	$0.049
B-Trade Services, LLC	217,181	8,128,477	0.027
Correspondent Services Corporation	201,887	3,859,188	0.052
Investment Technology Group, Inc.	190,640	9,038,270	0.021
Goldman Sachs & Co.	186,834	6,138,997	0.030
Jefferies & Co.	184,832	5,494,147	0.034
Deutsche Banc Alex Brown, Inc.	140,940	5,834,060	0.024
Smith Barney	136,097	3,793,323	0.036
Merrill Lynch, Pierce, Fenner & Smith, Inc.	125,824	3,159,144	0.040
Legg, Mason, Wood, Walker, Inc.	117,743	2,364,157	0.050
Lehman Brothers, Inc.	111,557	2,598,233	0.043
Miller, Tabak & Hirsch	105,020	2,103,600	0.050
Instinet	98,185	3,896,122	0.025
Weeden	92,296	3,257,320	0.028
Bear Stearns & Co., Inc.	88,052	1,776,926	0.050
Charles Schwab	87,642	1,829,860	0.048
Cantor Fitzgerald & Co., Inc.	85,377	2,507,780	0.034
Lynch, Jones & Ryan, Inc.	85,257	1,802,315	0.047
Prudential Securities, Inc.	79,580	1,614,020	0.049
First Boston	76,628	1,640,068	0.047
First Union Capital Markets	73,044	1,477,575	0.049
Interra Clearing Services, Inc.	65,931	1,686,677	0.039
Pacific Growth Equities	64,768	1,778,202	0.036
Banc of America Securities	63,587	1,375,771	0.046
Knight Securities	59,698	1,496,226	0.040
Piper, Jaffray & Hopwood, Inc.	55,764	1,313,065	0.042
Oppenheimer	53,894	1,201,450	0.045
LA Branche Financial	49,407	1,364,490	0.036
McDonald & Co. Securities, Inc.	47,603	959,870	0.050
Southwest Securities, Inc.	47,311	2,266,594	0.021
Janney, Montgomery & Scott, Inc.	47,122	942,225	0.050
J.P. Morgan Securities, Inc.	44,568	905,010	0.049
Veritas Securities	42,741	854,810	0.050
William Blair	36,616	737,920	0.050
Berstein, Sanford C. & Co., Inc.	33,530	670,600	0.050
Morgan Stanley & Co., Inc.	33,286	709,700	0.047
State Street Brokerage	33,188	1,352,750	0.025
Abel Noser Corp.	32,025	1,069,300	0.030
Quaker Securities, Inc.	31,260	702,700	0.044
UBS Warburg, LLC	30,290	646,950	0.047
Brokers fees less than $30,000 each (133)	755,345	20,636,481	0.037
TOTAL - US	4,427,522	121,348,817	0.036
NON-US TRANSACTIONS: **Broker Name**			
Merrill Lynch International	$73,525	4,417,068	0.017
Goldman Sachs & Company	68,270	8,466,283	0.008
Morgan Stanley & Co. International	48,173	2,137,447	0.023
Deutsche Bank Securities, Inc.	47,105	3,383,872	0.014
Lehman Brothers	41,120	2,831,519	0.015
Credit Suisse First Boston Corp.	36,695	2,218,896	0.017
Salomon Brothers International	34,828	1,704,040	0.020
Dresdner Kleinwort Benson	30,441	1,381,379	0.022
Brokers fees less than $30,000 each (35)	222,166	16,654,620	0.013
TOTAL - Non-US	602,323	43,195,124	0.014
GRAND TOTAL	$5,029,845	164,543,941	$0.031

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

Mellon

Human Resources & Investor Solutions

November 25, 2003

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, 2003 indicates that a contribution rate of 9.09% of payroll for 122,315 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.

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(212) 330-1000 Office • (212) 695-4184 Fax
www.mellon.com

*A Mellon Financial Company.*SM

Board of Trustees
School Employees Retirement System of Ohio
November 25, 2003
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 projections of health care fund activity and the surcharge limit established by Act 270, the allocated contributions are insufficient in the long-term 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, 2003, the value of the health care fund was equal to about 148% of health care benefits paid during the year ending on that date.

The current benefit structure is outlined in the Plan Summary. There were two changes made since the last valuation, as follows:

- Effective July 1, 2003, the member contribution rate was increased from 9% of payroll to 10%.

- Effective October 1, 2002, a member may elect to receive a partial lump sum payment upon retirement.

We provided 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. For fiscal years prior to June 30, 2002, the 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

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

Philip Bonanno, MAAA, EA
Senior Consultant and Actuary

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Mellon

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, 2003, 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, 2003 is 8.17%.

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, 2003 is 5.83%. 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% of annual health care. For 2003, this resulted in a health care reserve of $303.6 million versus a targeted level of $307.4 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 2003, the minimum pay has been established as $14,500. 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, 2003 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, 2003:

(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 3.75 percent, the 8.25 percent investment return rate translates to an assumed real rate of return of 4.5 percent;

(2) projected salary increases of 4.25%, compounded annually, attributable to wage 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, 2003

Present value of:	Basic Pension	Medicare Part B	Death Benefit	Total
Future benefits to present retirees and survivors	$ 4,660,372,594	$ 200,245,570	$ 20,097,928	$ 4,880,716,092
Monthly benefits and refunds to present inactive members	319,685,541	7,161,665	936,271	327,783,477
Allowances to present active members:				
Service	5,038,977,332	81,577,853	4,349,232	5,124,904,417
Disability	341,020,165	3,684,508	544,441	345,249,114
Survivor benefits	73,280,703	273,472	—	73,554,175
Refunds	(122,557,634)	4,769,845	54,614	(117,733,175)
Total AAL for active members	5,330,720,566	90,305,678	4,948,287	5,425,974,531
Total AAL	$10,310,778,701	$ 297,712,913	$ 25,982,486	$10,634,474,100

ACTUARIAL VALUATION DATA

Actuarial Valuation as of June 30	Number of Active Members	Annual Payroll (millions)	Average Annual Salary	% Increase in Average Salary
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
2003	122,315	2,302.3	18,823	4.2

RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

	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
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
2003	4,131	31,177,197	3,481	2,182,240	59,999	461,212,013	5.5	7,687

ANALYSIS OF FINANCIAL EXPERIENCE

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

	Gain/(Loss) For Year In Millions					
Type of Risk Area	**2002**	**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.	$ 41.5	$ 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.	0.2	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.	1.6	(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.	(151.3)	(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.	(533.6)	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.	(9.8)	(5.7)	(18.0)	(20.0)	3.1	4.3
New Members Additional unfunded accrued liability will produce a loss.	(38.6)	*	*	*	*	*
Death After Retirement If retirees live longer than assumed, there is a loss. If not as long, a gain.	44.1	14.4	1.0	(1.3)	(1.4)	4.2
Other Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	35.5	(136.2)	(84.6)	(75.9)	(34.2)	(33.5)
Total Gain/(Loss) During Year	$(610.4)	$342.8	$459.8	$459.8	$289.8	$159.6

* Included in "Other" risk area prior to 2002.

2001 data not available.

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)
1998	$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	1,407	4,294	3,555	8,791	100	100	87
2002	1,525	4,599	3,862	8,879	100	100	71
2003	1,643	4,881	4,110	8,772	100	100	55

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
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)
2003	225,014,540	370,314,918	14.0	95,819,531	3,968,047	695,117,036

DEDUCTIONS BY TYPE

Table II

Fiscal Year	Benefits	Administrative Expenses	Transfers to other Ohio Retirement Systems	Refunds	Total
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
2003	687,618,942	19,289,261	4,885,777	19,575,616	731,369,596

BENEFIT PAYMENTS BY TYPE

Table III

Year Ending June 30	Service	Disability	Survivor	Health Care	Death Benefits and Refunds	Total
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
2003	403,666,557	55,023,480	21,970,746	204,930,737	21,603,038	707,194,558

NUMBER OF BENEFIT RECIPIENTS BY TYPE

Table IV

Years Ending June 30	Service	Disability	Survivor	Total
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
2003	50,840	5,126	4,033	59,999

NUMBER OF BENEFIT RECIPIENTS

Table V

Amount of Monthly Benefit	Service	Disability	Survivor	Total
$ 1 — 250	20,920	1,064	2,164	24,148
251 — 500	12,049	1,212	1,088	14,349
501 — 750	7,048	950	458	8,456
751 — 1,000	4,072	694	161	4,927
1,001 — 1,500	4,044	746	110	4,900
1,501 — 2,000	1,523	298	31	1,852
over 2,000	1,184	162	21	1,367
	50,840	5,126	4,033	59,999

RETIREMENT AVERAGES

Table VI

Service Retirement

Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
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
2003	22.189	915.76	62.20	22,965

Disability Retirement

Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
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
2003	21.439	1,126.90	52.72	24,557

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Table VII

Retirement Effective Dates July 1, 1997 to June 30, 2003	Years Credited Service 5-9	10-14	15-19	20-24	25-29	30+
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
Period 7/1/02 to 6/30/03						
Average Monthly Benefit	$ 148	$ 317	$ 552	$ 755	$ 983	$1,780
Average Final Average Salary*	1,015	1,373	1,686	1,811	1,988	2,663
Number of Retirees	204	285	328	346	618	533

* 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	Higher Education	Vocational/ Technical Schools	Community Schools	Other
1998	748	65	371	193	49	14	50	0	6
1999	760	61	370	193	49	14	50	17	6
2000	795	60	372	192	49	14	51	51	6
2001	821	59	371	194	49	14	51	77	6
2002	853	62	371	194	49	14	50	107	6
2003	871	61	371	194	49	14	50	126	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 871 school districts. This purpose is sustained by the member and employer contributions and the income realized from investment of those contributions.

Administration

The administration 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, State Teachers Retirement System (STRS), Ohio Public Employees Retirement System (OPERS), Ohio Police & Fire Pension Fund (OP&F), or State Highway Patrol Retirement System (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 STRS or OPERS 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 is 65 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 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 currently receive medical insurance from SERS. SERS reserves the right to change or discontinue any health plan or program. 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.

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