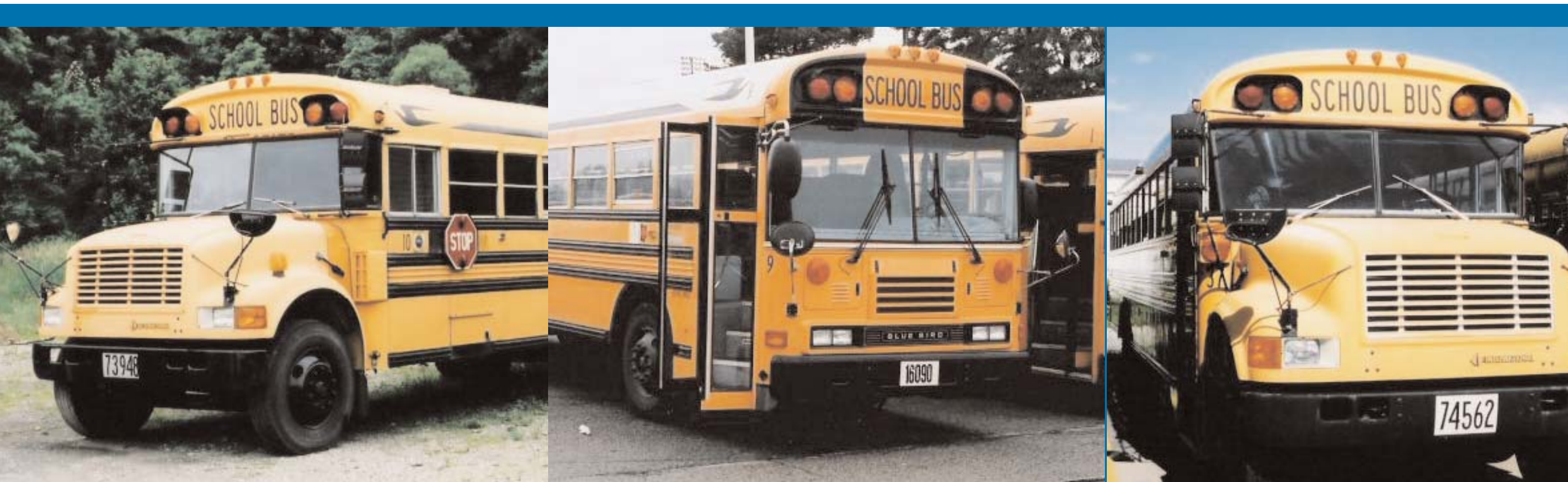
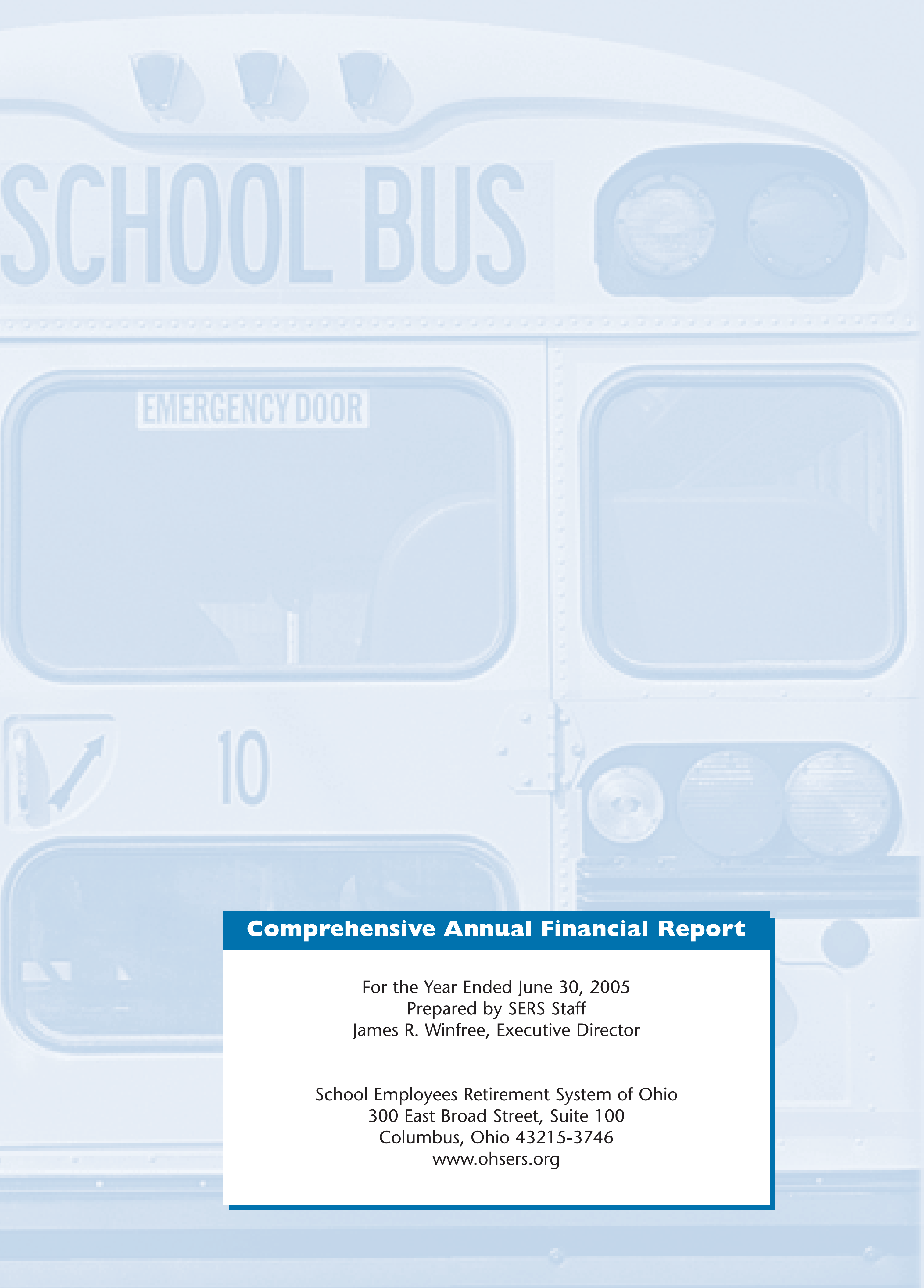


School Employees Retirement System of Ohio
Comprehensive Annual Financial Report
For The Year Ended June 30, 2005



Comprehensive Annual Financial Report

For the Year Ended June 30, 2005
Prepared by SERS Staff
James R. Winfree, 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."

Table of Contents

The Retirement Board and Executive Staff

Left to right: *Standing* – James Winfree, Jeannie Knox, Catherine Moss, Mark Anderson, Arlene Wilson, James Rossler, Jr.
Seated – Daniel Wilson, Barbara Overholser, Paul Peltier

Left to right: *Standing* – Teresa Woolley, Milo Rouse, James Winfree, Jimmie Kinnan.
Seated – Karen Kloss, Virginia Brizendine, Robert Cowman, Lisa Morris.

SERS RETIREMENT BOARD

President:
Barbara E. Overholser,
Columbus, Ohio
Term Expires June 30, 2009

Vice President:
Jeannie C. Knox,
Cincinnati, Ohio
Term Expires June 30, 2007

Employee/Member:
Mark E. Anderson,
Term Expires June 30, 2008

Retiree/Member:
Catherine P. Moss,
Term Expires June 30, 2008

Employee/Member:
James A. Rossler, Jr.,
Term Expires June 30, 2005

Retiree/Member:
Arlene J. Wilson
Term Expires June 30, 2005

Appointed Member:
Daniel L. Wilson
Term Expires Sept. 28, 2008

Appointed Member:
Paul E. Peltier
Term Expires Dec. 2, 2008

SERS EXECUTIVE STAFF

James R. Winfree
Executive Director

Lisa J. Morris
Deputy Executive Director

Virginia S. Brizendine
Director of Finance

Robert G. Cowman
Director of Investments

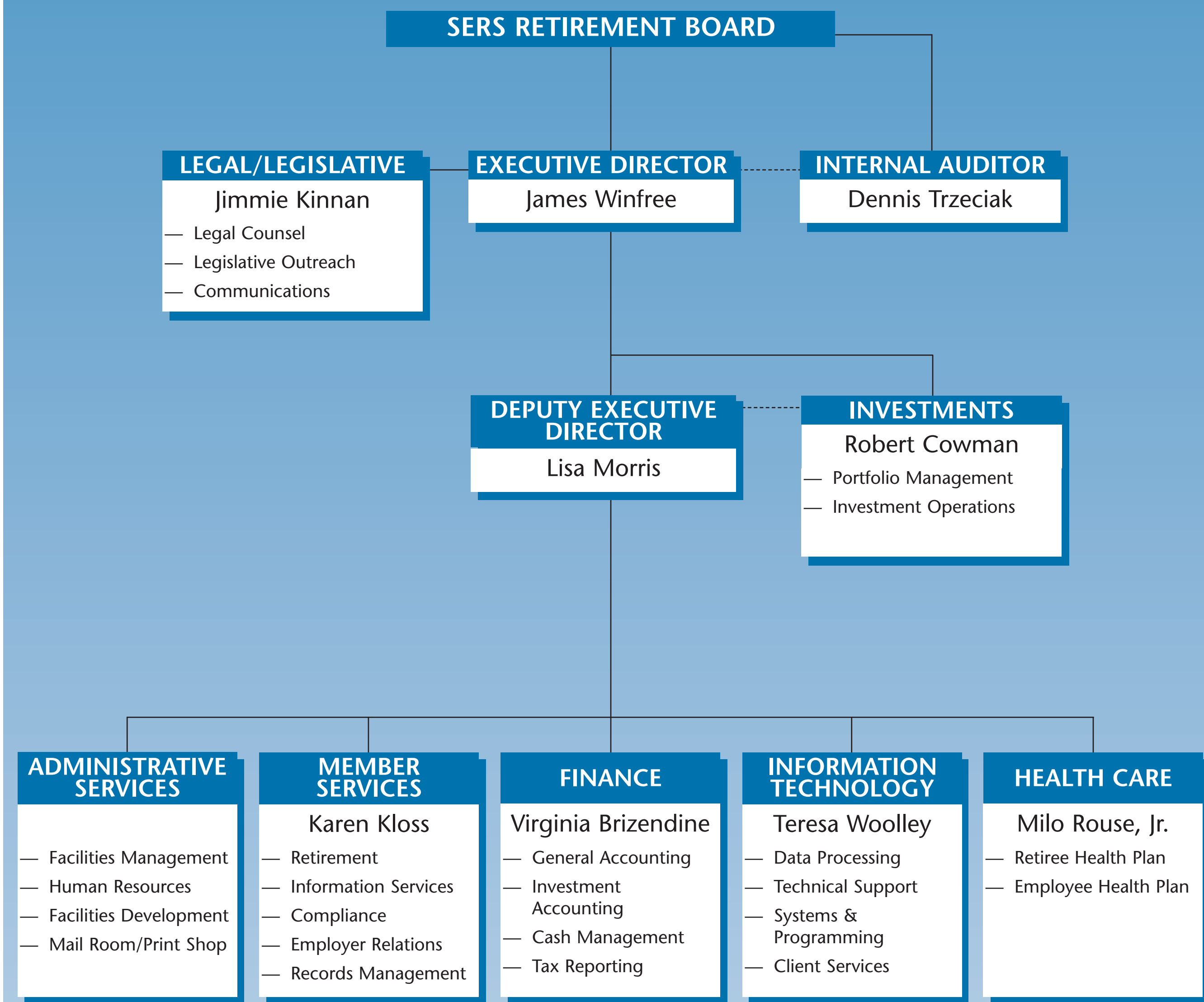
Jimmie L. Kinnan
General Counsel

Karen G. Kloss
Director of Member Services

Milo M. Rouse, Jr.
Director of Health Care Services

Teresa R. Woolley
Director of Information Technology

Organizational Chart



PROFESSIONAL CONSULTANTS

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

Independent Auditor
KPMG LLP – Columbus, Ohio

Actuary
Buck Consultants, LLC – New York, New York

Investment Consultant, Investment Managers & Brokers' Fees
See pages 38, 49, 50 & 51

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, 2004

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

PPC

Public Pension Coordinating Council
Public Pension Standards
2005 Award

Presented to

Ohio School Employees Retirement System

In recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

School Employees Retirement System

JAMES R. WINFREE
Executive Director

LISA J. MORRIS
Deputy Executive Director

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

VIRGINIA BRIZENDINE
Finance

ROBERT G. COWMAN
Investments

JIMMIE L. KINNAN
Legal & Legislative

KAREN G. KLOSS
Member Services

MILO M. ROUSE, JR.
Health Care Services

TERESA R. WOOLLEY
Information Technology

December 2, 2005

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, or the System) for the fiscal year ended June 30, 2005. The report provides information about financial operations, including management's stewardship of the funds entrusted to the System and compliance with all legal requirements.

The report is divided into six sections:

- the *Introductory Section* contains the 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* contains the 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* includes the investment report, portfolio performance, and investment policy;
- the *Actuarial Section* has the letter expressing the opinion of our consulting actuaries, Buck Consultants, and the results of their annual actuarial valuation;
- the *Statistical Section* includes significant data pertaining to the System; and
- the *Plan Summary Section* explains membership eligibility and the various benefits that we provide our members.

Established in 1937 by an act of the Ohio General Assembly, SERS provides pensions and benefits to public and charter school employees who are not required to possess a certificate in order to perform their duties. By statute, benefit plans include retirement for age and service or disability; and survivor benefits that are paid upon the death of a member before retirement. A post-retirement health care program is also provided, although it is not required by law. SERS is governed by a Board comprised of elected active members and retirees and appointed experts. Members of the Board receive no compensation for their services other than reimbursement of personal expenses. The term of the office for elected Board members is four years.

The management of SERS is responsible for the accuracy of the contents and the completeness and fairness of the presentation, including disclosures. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position of the System. All disclosures necessary to enable the reader to gain an understanding of SERS' financial activities have been included. Management has provided 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 the 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.

Management has established a system of internal accounting controls to ensure the security of member and employer contributions; and to provide reasonable, but not absolute, assurance that assets are properly safeguarded, transactions are properly executed and that financial statements are reliable. Our independent external auditors have conducted an audit of the basic financial statements in accordance with auditing standards generally accepted in the United States of America. They also have full and unrestricted access to the Board to discuss their audit and related findings concerning the integrity of the financial reporting and adequacy of internal controls.

Major Initiatives and Highlights

With new leadership on the Board and SERS' executive staff we believed that the time was right to look at the long-range future of SERS. In November 2004, SERS began an organization-wide strategic planning process that included management, employees, Board members, retirees, and other stakeholders. SERS' mission was reviewed, and our organizational strengths, weaknesses, challenges, threats and key opportunities for the future were identified. As a result, three major strategic goals were developed: to ensure sustainable pension funding and delivery, to develop a sustainable health care model; and, to cultivate organizational culture and support. These three goals have been broken down into smaller objectives and cross-functional teams made up of SERS' employees are working on the strategy and tactics for carrying out each objective.

In an effort to extend health care coverage through 2010, the Board approved premium increases and other plan changes in June 2005. The changes involve substantial premium increases, a plan design change for out-of-network managed care, and co-pay increases on brand name prescription drugs. All changes are effective January 1, 2006. The Board also approved reduced premiums for retirees with low incomes. Retirees must apply for the reduction by completing a notarized statement of their 2004 income. Upon approval, those who qualify will receive a 25% reduction in their premiums. This fall, Board members will resume discussions on long-term health care issues such as eligibility.

As we reported last year, the Ohio Association of Public School Employees (OAPSE) filed suit in July 2003 alleging that the changes to the health care program violated the vested rights of SERS' retirees. These changes, which were effective January 2004, were approved by the Board after careful consideration of the options available to maintain the solvency of the health care program. SERS motion to dismiss the suit was granted in January 2004 and in December 2004, the Court of Appeals affirmed the dismissal of the health care related claims. The Ohio Supreme Court has dismissed OAPSE's appeal and the case is now pending in the Court of Common Pleas on the remaining factual issues related to construction of SERS' home office and salaries and bonuses. As a result of the decision concerning health care, SERS can continue to modify its health care program in its on-going effort to maintain a program for retirees.

Investments

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; and, to achieve investment results competitive with those of the broad market and of similar funds.

We did not change our current asset allocation this year, following the recommendation of our investment consultant, the Frank Russell Company. However we made several changes to the pool of investment managers to bring additional diversity to our portfolio. The fair value of the net investments in custody on an accrual basis was $8.97 billion at June 30, 2005, an increase of $694 million from the previous fiscal year. With the rebound in the stock market and the efforts of our investment managers, the portfolio returned 10.5%, exceeding our investment policy benchmark of 10.3%. The strongest sectors of the portfolio were international equities and real estate.

Funding

SERS' objective is to establish and receive contributions that, when expressed in terms of percent of active member payroll will remain approximately level from one generation to the next; and which combined with present assets and future investment return will be sufficient to meet present and future financial obligations. The annual actuarial valuation measures the progress toward funding pension obligations of SERS by comparing the actuarial assets to the actuarial liabilities. The actuarial accrued liability for pension benefits on June 30, 2005 increased 6.3% to $11.96 billion; the actuarial value of assets increased 2.6% to $8.89 billion; and the funded ratio over a 30-year period decreased from 77.0% to 74.3%.

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. As a result of the fiscal 2005 actuarial valuation; the allocation for basic pension benefits will be increased from 10.57% to 11.70%. The remainder goes toward post-retirement health care benefits, which are funded on a pay-as-you-go basis.

To provide additional funding for health care, employers pay a surcharge for members whose salary is less than a minimum amount. SERS' actuary reviews the amount of the minimum salary subject to the surcharge annually and submits a recommendation for changes to the Board. At the January 2005 meeting, the Board passed a resolution to accept actuary's recommendation for an increase in the minimum salary from $27,400 to $35,800. All eligible retirees and dependents enrolled in the health care program pay a premium based on the date of retirement and/or years of service credit. Although recent plan changes appear to have extended the life of SERS health care program from 2006 until 2008, the Board has voted to increase premiums, co-pays and institute other plan changes effective January 1, 2006. We continue to seek solutions to increasing health care costs for SERS' retirees in order to preserve the program.

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, 2004. This was the twentieth 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 that must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

SERS also received the Public Pension Coordinating Council (PPCC) Public Pension Standards Award. The annual award recognizes SERS for excellence in meeting professional standards for plan design and administration. Developed by the PPCC to promote excellence among state and local public retirement systems, the Public Pension Standards are the benchmark for measuring current practices of defined benefit plans. The award is based on compliance with specific principles that underlie retirement system achievements in the areas of benefits, actuarial valuations, financial reporting, investing and disclosure to members.

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 mailed to all employer members of SERS and other interested parties and published on our website. Summary financial information will be distributed to active and retired SERS membership.

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

Respectfully submitted,

James R. Winfree
Executive Director

Virginia S. Brizendine
Director of Finance

Legislative Summary

SERS and its members can be significantly affected by legislation enacted by the Ohio General Assembly and Congress. 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 Ohio legislators, congressional representatives, and regulatory agencies on the impact of these proposals. The following bills either became effective or were introduced this legislative session.

State Legislation

HB 449 (Effective 4/11/05 - from 125th General Assembly)

Allows a retiree reemployed in a position covered by the state retirement systems to receive a ***refund of contributions*** prior to age 65 in lieu of a benefit at age 65 or after, for the period of reemployment.

HB 10 (Effective 3/7/05)

Imposes a one-year window on retirees who marry or remarry after the effective date of the bill to ***change a plan of payment*** after the marriage or remarriage.

HB 66 (Effective 6/30/05; retirement system provisions 9/29/05)

Enables the Boards of the state retirement systems to retain ***independent legal counsel***, including counsel provided by fiduciary insurance carriers, after being informed of an allegation by the Attorney General that the entire Board has breached its fiduciary duty. Another provision requires that any entity required by statute to submit reports to the legislature ***submit the reports electronically*** and post them to the entity's website.

HB 246 (Passed House 6/21/05)

Creates a statutory form for the creation of a power of attorney and sets forth the general powers of an attorney in fact under a ***power of attorney***. The state retirement systems requested additional language that would require the authority to refund an account, or elect a retirement plan that does not pay the highest amount possible to the participant, to be expressly granted. The bill is pending in the Senate.

SB 9 (Passed Senate 3/9/05)

Requires public entities, including the state retirement systems, to provide a questionnaire developed by the Department of Public Safety to any contractor doing business with the systems in excess of $100,000. The questionnaire would identify ties the company may have to ***terrorist organizations***. Investment contractors were amended out, but the provisions would apply to other vendors. The bill is pending in the House.

HB 71 (Reported out of House Committee 6/21/05)

Permits a member of the state retirement systems to purchase ***military service credit for inactive duty*** in the Ohio National Guard or Reserves. The bill awaits passage by the House.

HB 272 (Introduced 5/19/05)

This OPERS bill was recommended for passage by ORSC with two amendments that would impact SERS: that ***reemployed retirees*** at STRS and SERS be similarly required to receive ***primary health insurance coverage from their public or private employer;*** and that all state retirement systems be granted the authority to establish ***voluntary savings accounts*** for the payment of health care expenses in retirement. The bill is pending in the House Financial Institutions, Real Estate and Securities Committee.

HB 320 (Introduced 8/2/05)

Enables the SERS Board to ***set eligibility requirements for the retiree health care program***; makes the development of a defined contribution option for members permissive, rather than required; cuts in half the number of signatures and counties required for a candidate's name to be placed on the ballot for election to an active member Board seat; clarifies procedures for the purchase of service credit for an approved, unpaid leave of absence and sets the maximum allowable purchase at the lesser of five years or the member's contributing time;

and clarifies the payment of benefits due when a beneficiary is deceased or cannot be located. The bill was recommended for passage by ORSC with three amendments: that the purchase of service credit for approved, unpaid leave of absences be capped at two years for each period of leave; that Medicare A equivalent coverage remain mandatory for spouses and surviving spouses of retirees; and that SERS' requested change to make the establishment of a defined contribution option permissive rather than required be deferred until a more up-to-date member survey is conducted in consultation with ORSC. The bill is pending in the House Financial Institutions, Real Estate and Securities Committee.

HCR 20 (Introduced 8/2/05)

Memorializes Congress to reject any legislation that requires ***Social Security coverage*** for members of the state retirement systems. The concurrent resolution is pending in the House Finance and Appropriations Committee.

Federal Legislation

Bankruptcy (Effective 4/20/05)

S 256 introduced by Sen. Chuck Grassley (R-IA) – became **Public Law 109-8**. The bill contains a provision to provide a broad additional exemption allowing individuals in bankruptcy to exempt from creditors' claims interests in tax-favored retirement plans.

Social Security Offset and Windfall

HR 147 introduced by Rep. Howard McKeon (R-CA) and **S 619 introduced by Sen. Dianne Feinstein** (D-CA) – repeals the government pension offset and windfall elimination penalties. No action has been taken on either bill.

HR 750 introduced by Rep. E. Clay Shaw (R-FL) – one section of this bill reduces the offset penalty from two-thirds to one-third. No action has been taken on the bill.

HR 1690 introduced by Rep. Barney Frank (D-MA) – eliminates the windfall penalty if a recipient's combined monthly Social Security and public pension benefit is $2,500 or less, and provides a graduated penalty over $2,500. No action has been taken on the bill.

HR 1714 introduced by Rep. Kevin Brady (R-TX) and **S 866** introduced by Sen. Kay Bailey Hutchison (R-TX) – eliminates the current windfall provision and replaces it with a formula based on an individual's actual earnings during his/her years of work. No action has been taken on either bill.

S 1799 introduced by Sen. Barbara Mikulski (D-MD) – eliminates the offset penalty if a recipient's combined monthly Social Security and public pension benefit is $1,200, adjusted for inflation. No action has been taken on the bill.

Pension Legislation

HR 1961 introduced by Rep. Benjamin Cardin (D-MD) – expands pension coverage and savings opportunities, and makes pension improvements from 2001 permanent. No action has been taken on the bill.

S 219 introduced by Rep. Chuck Grassley (R-IA) – expands protections for retirement plan participants and includes several other provisions of interest to public retirement plans. The bill was ordered to be reported as amended by the Senate Committee on Finance in July 2005.

S 1783 introduced by Sen. Chuck Grassley (R-IA) – addresses private pension plans, but does contain a number of helpful provisions for public plans. These provisions include clarification of purchase of service credit provisions, approval of after-tax rollovers to defined benefit plans, relief from the minimum distribution rules to ensure recognition of the special features of governmental plans, and relief for public safety employees from the 10% early withdrawal penalty. The bill was placed on the Senate Calendar in October 2005.

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FINANCIAL SECTION

KPMG

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

Telephone 614 249 2300
Fax 614 249 2348
Internet www.*us*.kpmg.com

Independent Auditors' Report

The Retirement Board
The School Employees Retirement System of Ohio

and

The Honorable Betty Montgomery
Auditor of State:

We have audited the accompanying statement of plan net assets of the School Employees Retirement System of Ohio (SERS) as of June 30, 2005, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SERS' internal control over financial reporting. Accordingly, we express no such opinion. 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, 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2005, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 18 through 21 and the schedules of funding progress and employer contributions on page 36 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.

KPMG

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 37 and 38 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 introductory section on pages 4 through 14, the investments section on pages 40 through 56, the actuarial section on pages 58 through 64, and the statistical section on pages 66 through 72 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

Columbus, Ohio
November 30, 2005

Management's Discussion And Analysis (unaudited)

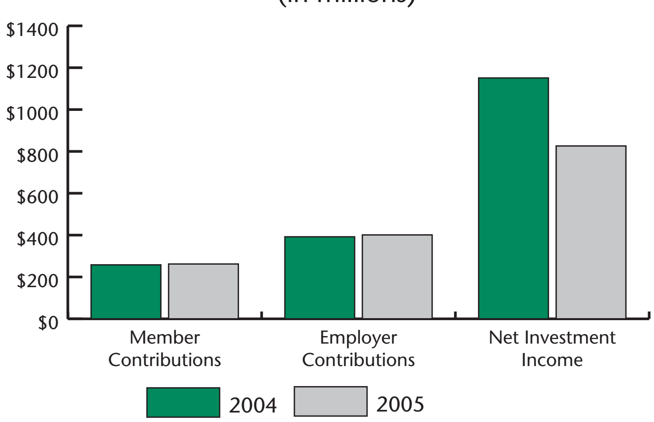
This discussion and analysis of the School Employees Retirement System's financial performance provides a narrative overview of financial activities for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which can be found in the Introductory Section of this report.

Financial Highlights

Items of note include:

- Total additions to plan net assets were $1.5 billion. Net investment income decreased from $1.2 billion in 2004 to $826 million in 2005. Employee and employer contributions rose by $27.7 million.
- Total deductions from plan net assets for fiscal year 2005 totaled $831 million, an increase of 5.2% over fiscal 2004 deductions.
- Total plan net assets increased by $704 million; all funds recorded increases in net assets, except the Health Care Fund.
- Administrative expenses decreased slightly (1.6%). Total investment expenses, which are netted against investment income, increased 25.7%.

COMPARATIVE ADDITIONS BY SOURCE
FY 2004 & 2005
(in millions)



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 plans have accumulated in assets to pay for benefits.

The *Statement of Changes in Plan Net Assets* shows what has happened to the plans during the fiscal year. If net assets increased, then additions to the plans were greater than the deductions. If net assets decreased, then additions to the plans were less than the deductions from plans.

The *Notes to Financial Statements* are an integral part of the financial statements which provide additional information that is essential for a full understanding of the data provided. The Notes describe the history and purpose of the plans; significant accounting policies; member, retiree and employer data; and disclosure of commitments and contingent liabilities that may significantly impact SERS' financial position.

Required Supplementary Information - In addition to the financial statements and 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 the *Schedule of Employer Contributions* and a note to the *Schedule of Funding Progress*. Both schedules provide data over the past six years.

Following the RSI is other supplementary information. These schedules include detailed information on investment and administrative expenses incurred by SERS.

CONDENSED SUMMARY OF TOTAL PLAN NET ASSETS
(in millions)

ASSETS	2005	2004	Change Amount	Change Percent
Cash	$ 54.8	$ 71.5	$ (16.7)	(23.3)%
Receivables	515.4	665.6	(150.2)	(22.6)
Investments	9,658.3	8,669.8	988.5	11.4
Property & Equipment	51.8	53.4	(1.6)	(3.0)
Other Assets	3.3	5.5	(2.2)	(40.0)
Total Assets	10,283.6	9,465.8	817.8	8.6
LIABILITIES				
Benefits & Accounts Payable	23.4	29.8	(6.4)	(21.5)
Investments Payable	991.1	870.5	120.6	13.9
Total Liabilities	1,014.5	900.3	114.2	12.7
Net Assets Held in Trust	$ 9,269.1	$ 8,565.5	$ 703.6	8.2%

CONDENSED SUMMARY OF CHANGES IN TOTAL PLAN NET ASSETS
(in millions)

ADDITIONS	2005	2004	Change Amount	Change Percent
Contributions	$ 709.2	$ 681.5	$ 27.7	4.1%
Net Investment Income	825.8	1,151.4	(325.6)	(28.3)
Total Additions	1,535.0	1,832.9	(297.9)	(16.3)
DEDUCTIONS				
Benefits	779.3	742.3	37.0	5.0
Refunds & Transfers	33.2	28.3	4.9	17.3
Admin. Expenses	18.9	19.2	(0.3)	(1.6)
Total Deductions	831.4	789.8	41.6	5.2
Net Increase/(Decrease)	703.6	1,043.1	(339.5)	(32.5)
Balance, Beginning of Year	8,565.5	7,522.4	1,043.1	13.9
Balance, End of Year	$ 9,269.1	$ 8,565.5	$ 703.6	8.2%

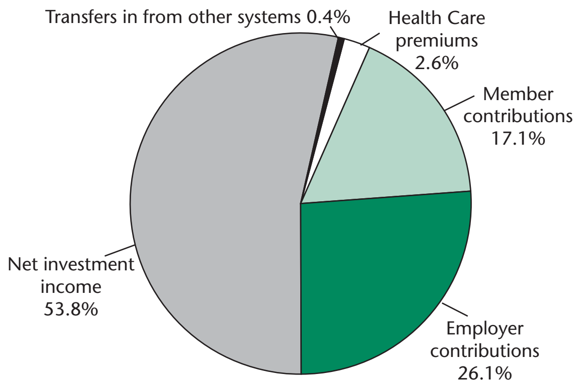
Financial Analysis

A cost-sharing defined benefit public retirement system, such as SERS, has a long-term perspective of financial activities. Pension benefits are funded on an actuarial basis, not by using today's inflow of contributions from members and employers to pay the pensions of current retirees. Instead, the contributions are set aside for investments that build a base so that members and retirees alike can feel secure that their pension benefits will be available when due. Investment income makes up the largest component of SERS' additions to net assets.

ADDITIONS – Benefit payments are funded from three sources: employee and employer contributions and investment income. SERS is comprised of five separate plans - the Pension Trust Fund, the Medicare B Fund, the Death Benefit Fund, the Qualified Excess Benefit Arrangement (QEBA) Fund and the Health Care Fund. Pension benefits are funded through a combination of employee and employer contributions and investment income. Medicare Part B premium reimbursements and death benefits are funded through employer contributions and investment income. The QEBA is funded by employer contributions. Funding for the health care program comes from employers, retiree premium payments and investment earnings.

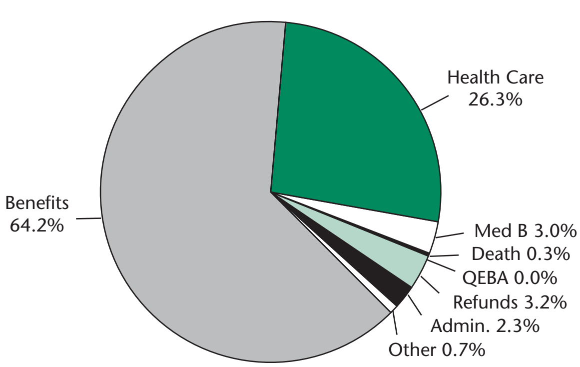
Total plan additions decreased by 16.3%. Investment net income, which includes realized

ADDITIONS TO PLAN NET ASSETS



and unrealized investment gains and losses, decreased by $325.6 million. Income from interest and dividends increased by $60.4 million. Although the portfolio had a net appreciation in fair value of $642.4 million, it was less than the 2004 net appreciation of $1.0 billion. Total investment expenses, which include fees paid to investment managers, recordkeeping and custodial fees, and expenses incurred by SERS' Investment Department; increased from $31.9 million to $40.1 million. The decrease in net investment income was offset, in part, by increases in the other major components of revenue, employee and employer contributions and retiree health care premiums. The maximum limits for employer (14%) and employee (10%) contribution rates are set by statute; and both contribution rates have reached those maximums.

DEDUCTIONS FROM PLAN NET ASSETS

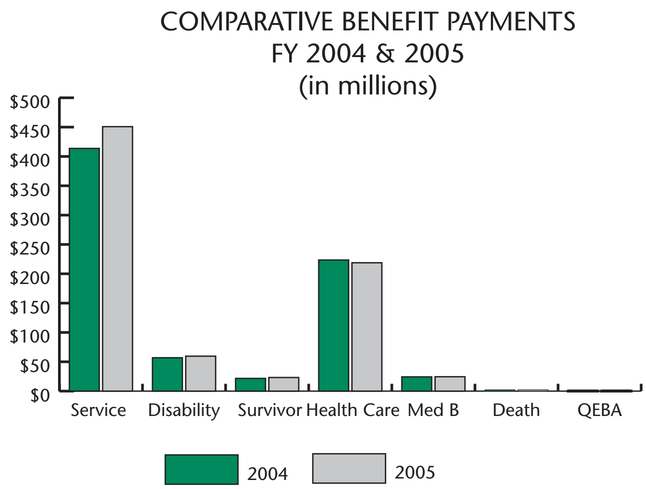


Employer contributions to the Health Care Fund decreased $33.1 million as a result of the reduction in the allocation of the employer's contribution to health care from 4.91% to 3.43%.The Board approved the recommendation of the actuary to increase the minimum salary for calculation of the employer surcharge from $25,400 to $27,400 for fiscal year 2005. Seventy-two percent of SERS' members earn less than the surcharge salary, thus the increase in the surcharge salary limit brings in fewer incremental dollars toward the funding of retiree health care. Legislation enacted in 2001 limits the surcharge paid by an individual employer to 2.0% of payroll and also imposes a statewide cap of 1.5% of payroll to lessen the impact of the increase in the surcharge minimum salary. For fiscal year 2005, employer health care surcharge revenue increased 4.8%.

DEDUCTIONS – Expenses are incurred primarily for the purpose for which SERS was created, the payment of benefits to non-teaching Ohio public school employees. Included in the deductions from plan assets for 2005 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.

Payments to service, disability and survivor benefit recipients increased by $41.6 million, a 8.0% rise. Retirees receive an annual 3% cost of living allowance on the anniversary of their retirement date. The balance of the increase in retirement benefits results from growth in the number of retirees, and in the average annual retirement allowance.

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 2005 the premium is $78.20, SERS reimburses $45.50. Any increase in the amount SERS reimburses must be enacted by the Ohio General



Assembly. Medicare Part B benefits increased 0.9% in fiscal 2005.

SERS pays a $1,000 death benefit to the designated beneficiary of service and disability retirees. Death benefit payments increased 0.8%.

Substantial changes were made to SERS' health care program effective January 1, 2004. Premiums for retirees and dependents were increased across the board and changes to plan deductibles, co-pays and coordination with Medicare were put in place. Health care expense decreased 2.0% from $223.4 million to $218.8 million. Decreases in doctor and major medical reimbursements were offset by a 5.0% increase in prescription drug costs, which now comprise 48.6% of health care claim costs. Much of the decrease in net health care expenses resulted from higher premiums and out-of-pocket costs paid by retirees.

Only one of the three components of health care funding, retiree premiums, increased in 2005 but it was not enough to offset the decrease in employer contributions and net investment income. The Health Care Fund recorded a net decrease of $33.4 million compared to the 2004 net decrease of $2.7 million. SERS recognizes the importance of the health care program to our retirees, but it is likely that more changes will be necessary in the future if we are to preserve the program without adversely affecting the funding of pension benefits.

Request for Information

This financial report is designed to provide the Retirement Board, our membership, employers and investment managers with a general overview of SERS' finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

School Employees Retirement System
Finance Department
300 East Broad Street, Suite 100
Columbus, Ohio 43215

Statement of Plan Net Assets
As Of June 30, 2005

ASSETS	PENSION TRUST FUND	MEDICARE B FUND	DEATH BENEFIT FUND
Cash and Operating Short-Term Investments	$ 45,395,597	$ 14,674	$ 69,487
Receivables			
Contributions			
Employer	112,101,859	6,934,016	402,103
Employee	13,118,104	–	–
Investments Receivable	284,977,552	3,559,065	679,948
Total Receivables	410,197,515	10,493,081	1,082,051
Investments, at Fair Value			
US Equity	3,951,196,585	49,346,219	9,427,435
Non-US Equity	1,537,052,099	19,196,137	3,667,359
Private Equity	162,391,551	2,028,097	387,461
Fixed Income	1,919,532,513	23,972,908	4,579,946
Real Estate	887,650,443	11,085,805	2,117,907
Short-Term	318,429,778	3,976,847	759,764
Total Investments	8,776,252,969	109,606,013	20,939,872
Securities Lending Collateral	536,738,810	6,703,294	1,280,642
Capital Assets			
Land	3,315,670	–	–
Property and Equipment, at Cost	60,013,270	–	–
Accumulated Depreciation	(11,552,647)	–	–
Total Capital Assets	51,776,293	–	–
Prepaids and Other Assets	3,266,498	–	–
TOTAL ASSETS	9,823,627,682	126,817,062	23,372,052
LIABILITIES			
Accounts Payable and Accrued Expenses	1,021,740	138,019	–
Benefits Payable	803,950	46,911	332,976
Investments Payable	418,933,311	5,232,029	999,562
Obligations under Securities Lending	536,738,810	6,703,294	1,280,642
TOTAL LIABILITIES	957,497,811	12,120,253	2,613,180
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER POSTEMPLOYMENT BENEFITS	$8,866,129,871	$ 114,696,809	$ 20,758,872

(An unaudited Schedule of Funding Progress is presented on page 36.)

See accompanying notes to the financial statements.

QEBA FUND	HEALTH CARE FUND	TOTAL
$ 37,508	$ 9,292,313	$ 54,809,579
–	87,282,027	206,720,005
–	-	13,118,104
–	6,328,295	295,544,860
–	93,610,322	515,382,969
–	87,741,422	4,097,711,661
–	34,132,226	1,594,047,821
–	3,606,114	168,413,223
–	42,625,698	1,990,711,065
–	19,711,424	920,565,579
–	7,071,144	330,237,533
–	194,888,028	9,101,686,882
–	11,918,978	556,641,724
–	–	3,315,670
–	–	60,013,270
–	–	(11,552,647)
–	–	51,776,293
–	4,169	3,270,667
37,508	309,713,810	10,283,568,114
640	21,009,722	22,170,121
–	–	1,183,837
–	9,302,955	434,467,857
–	11,918,978	556,641,724
640	42,231,655	1,014,463,539
$ 36,868	$ 267,482,155	$9,269,104,575

Statement of Changes in Plan Net Assets
For The Year Ended June 30, 2005

ADDITIONS	PENSION TRUST FUND	MEDICARE B FUND	DEATH BENEFIT FUND
Contributions			
Employer	$ 255,633,456	$ 17,735,032	$ 759,058
Employee	262,265,550	–	–
Transfers from other Ohio Systems	5,835,875	–	–
Health Care Premiums	–	–	–
Total Contributions	523,734,881	17,735,032	759,058
Income from Investment Activity			
Interest and Dividends	213,124,973	2,782,549	529,737
Net Appreciation in Fair Value	617,386,162	7,986,152	1,526,500
	830,511,135	10,768,701	2,056,237
Investment Expenses	(38,574,630)	(499,015)	(95,374)
Net Income from Investment Activity	791,936,505	10,269,686	1,960,863
Income from Securities Lending Activity			
Gross Income	7,136,281	92,311	17,645
Brokers' Rebates	(5,106,102)	(66,050)	(12,625)
Management Fees	(426,983)	(5,523)	(1,056)
Net Income from Securities Lending Activity	1,603,196	20,738	3,964
Total Investment Income, Net	793,539,701	10,290,424	1,964,827
TOTAL ADDITIONS	1,317,274,582	28,025,456	2,723,885
DEDUCTIONS			
Retirement Benefits	450,815,396	21,896,392	–
Disability Benefits	59,656,369	1,245,341	–
Survivor Benefits	23,243,160	1,405,490	–
Health Care Expenses	–	–	–
Death Benefits	–	–	2,217,881
	533,714,925	24,547,223	2,217,881
Refunds and Lump Sum Payments	27,112,818	–	–
Administrative Expenses	17,379,937	3,000	54,000
Transfers to other Ohio Systems	5,991,510	–	–
	50,484,265	3,000	54,000
TOTAL DEDUCTIONS	584,199,190	24,550,223	2,271,881
NET INCREASE / (DECREASE)	733,075,392	3,475,233	452,004
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER POSTEMPLOYMENT BENEFITS:			
Balance, Beginning of Year	8,133,054,479	111,221,576	20,306,868
Balance, End of Year	$8,866,129,871	$ 114,696,809	$ 20,758,872

See accompanying notes to the financial statements.

QEBA FUND	HEALTH CARE FUND	TOTAL
$ 36,026	$ 126,355,575	$ 400,519,147
–	–	262,265,550
–	–	5,835,875
–	40,595,447	40,595,447
36,026	166,951,022	709,216,019
2	5,414,081	221,851,342
–	15,490,880	642,389,694
2	20,904,961	864,241,036
–	(968,922)	(40,137,941)
2	19,936,039	824,103,095
–	179,057	7,425,294
–	(128,117)	(5,312,894)
–	(10,723)	(444,285)
–	40,217	1,668,115
2	19,976,256	825,771,210
36,028	186,927,278	1,534,987,229
9,572	–	472,721,360
–	–	60,901,710
–	–	24,648,650
–	218,816,560	218,816,560
–	–	2,217,881
9,572	218,816,560	779,306,161
–	–	27,112,818
640	1,489,267	18,926,844
–	–	5,991,510
640	1,489,267	52,031,172
10,212	220,305,827	831,337,333
28,816	(33,378,549)	703,649,896
11,052	300,860,704	8,565,454,679
$ 36,868	$ 267,482,155	$9,269,104,575

Financial Section

Notes To Financial Statements
June 30, 2005

1. 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.

Use of Estimates — In preparing financial statements in conformity with governmental accounting principles generally accepted in the United States of America, SERS' management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Employer Contributions Receivable — SERS recognizes long-term receivables from employers whose contributions are deducted from the money paid to them through the Ohio School Foundation Program, administered by the Department of Education. Employer contributions for fiscal year 2005 will be received by the end of calendar year 2005; the surcharge owed for fiscal year 2005 will be received by the end of calendar year 2006.

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

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

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, REITs 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. Real estate is valued at fair value by the manager or independent appraisers. Private equity is valued at the lower of cost or fair value by the respective manager unless an independent event has set a fair value greater than the cost. Both real estate and private equity investments are reported by SERS one quarter in arrears. 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 beginning of the year and the end of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment expense consists of external expenses directly related to SERS' investment operations, as well as the internal administrative expenses associated with SERS' investment program.

The monies held by the Pension Trust, Medicare B, Death Benefit and Health Care Funds are pooled for the purpose of the investment of those plans. Each plan holds units of the investment pool, which are adjusted on a monthly basis. The value of one unit of the Pool on June 30, 2005 was $1,048.749. The unit holdings and value of each of the funds at the close of the fiscal year were:

	Units	Value
Pension Trust Fund	8,247,428.038	$8,649,478,605
Medicare B Fund	103,001.554	108,022,736
Death Benefits Fund	19,678.112	20,637,392
Health Care Fund	183,144.789	192,072,841
Total	8,553,252.493	$8,970,211,574

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.

The chart on the bottom of this page shows the balances of reserve accounts as of June 30, 2005.

2. 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.

Five separate plans comprise the SERS retirement system. The Pension Trust Fund, the Medicare B Fund, the Death Benefit Fund and the Qualified Excess Benefit Arrangement Fund are classified as pension plans for federal tax purposes. The Pension Trust Fund holds the funds to pay the basic retirement benefits authorized under Ohio Revised Code (ORC) 3309. The Medicare B Fund reimburses Medicare premiums paid by eligible retirees and beneficiaries as set forth in ORC 3309.69. The Death Benefit Fund (ORC 3309.50) pays $1,000 to a designated beneficiary upon the death of a retiree. The Qualified Excess Benefit Arrangement (QEBA) Fund was established for retirees whose

RESERVE ACCOUNT BALANCES AS OF JUNE 30, 2005

	Pension Trust Fund	Medicare B Fund	Death Benefits Fund	QEBA Fund	Health Care Fund	**Reserve Account Totals**
Employees' Svgs Acct.	$2,095,413,818	$ –	$ –	$ –	$ –	**$2,095,413,818**
Employers' Trust Acct.	1,437,305,668	–	–	–	267,482,155	**1,704,787,823**
Annuity and Pension Reserve Acct.	5,098,272,144	114,696,809	20,758,872	36,868	–	**5,233,764,693**
Survivors' Benefit Acct.	235,138,241	–	–	–	–	**235,138,241**
Guarantee Acct.	–	–	–	–	–	–
Expense Acct.	–	–	–	–	–	–
Fund Totals	**$8,866,129,871**	**$114,696,809**	**$20,758,872**	**$36,868**	**$267,482,155**	**$9,269,104,575**

Financial Section

benefits under SERS' statutes exceed IRS 415(m) limits. Money available for health care benefits is in a separate plan 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. As of June 30, 2005 it was comprised of nine members. Four of the nine Board members are elected by the general membership (those who contribute to SERS) and two are elected by retirees. Three members are appointed by the legislature, state treasurer and governor.

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. A refund of contributions only is available for those who stop working before age 65.

Employer and Employee Membership Data
(as of June 30, 2005)

Employer Members	
Local	373
City	193
Educational Service Center	60
Village	49
Higher Education	15
Vocational/Technical	49
Community Schools	213
Other	6
Total	958
Employee Members and Retirees	
Retirees and beneficiaries currently receiving benefits	61,433
Terminated employees entitled to but not yet receiving benefits	9,519
Total	70,952
Active Employees	
Vested active employees	73,274
Non-vested active employees	49,581
Total	122,855

Health Care Benefits — ORC 3309.375 and 3309.69 permit SERS to offer health care benefit programs to retirees and beneficiaries. SERS' pension benefits are mandated by statute; however SERS reserves the right to change or discontinue any health plan or program.

SERS offers several types of health plans from various vendors, including HMO's, PPO's and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. As of June 30, 2005, of the 61,531 covered benefit recipients and dependents, SERS self-insures 55,849.

Members retiring July 1, 1986 or later must have ten years of service credit to qualify for health care benefits. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who qualify. Health care premiums paid by benefit recipients in fiscal years 2005 and 2004 were $40.6 million and $27.9 million, respectively.

The health care program is funded through employer contributions, premium payments and investment earnings. 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 2005, the amount of employer contributions directed to the Health Care Fund was 3.43% of covered payroll or $86.9 million.

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 2005, the minimum compensation level was established at $27,400. The surcharge accrued for fiscal year 2005 and included in employer additions on the *Statement of Changes in Plan Net Assets* is $39.4 million.

3. 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 2005, active members and their employers were required to contribute 10% and 14%, respectively, of active member payroll.

The Retirement Board, acting with the advice of the Actuary, allocates the current employer contribution rate among four of the plans of the system. For fiscal year 2005, the allocation of the employer contribution rate to pension plan benefits was established as the rate necessary to cover normal cost. Of the 14% contribution rate paid by employers, 10.57% was allocated to the pension plans in the following rates:

Pension Trust Fund	9.84%
Medicare B Fund	.70%
Death Benefit Fund	.03%

During fiscal year 2005, the remaining 3.43% of the 14% employer contribution rate was allocated to the Health Care Fund.

Employer and employee contributions were $361.0 million and $257.6 million, respectively, in 2005. The employee contribution amounts in the financial statements also include employee contributions for purchased service credit.

4. Cash Deposits and Investments

Custodial Credit Risk — Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, SERS' deposits may not be returned to it. In accordance with the Ohio Revised Code (ORC), the Board of Deposit designates SERS' depository bank and the Treasurer of the State of Ohio serves as custodian and contracts depository services for all SERS' deposits. Therefore, SERS does not have a policy for custodial credit risk.

At June 30, 2005, the carrying amounts of SERS' operating and investment cash deposits totaled $7,650,370 and the corresponding bank balances totaled $11,531,461. Of the bank balances, the Federal Deposit Insurance Corporation insured $225,108. Also in accordance with the ORC, additional bank balances of $1,824,052 were collateralized at 102% with securities held in the name of SERS' pledging financial institutions. The remaining bank deposits of $9,743,890 were uncollateralized.

Custodial Credit Risk — Investments. Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, SERS will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. SERS does not have a policy for investment custodial credit risk.

Investments at June 30, 2005	Fair Value (in thousands)
Commercial Paper	$ 110,864
Commingled - Bonds	101,899
Commingled - Non-US Equity	614,931
Commingled - US Equity	1,840,758
Commingled - Short Term	37,306
Non-US Bonds	62,478
Non-US Common and Preferred	964,926
US Agency	676,620
US Common & Preferred	2,210,376
US Corporate Bonds	709,656
US Government	78,532
Private Equity	168,413
Private Real Estate	753,218
Real Estate Investment Trusts	167,348
Repurchase Agreements	98,700
Other - Warrants, Rights, Trusts & Vouchers	6,019
Securities on Loan:	
Non-US Bonds	$ 3,213
Non-US Common and Preferred	38,726
US Agency	45,887
US Common & Preferred	16,025
US Corporate Bonds	16,263
US Government	422,690
Total Investment Fair Value	**$9,144,848**
Securities Lending Collateral Pool	**$ 556,642**

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. ORC 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 person 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 following table lists the credit risk of SERS' fixed income portfolio (including external investment pools & money market funds) as of June 30, 2005:

Credit Quality Rating	Fair Value (in thousands)
AAA	$ 1,347,478
AA+	5,198
AA	44,310
AA-	31,362
A-1+	185,730
A-1	114,191
A+	62,066
A	69,169
A-	35,102
BBB+	83,393
BBB	82,201
BBB-	24,838
BB+	88,137
BB	53,403
BB-	33,515
B+	16,874
B	5,573
B-	1,238
CCC	5,211
Not Rated	27,960
Total Debt Securities	**$ 2,316,949**

Concentration of Credit Risk. — Concentration of credit risk is the risk of loss attributed to the magnitude of a plan's investment in a single issuer. The Retirement Board has the responsibility to invest the available funds of the system, in accordance with the 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.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. SERS does not have a policy for managing interest rate risk.

At June 30, 2005, SERS holds interest-only strips that had a total fair value of $1,403,366. These securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. The system also holds principal-only strips that had a total fair value of $8,377,770. These principal-only strips are sensitive to interest rate increases that may result from decreasing mortgage prepayments, thus increasing the average maturity of this investment.

The following table lists the effective duration of SERS' fixed income portfolio as of June 30, 2005:

Investment	Fair Value (in thousands)	Option Adjusted Duration (in years)
Asset backed securities	$ 60,847	2.08
Commercial paper	10,178	0.02
Corporate CMOs	89,608	3.20
Corporates & other credit	572,698	4.62
Foreign government	9,028	6.86
Government bonds	425,954	4.13
Municipal bonds	11,319	8.16
Pooled debt	101,899	2.85
Preferred stock	1,021	1.85
Private placements	54,237	3.56
Repurchase agreements	98,700	0.00
TIPS	78,973	6.11
US Agency	81,673	0.60
US Agency CMOs	59,992	2.21
US Agency mortgages	511,081	1.84
Other fixed income	149,741	N/A
Total Debt Securities	**$2,316,949**	**3.26**

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The system's exposure to foreign currency risk derives from its positions in foreign currency and foreign currency-denominated investments. The system hedges 50% of the fair value of its assets in non-US developed countries.

The portfolio's total exposure to foreign currency risk at June 30, 2005, was as follows:

Currency	Fair Value (in thousands)
Argentinean Nuevo Peso	$ 127
Australian Dollar	(2,090)
Brazilian Cruzeiro Real	18,118
Bulgarian Lev	27
Canadian Dollar	4,175
Colombian Peso	245
Czech Koruna	173
Danish Krone	7,725
Euro	29,121
British Pound	3,519
Hong Kong Dollar	18,387
Hungarian Forint	5,743
Icelandic Krona	64
Indian Rupee	156
Indonesian Rupiah	13,020
Israeli Shekel	(74)
Japanese Yen	64,524
Lithuanian Litas	34
Malaysian Ringgit	771
Mexican New Peso	5,499
New Taiwan Dollar	6,345
New Zealand Dollar	662
Norwegian Krone	13,479
Pakistani Ruppe	8,143
Peruvian Nuevo Sol	64
Philippines Peso	139
Polish New Zloty	4,239
Romanian Leu	1,338
Singapore Dollar	(587)
Slovak Koruna	83
South African Rand	19,417
South Korean Won	14,345
Swedish Krona	4,435
Swiss Franc	(710)
Thai Baht	548
Turkish Lira	6,805
Ukraine Hryvna	101
Uruguayan New Peso	420
Foreign Securities Denominated in US Dollars	737,281
Total Securities Subject to Foreign Currency Risk	**$ 985,811**

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 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 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 market value of forward foreign currency contracts outstanding at June 30, 2005, was as follows:

Forward Currency Purchases	$(1,254,345)
Forward Currency Sales	1,272,271
Unrealized Gain	17,926

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 2005 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 and to rebalance asset allocation between asset classes. 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.

The following table shows the futures and options positions held at June 30, 2005:

Futures and Options Positions at <u>June 30, 2005</u>	**Number of <u>Contracts</u>**	**Contract Principal** *<u>(in thousands)</u>*
Equity Futures Purchased	454	$ 52,589
Currency Futures Purchased	410	98,380
Fixed Income Futures Purchased	482	55,456
Fixed Income Futures Sold	(939)	(107,300)
Currency Purchased Call Options	105	265
Fixed Income Purchased Call Options	14	27
Fixed Income Purchased Put Options	145	46
Fixed Income Written Call Options	(629)	(406)
Fixed Income Written Put Options	(530)	(168)

Securities Lending — SERS participates in two securities lending programs, as authorized by Board policy. SERS receives pro-rated 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 $467,733 during fiscal year 2005.

SERS has a securities lending program for the system’s directly held equity and REIT investments using Boston Global Advisors (BGA) as a third-party lending agent. SERS also has a securities lending program for directly held fixed income investments using Metropolitan West (MetWest) 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 BGA and MetWest were $917,874 and $282,509, respectively, during fiscal year 2005.

At June 30, 2005, 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 $542,803,800 and total collateral held for those securities was $556,641,724. 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 BGA and 83/17% with MetWest. 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, 2005, the BGA collateral portfolio had an average weighted maturity of 16 days. The MetWest collateral portfolio had an average weighted maturity of 10 days.

Commitments — As of June 30, 2005, unfunded commitments related to the real estate and private equity investment portfolios totaled $560.8 million.

5. Capital Assets (Non-Investment Assets)

(See table at bottom of page.)

6. Pension Plan

For its employees, SERS contributes to the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple employer public employee retirement system comprised of three separate plans: the Traditional Plan – a defined benefit plan; the Combined Plan – a combination defined benefit/defined contribution plan; and the Member-Directed Plan – a defined contribution 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 2005 was 13.55% of covered payroll. The contribution requirements for employees and employers are

CAPITAL ASSETS ACTIVITY FOR THE YEAR ENDED JUNE 30, 2005:

	Beginning Balance	Additions	Disposals	Ending Balance
Land	$ 3,315,670	$ –	$ –	$ 3,315,670
Office building & improvements	51,532,613	315,652	–	51,848,265
Furniture & equipment	7,411,722	46,594	383	7,457,933
Computer hardware & software	530,127	99,039	12,068	617,098
Vehicles	89,974	–	–	89,974
	62,880,106	461,285	12,451	63,328,940
Less accumulated depreciation	9,440,187	2,124,911	12,451	11,552,647
	$ 53,439,919	$ (1,663,626)	$ –	$ 51,776,293

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, 2005 was $9,389,897; SERS' total payroll was $9,528,996. SERS' contributions to OPERS for the years ending June 30, 2005, 2004, and 2003 were $1,272,331, $1,196,963, and $1,118,934, 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, 2004, the plan had 375,076 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 4.0% of member covered payroll. For the year ended June 30, 2005, approximately $375,596 of employee payroll contributed by SERS to OPERS was the portion used to fund health care. Net assets held in trust at December 31, 2004 for post-employment health care benefits were $11.6 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, 2003 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%.

7. Compensated Absences

As of June 30, 2005 and 2004, $1,383,200 and $1,271,600, respectively, were accrued for unused vacation and sick leave for the system's employees. The corresponding long-term portion of these liabilities is estimated at $622,999 and $704,765. The net increase of $111,600 from June 30, 2004 included increases of $912,780 and decreases of $801,180. 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.

8. 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 places a maximum lifetime coverage limit per employee of $2,000,000.

9. 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 QEBA Fund is a qualified entity, created in accordance with IRS 415(m) limits. The Health Care Fund is structured to meet the requirements of IRC Section 105(e).

10. 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 8).

11. Contingent Liabilities

On July 23, 2003, a suit was filed in state court by the Ohio Association of Public School Employees and a number of individual SERS members and retirees against the SERS Board, the System and the executive director alleging that changes to the SERS retiree health care program approved by the Board violate vested rights, and that the Board wasted System assets by incurring unnecessary expenses for construction of the SERS administration building and in approving unreasonable increases in salary and bonuses for SERS employees. The suit is captioned Ohio Association of Public School Employees, et al. v. School Employees Retirement System Board, et al. On January 12, 2004 the Court of Common Pleas granted SERS' motion to dismiss the suit. The Plaintiffs appealed the decision to the Tenth District Court of Appeals. On December 28, 2004, the Court of Appeals affirmed the dismissal of the health care-related claims, and remanded the case to the trial court on the issues related to construction of the building and salaries and bonuses. The Ohio Supreme Court dismissed the Plaintiff's appeal and the case is now pending in the Court of Common Pleas on the issues related to construction of the building and salaries and bonuses. While the final outcome of this lawsuit cannot be determined at this time, management is of the opinion that the liability, if any, for the remaining issues in this action, will not have a material adverse effect on SERS' financial position.

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.

12. New Accounting Pronouncements

In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. SERS has implemented this statement for the June 30, 2005 annual report.

In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*. This Statement establishes uniform financial reporting standards for post employment benefits other than pension plans and supercedes the interim guidance included in Statement No. 26 *Financial Reporting for Post Employment Healthcare Plans Administered by Defined Benefit Plans*. SERS will be required to implement this statement for the June 30, 2007 annual report. Management has not yet determined the impact that this new GASB Statement will have on the Plan's financial statements.

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
2000	$ 8,100	$ 8,281	$ (181)**	102%	$ 1,866	– %
2001(1)(2)	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
2004	11,251	8,667	2,584	77	2,394	108
2005	11,961	8,893	3,137***	74	2,453	128

* The amounts reported in this schedule do not include assets or liabilities for postemployment health care benefits.
** At June 30, 2000, valuation assets were in excess of AAL.
*** After change in calculation methods of health care assets.
(1) After change in benefit provisions.
(2) After change in actuarial assumptions.

Schedule of Employer Contributions*

Year Ended June 30 Contributed	Actuarial Annual Required Contributions	Percentage
2000	$ 98,148,589	100%
2001	78,459,360	100
2002	110,795,693	100
2003	181,236,112	100
2004	212,193,468	100
2005	256,046,087	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, 2005
Actuarial cost method: Entry age normal
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%

See accompanying independent auditors' report.

Schedule of Administrative Expenses
For The Year Ended June 30, 2005

Personnel Services	General Expenses	Investment Related Expenses	Total
Salaries	$ 8,298,560	$ 1,230,436	$ 9,528,996
Retirement Contributions	1,106,145	166,186	1,272,331
Insurance	1,414,818	155,288	1,570,106
Total personnel services	10,819,523	1,551,910	12,371,433
Professional Services			
Medical	632,900	–	632,900
Technical	611,483	134,064	745,547
Actuarial	134,632	–	134,632
Auditing	93,442	37,467	130,909
Total professional services	1,472,457	171,531	1,643,988
Communications			
Postage	534,615	–	534,615
Telephone	115,410	–	115,410
Retirement counseling services	36,780	–	36,780
Printing and publications	219,632	–	219,632
Total communications	906,437	–	906,437
Other Services			
Computer support services	1,660,380	4,751	1,665,131
Equipment repairs and maintenance	110,790	–	110,790
Building occupancy and maintenance	876,225	–	876,225
Supplies	38,613	808	39,421
Employee training	193,202	20,358	213,560
Transportation and travel	144,673	86,499	231,172
Equipment rental	7,146	55,783	62,929
Property and fiduciary insurance	257,791	–	257,791
Memberships and subscriptions	69,576	18,462	88,038
Retirement study commission	44,264	–	44,264
Bank fees	158,137	–	158,137
Miscellaneous	42,599	4,857	47,456
Total other services	3,603,396	191,518	3,794,914
Total administrative expenses before depreciation	16,801,813	1,914,959	18,716,772
Depreciation			
Furniture and equipment	833,946	–	833,946
Building	1,291,085	–	1,291,085
Total depreciation	2,125,031	–	2,125,031
Total administrative expenses	$ 18,926,844	$ 1,914,959	$20,841,803

See accompanying independent auditors' report.

Schedule of Investment Expenses For The Year Ended June 30, 2005

Description of Expense	Net Assets Under Management June 30, 2005	Direct Fees
US equity	$ 4,126,741,112	$ 9,879,019
Non-US equity	1,641,583,710	6,675,675
Private equity	168,413,224	6,785,695
Fixed income	2,006,710,541	3,252,502
Real estate	918,227,576	7,560,784
Short-term	108,334,508	–
Total investment management fees		34,153,675
Custody service fees		1,582,429
Master recordkeeper fees		1,457,456
Investment consultant and performance analytics fees		1,029,422
Investment pool administrative expenses (see page 37)		1,914,959
Total other investment expenses		5,984,266
Total investment expenses		$ 40,137,941

Schedule of Payments to Consultants

SERS paid the following consulting fees in fiscal 2005:

Actuarial	$ 134,632
Audit	130,909
Legal counsel	76,019
Medical consultant	27,504
Information technology consultants	259,367
Health care consultants	119,790
Other consultants	290,371
Disability exams	605,396
Total	$1,643,988

See accompanying independent auditors' report.

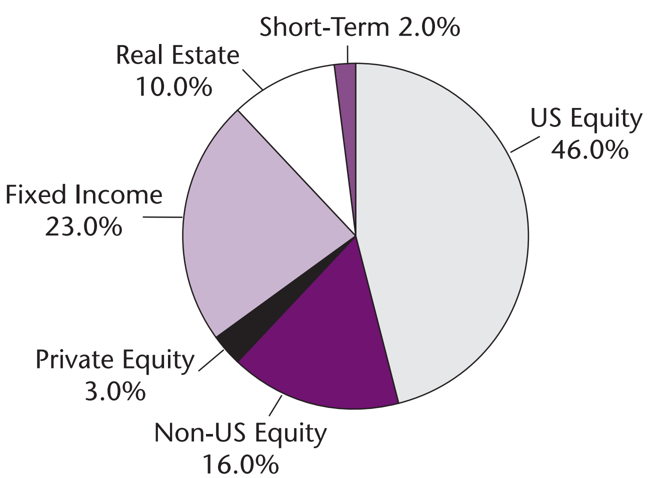
INVESTMENT SECTION

Investment Summary as of June 30, 2005

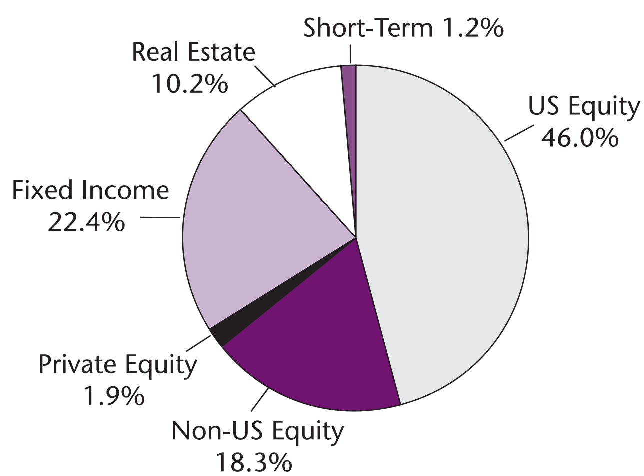
	Fair Value	Actual	Target	Range
US Equity	$4,126,741,112	46.0%	46.0%	41% - 51%
Non-US Equity	1,641,583,710	18.3%	16.0%	11% - 21%
Private Equity	168,413,224	1.9%	3.0%	1% - 5%
Fixed Income	2,006,710,541	22.4%	23.0%	20% - 26%
Real Estate	918,227,576	10.2%	10.0%	5% - 15%
Short-Term	108,334,508	1.2%	2.0%	0% - 3%
Net Portfolio Value	$8,970,010,671	100.0%	100.0%	

Asset Allocation – Total Fund as of June 30, 2005

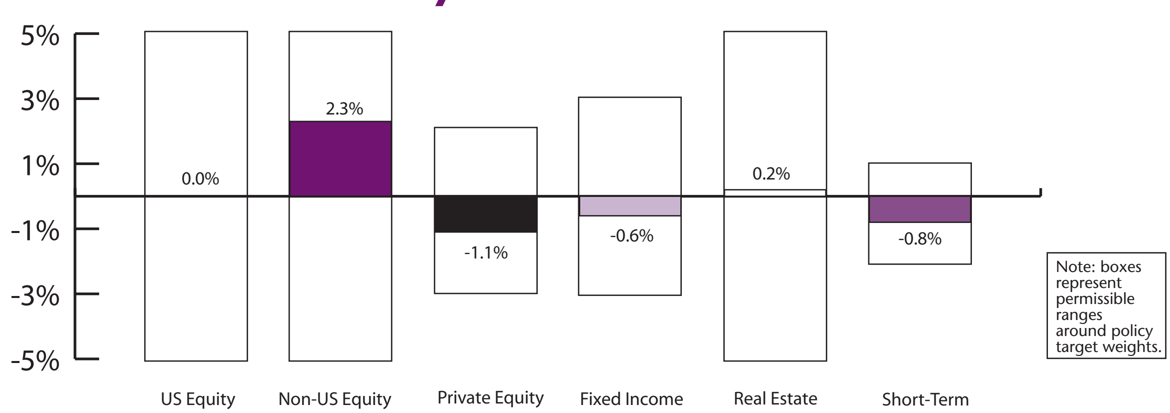
POLICY ALLOCATION



ASSET ALLOCATION



Asset Allocation vs. Policy



School Employees Retirement System

JAMES R. WINFREE
Executive Director

LISA J. MORRIS
Deputy Executive Director

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KAREN G. KLOSS
Member Services

MILO M. ROUSE, JR.
Health Care Services

TERESA R. WOOLLEY
Information Technology

December 2, 2005

Board of Trustees
Members of the Retirement System

On behalf of the SERS Investment Department, I respectfully submit the Investment Section of the Comprehensive Annual Financial Report for the year ended June 30, 2005. Information in this section was compiled by our Investment Staff, members of SERS' Finance Department and Russell/Mellon Analytical Services.

The non-US Equity and Real Estate portfolios each earned double digit returns during fiscal year (FY) 2005. All of the asset classes returned positive returns for the fiscal year, but the double digit returns generated by non-US equities and real estate enabled the fund to achieve a total return of 10.5% for the fiscal year.

In addition to the good investment returns, several important changes were made in SERS' Investment Department and the Total Fund during the fiscal year.

- One new person was added to the Investment Staff to continue adding to the depth and breadth of the staff in the department.
- The Board approved hiring four new US-equity managers and dismissing one US-equity manager.
- The Board approved dismissing one non-US equity manager and hiring twelve new non-US equity managers.
- The Board committed funds to seven new private equity partnerships.
- The Board committed funds to four new real estate funds.
- The Board approved dismissing one fixed income manager.

More details about each asset class are included in the write-ups on the following pages.

Investment results provided by Russell/Mellon Analytical Services are made using a time-weighted rate of return methodology based on the market rate of return and are presented in a manner consistent with the Performance Presentation Standards of the CFA Institute, formerly known as the Association for Investment Management and Research (AIMR).

SERS' investment portfolio is diversified by asset class and by manager style. This disciplined investment approach should result in attractive long term results. The addition of an analyst to the Department enables Staff to research topics of special interest to the Investment portfolio. The Investment staff appreciates the opportunity to work for the Retirement Board and the members of SERS. We take the responsibilities of the job very seriously and seek to maintain the confidence and trust of the Board and our members.

Respectfully,

Robert G. Cowman
Director of Investments

Investment Report

Chapter 3309 of the Ohio Revised Code and the Board-adopted Investment Policy govern investment activity at the School Employees Retirement System of Ohio (SERS). The Board is responsible for managing the assets of the Fund effectively and prudently; and for the exclusive benefit of SERS' participants and beneficiaries.

Investment Policy

The purpose of SERS' statement of Investment Policy is to define SERS' investment philosophy and objectives. The Policy establishes return objectives and risk tolerances within which the Fund is to be managed. The Policy goes on to define the responsibilities of the fiduciaries that implement the strategies and manage SERS' investment portfolio.

Investment Objectives

The primary objective of the investment portfolio is to achieve investment returns exceeding the weighted return of our Policy Benchmark within prudent risk parameters. On June 30, 2005, 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 50% hedged
• 3% Private Equity	– S&P 500 + 3% (one quarter in arrears)
•23% Fixed Income	– Lehman Brothers Aggregate Bond Index
• 2% Short-Term	– CitiGroup 30-Day US Treasury Bill
•10% Real Estate	– 80% NCREIF Property Index (one quarter in arrears) & 20% NAREIT Equity Index

Investment Strategies

ASSET ALLOCATION

No changes were made to the asset allocation targets of the Fund during the fiscal year. SERS' investment consultant, the Frank Russell Company, conducted a formal asset liability study in FY 2003 and recommended maintaining the current asset allocation targets. Asset liability studies are generally conducted every three to five years unless the Board requests one to be done sooner. The next study is scheduled for FY 2006.

DIVERSIFICATION

Broad diversification within an investment portfolio is used to control the level of risk and volatility within the portfolio. SERS has broadly diversified the assets within its portfolios; and the strategies used within each portfolio have also been diversified.

Besides the broad diversification of assets and strategies within SERS' portfolio, SERS also employs a diverse group of investment managers. The purpose of employing multiple managers within SERS' portfolio is to further reduce risk and volatility within the portfolio.

Investment Performance

LONG-TERM INVESTMENT PERFORMANCE

Long-term performance continues to compare quite favorably with the Fund's Policy Benchmark Return. Ten year performance for the period ended June 30, 2005, was a positive 8.9% which matched its Policy Benchmark Return for ten years. Three and five year returns for the Fund were ahead of the Policy Benchmark Returns for the respective periods.

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

Fiscal Year 2005 Results

Strong returns in the non-US equity portfolio and real estate portfolio enabled SERS' Total Fund to return 10.5% for the fiscal year ended June 30, 2005. The total return of the fund was slightly ahead of the Policy Benchmark Return for the Total Fund.

Schedule of Investment Results For The Years Ended June 30

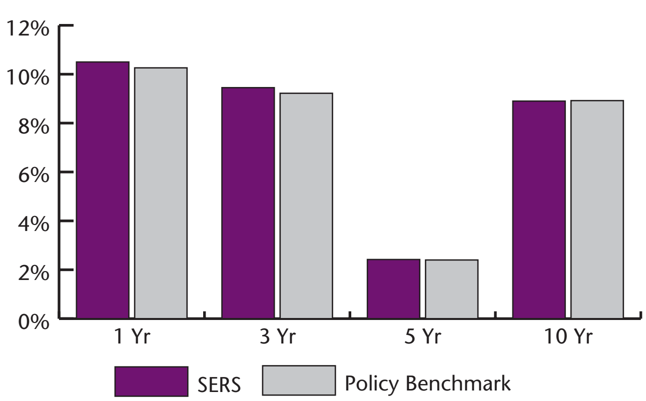
	2005	2004	2003	2002	2001	3 Years	5 Years	10 Years
						Annualized Rates of Return		
US Equity								
SERS (1)*	7.3 %	21.4%	0.2%	(15.6)%	(15.4)%	9.3 %	(1.7)%	9.8 %
Russell 3000 Index	8.1	20.5	0.8	(17.2)	(13.9)	9.5	(1.4)	10.1
Non-US Equity								
SERS	19.3	27.6	(8.1)	(11.9)	(17.4)	11.9	0.4	7.5
Custom Non-US Equity Benchmark (2)*	16.9	27.8	(8.7)	(12.9)	(18.8)	10.9	(0.7)	7.2
Private Equity								
SERS (3)*	7.7	8.5	(18.0)	(26.2)	(32.7)	(1.4)	(13.8)	10.1
Custom Private Equity Benchmark (4)*	9.7	38.1	(21.8)	(3.1)	(11.8)	5.8	0.3	13.5
Fixed Income								
SERS	7.0	1.3	11.1	9.1	12.5	6.4	8.1	7.2
Lehman Brothers Aggregate Bond Index	6.8	0.3	10.4	8.6	11.2	5.8	7.4	6.8
Real Estate								
SERS (5)*	22.4	13.2	5.6	(1.2)	12.4	13.5	10.2	10.9
Custom Real Estate Benchmark (6)*	19.2	13.2	6.6	6.4	12.0	12.9	11.4	11.7
Short-Term								
SERS (7)*	2.4	1.0	1.3	2.6	9.1	1.5	3.2	4.4
CitiGroup 30-Day Treasury Bill Index	2.0	0.9	1.4	2.3	5.2	1.4	2.3	3.6
Total Fund								
SERS (8)*	10.5	16.5	1.8	(7.8)	(6.8)	9.5	2.4	8.9
Policy Benchmark (9)*	10.3	16.1	1.7	(7.8)	(6.3)	9.2	2.4	8.9

Source: Russell/Mellon Analytical Services

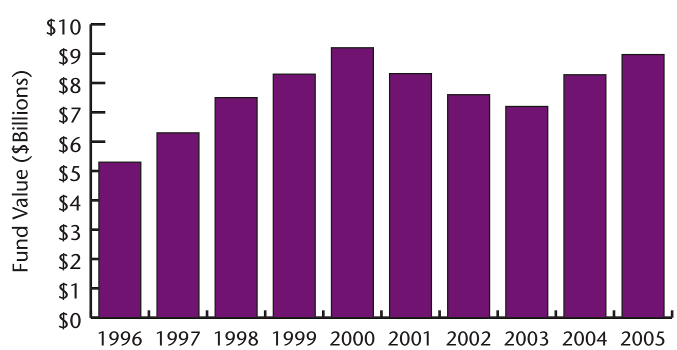
All returns are reported gross of fees, unless otherwise indicated, using a time-weighted rate of return methodology based on the market rate of return in accordance with the Performance Presentation Standards of the CFA Institute.

*See footnotes to table on page 52.

Total Fund Rates of Return vs Policy Benchmark



Total Fund at Fair Value



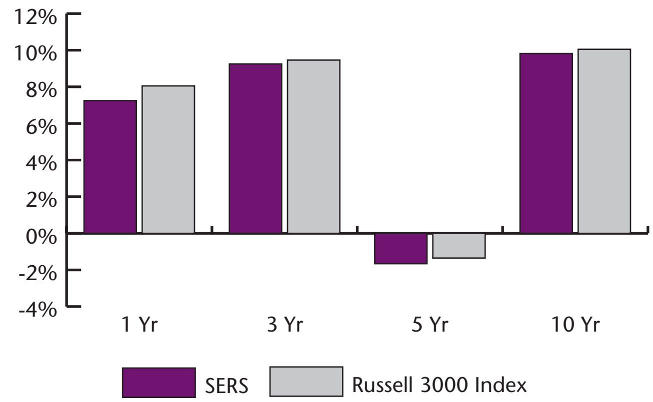
US Equity

For the fiscal year ending June 30, 2005 the SERS US equity portfolio returned 7.25%, underperforming the benchmark Russell 3000 Index by 0.80%.

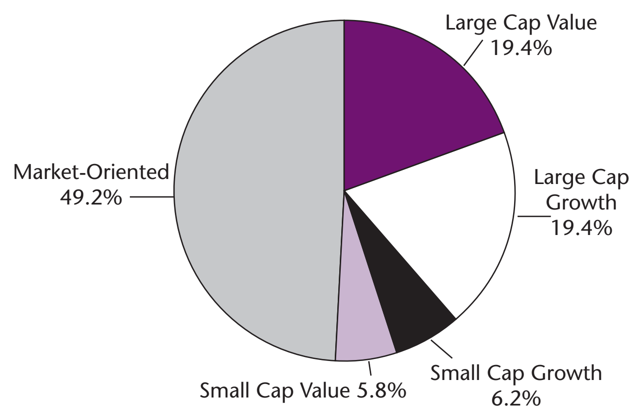
The US equity market rose 8.05% this fiscal year compared to one year ago, when it gained 20.46%. The 8.05% equity market return aligns closer to SERS' average long-term equity performance expectations. Spurred by inflation fears from continued rising energy prices, the Federal Reserve reacted by increasing interest rates nine times to 3.25% over the last fiscal year. As the employment picture brightened during the last part of 2004, consumers continued supporting the economy with home building and retail purchases. Small capitalization stocks outperformed large capitalization stocks by 1.52% and value outperformed growth by 12.18% during the 2005 fiscal year. However, growth stocks outperformed value stocks during the last quarter of the year.

SERS reduced its passive allocation from 57% to 49% by hiring two new large cap value managers and terminating one large cap value manager. In addition, SERS restructured the US small cap growth portfolio by hiring two new managers. Next year's annual plan will study revamping the US passive portfolio to help improve the overall US equity portfolio performance.

US EQUITY RETURNS



US EQUITY ALLOCATIONS



LARGEST INDIVIDUAL US EQUITY HOLDINGS AS OF JUNE 30, 2005

	Description	Shares*	Market Price	Fair Value
1	GENERAL ELECTRIC CO.	2,890,583	$34.65	$100,158,699
2	EXXON MOBIL CORP.	1,741,105	57.47	100,061,323
3	MICROSOFT CORP.	3,311,478	24.84	82,257,108
4	CITIGROUP, INC.	1,456,306	46.23	67,325,018
5	PFIZER, INC.	2,343,057	27.58	64,621,513
6	JOHNSON & JOHNSON	954,243	65.00	62,025,810
7	BANK OF AMERICA CORP.	1,119,891	45.61	51,078,235
8	INTEL CORP.	1,869,829	26.06	48,727,742
9	WAL-MART STORES, INC.	970,011	48.20	46,754,526
10	CHEVRON CORP.	810,682	55.92	45,333,334

All monetary values stated in US Dollars.
A complete listing of holdings is available upon request.
**Includes shares owned directly and indirectly via commingled funds.*

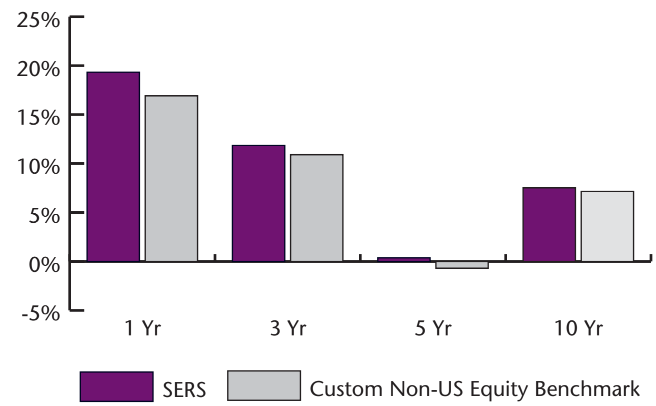
Non-US Equity

For the fiscal year ending June 30, 2005, SERS non-US equity portfolio returned 19.3%, outperforming its policy benchmark (MSCI All Country World Excluding the US Index with developed countries 50% hedged) by 2.4%. On an annualized basis, the SERS non-US equity portfolio has outperformed its benchmark by 0.95% over the past three years, by 1.06% over the past five years, and by 0.36% over the past ten years.

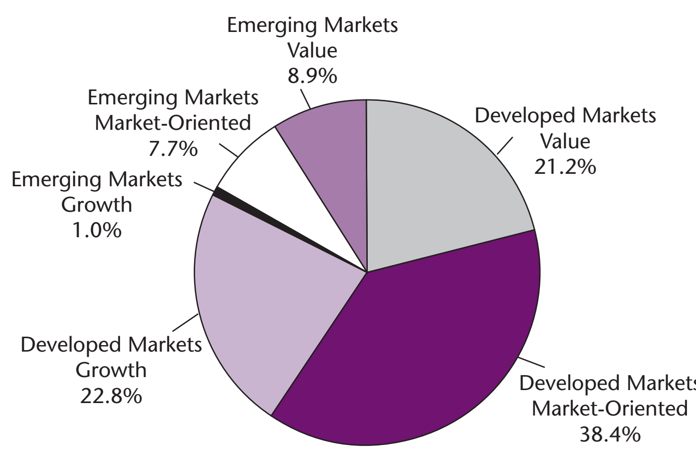
Growth decelerated in both developed and emerging economies but global equity markets largely shrugged off the rising cost of energy during the fiscal year. The US dollar appreciated against other currencies in the second half of the fiscal year in part due to rising interest rates and the strength of the US economy relative to other developed countries. On an unhedged basis, stocks in developed markets rose 14.1% and those in emerging markets rose 34.9% for the fiscal year.

Value outperformed growth by 4.8% and small cap non-US stocks outperformed their larger cap counterparts by 4.7% during the fiscal year. During the fiscal year SERS maintained its style- and cap-neutral strategy while restructuring the non-US equity portfolio. Staff implemented the new lower passive allocation – reducing passive to 23.7% from 53.0% a year earlier – by funding six large-cap and six small-cap developed markets managers. An emerging markets manager was terminated and another hired in its place early in the fiscal year. SERS plans to study active currency management in the upcoming fiscal year.

NON-US EQUITY RETURNS



NON-US EQUITY ALLOCATIONS



Investment Section

LARGEST INDIVIDUAL NON-US EQUITY HOLDINGS AS OF JUNE 30, 2005

	Description	Country	Shares*	Market Price	Fair Value
1	TOTAL FINA ELF SA	France	73,552	$235.23	$17,301,592
2	VODAFONE GROUP PLC	United Kingdom	6,857,722	2.45	16,834,660
3	BP PLC	United Kingdom	1,528,744	10.41	15,920,539
4	ROYAL DUTCH PETROLEUM	Netherlands	207,025	65.38	13,534,273
5	GLAXOSMITHKLINE PLC	United Kingdom	555,346	24.22	13,452,781
6	ING GROEP NV	Netherlands	435,596	28.29	12,324,272
7	E.ON AG	Germany	132,303	89.20	11,801,479
8	TOYOTA MOTOR CORP.	Japan	317,716	35.83	11,382,830
9	NESTLE SA	Switzerland	39,817	256.03	10,194,238
10	NOKIA OYJ	Finland	588,188	16.77	9,862,448

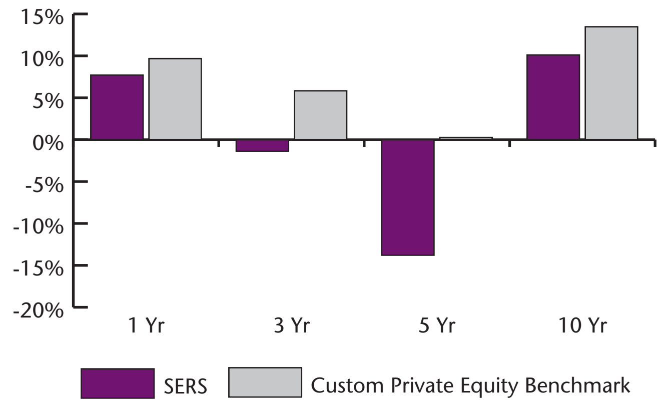
All monetary values are stated in US Dollars.
A complete listing of holdings is available upon request.
**Includes shares owned directly and indirectly via commingled funds.*

Private Equity

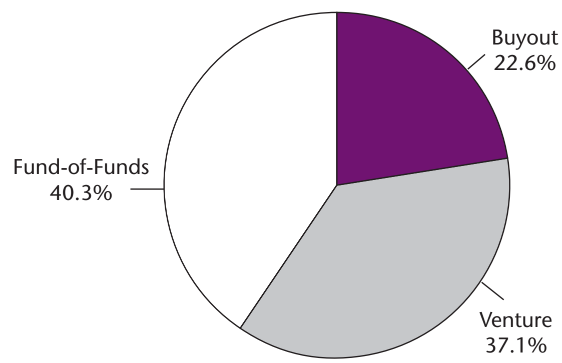
SERS invests in private equity to provide returns in excess of those provided by stocks, bonds, and real estate. Private equity consists of investments in venture capital limited partnerships, buyout limited partnerships, and other "non-public" investments. Private equity also includes investments in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

SERS' target allocation to private equity is 3% of the total fund. As of June 30, 2005, SERS' private equity portfolio was $168.4 million, or 1.9% of the total fund. Unfunded commitments to private equity partnerships totaled $449 million at fiscal year end. Over the past fiscal year, SERS closed on commitments to seven private equity partnerships totaling $195 million. Approximately $105 million was committed to buyout funds and $90 million to venture capital funds. SERS' private equity portfolio is in the early stages of the investment life cycle, therefore current returns are not indicative of expected long-term performance results.

PRIVATE EQUITY RETURNS



ALLOCATION BY STRATEGY



LARGEST INDIVIDUAL PRIVATE EQUITY HOLDINGS
AS OF JUNE 30, 2005

	Description	Fair Value
1	THE PEPPERTREE FUND, LP	$13,737,796
2	MORGENTHALER VENTURE PARTNERS VII, LP	13,322,885
3	GS PRIVATE EQUITY PARTNERS 2000-MANAGER FUND, LP	12,943,513
4	HORSLEY BRIDGE INTERNATIONAL FUND II, LP	12,077,401
5	HORSLEY BRIDGE FUND VII, LP	12,057,971
6	PRIMUS CAPITAL V, LP	11,118,082
7	GS PRIVATE EQUITY PARTNERS 2002-MANAGER FUND, LP	9,613,565
8	MORGENTHALER VENTURE PARTNERS VI, LP	8,687,509
9	BLUE CHIP IV, LP	7,450,632
10	FDG CAPITAL PARTNERS II, LP	7,261,491

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

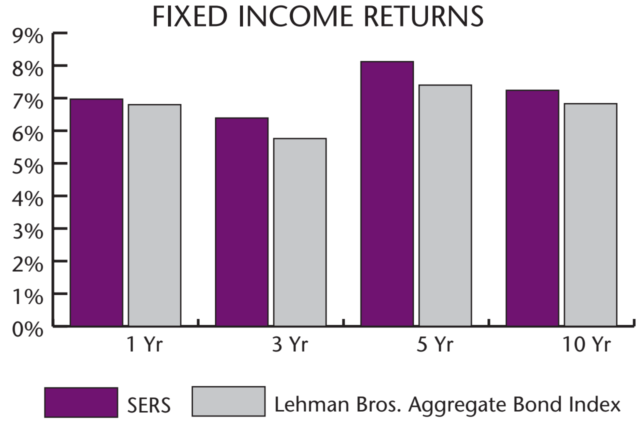
Fixed Income

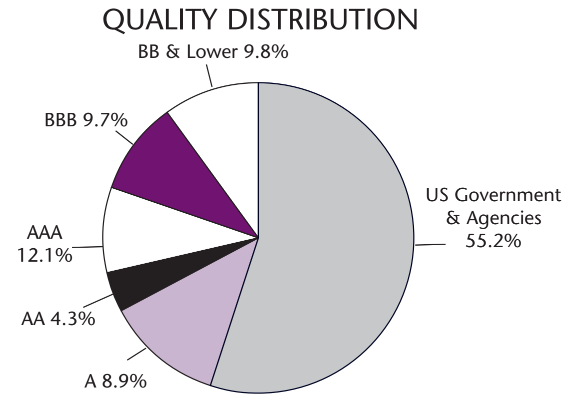
SERS' fixed income portfolio is comprised principally of low-risk, high-quality debt securities. The portfolio is managed by a diverse group of top-tier active bond managers employing proven investment strategies to help SERS meet its goals and objectives.

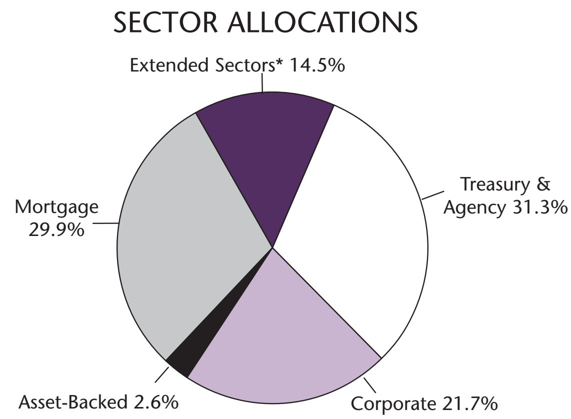
Fixed income returns were in line with long-term expectations in spite of continued volatility along the yield curve. For the fiscal year ending June 30, 2005, SERS' fixed income portfolio outperformed the benchmark Lehman Aggregate Bond Index by 17 basis points, returning 6.97% against the index return of 6.80%. Relative to the benchmark, SERS' Fixed Income Managers strategically underweighted government bonds (treasuries and agencies) and mortgage-backed securities; and overweighted corporate bonds, commercial mortgages, asset-backed securities (ABS) and private placements. The portfolio maintained an average Moody quality rating of AA2 or higher.

The yield curve flattened during the fiscal year, with short-term yields rising 2.0% against the 10-year's 0.75% reduction. Investment managers were generally defensive on duration, seeking returns from the corporate and ABS sectors. Extended sectors such as high yield and emerging market debt provided tactical yield opportunities, although spreads generally were tight across all sectors throughout much of the year.

Staff increased allocations to intermediate duration and core plus strategies by 5.1% and 5.6%, respectively, reducing the core allocation to 25.1%. No policy changes affecting fixed income occurred this fiscal year.







*High yield (rated BB and lower) corporate issues are included in Extended Sectors.

LARGEST INDIVIDUAL FIXED INCOME HOLDINGS AS OF JUNE 30, 2005

	Description	Rating	Shares/ Par Value	Market Price	Fair Value
1	GNMA TBA 6.0% 7/15/2034	AAA	33,500,000	$103.16	$34,557,327
2	WESTERN ASSET MGMT OPPORTUNISTIC INTL INVESTMENT GRADE	AA	1,486,586	20.97	31,173,718
3	WELLINGTON TRUST CO. CORE BOND PLUS/MBS POOL	AAA	2,427,778	11.91	28,914,831
4	US TREASURY NOTES 3.0% 2/15/2008	AAA	27,710,000	98.41	27,269,466
5	US TREASURY NOTES 2.75% 6/30/2006	AAA	27,000,000	99.26	26,800,686
6	FNMA TBA 6.0% 8/1/2035	AAA	25,800,000	102.44	26,428,875
7	US TREASURY NOTES 2.5% 9/30/2006	AAA	21,640,000	98.70	21,359,372
8	US TREASURY NOTES 4.375% 5/15/2007	AAA	21,000,000	101.36	21,286,293
9	US TREASURY NOTES 3.375% 2/28/2007	AAA	21,200,000	99.59	21,113,886
10	GNMA TBA 6.5% 7/15/2035	AAA	20,100,000	104.47	20,998,229

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

Real Estate

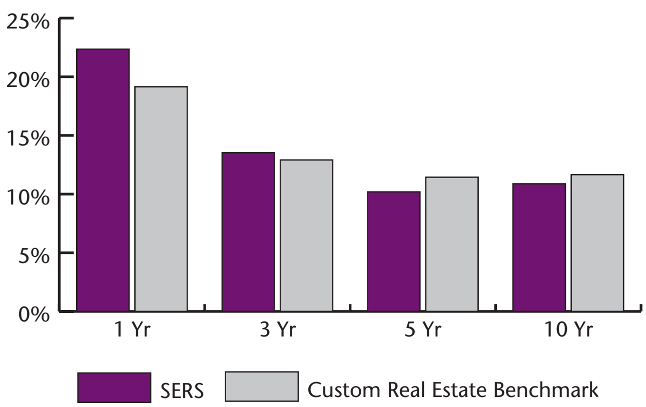
SERS invests in real estate to provide stable long-term rates of returns and to diversify its assets in order to reduce total fund volatility. SERS' real estate portfolio consists primarily of investments in office buildings, shopping centers, apartment communities, and industrial parks as well as shares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

SERS' target allocation to real estate is 10% of the total fund. As of June 30, 2005, the real estate portfolio was $918.2 million, or 10.2% of the total fund. Unfunded commitments to real estate funds totaled $111.8 million at fiscal year end. Over the past fiscal year, SERS' made commitments to four real estate funds totaling approximately $153 million which included opportunistic, value added and focused core strategies.

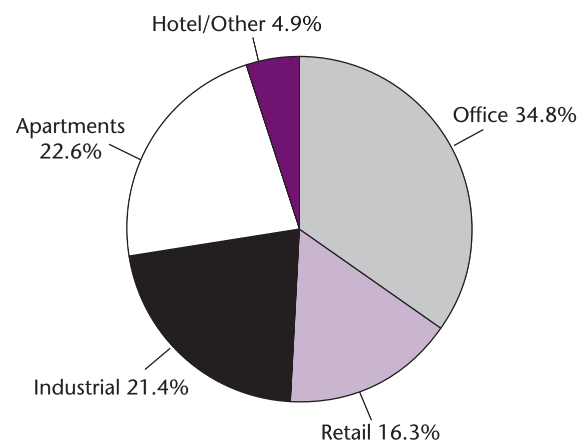
For fiscal 2005, private real estate assets as measured by the NCREIF Property Index (one quarter in arrears) returned 15.5%, receiving nearly equal performance contribution from income and appreciation. This performance is well above the annual average of 9.6% since 1978. Retail was the highest performing sector posting a 24.7% return for the period. The four remaining components of the NCREIF index which consists of the hotel, office, industrial and apartment sectors, posted double-digit returns for fiscal 2005. Investor interest in commercial real estate continued to strengthen across all sectors, which helped sustain higher property prices. Additionally, rental properties continued to provide stable income. On the public side, REITs, as measured by the NAREIT Equity Index, returned 32.6% during fiscal 2005.

During the fiscal year, SERS' real estate portfolio produced a total return of 22.4% vs. the custom real estate benchmark of 19.2%. For three-, five-, and ten-year periods, the real estate portfolio produced returns of 13.5%, 10.2%, and 10.9% respectively. All returns are reported one quarter in arrears.

REAL ESTATE RETURNS



PROPERTY TYPE DIVERSIFICATION

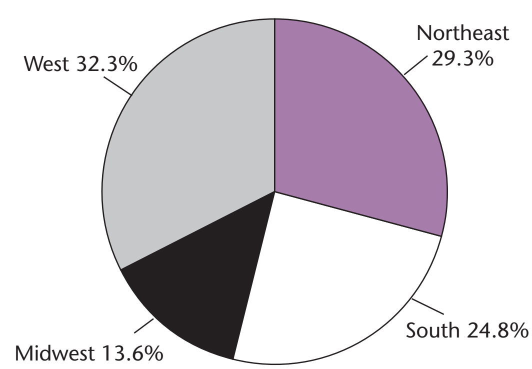


LARGEST INDIVIDUAL REAL ESTATE HOLDINGS AS OF JUNE 30, 2005

	Description	Fair Value
1	UBS REALTY SEPARATE ACCOUNT	$126,983,959
2	JP MORGAN STRATEGIC PROPERTY	108,144,349
3	ING CLARION LION PROPERTIES FUND	107,728,532
4	RREEF AMERICA II	102,193,050
5	INVESCO TAKEOVER ACCOUNT	52,273,734
6	PRUDENTIAL RISA	51,813,620
7	BLACKROCK STRATEGIC APARTMENT FUND	50,272,528
8	INVESCO REALTY	40,311,071
9	PRUDENTIAL RISA II	18,754,081
10	KOLL BREN V	18,215,193

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

GEOGRAPHIC DIVERSIFICATION



Investment Consultant & Investment Managers

Investment Consultant
Frank Russell Company – Tacoma, WA

Investment Managers – US Equity
Aronson + Johnson + Ortiz – Philadelphia, PA
Delaware Investments – Philadelphia, PA
DePrince, Race & Zollo – Orlando, FL
Dodge & Cox, Inc. – San Francisco, CA
Duncan-Hurst Capital Management, Inc. – San Diego, CA
Fuller & Thaler Asset Management, Inc. – San Mateo, CA
Geewax, Terker & Co. – Chadds Ford, PA
Jacobs Levy Equity Management – Florham Park, NJ
Lord, Abbett & Co. – Jersey City, NJ
LSV Asset Management – Chicago, IL
Montag & Caldwell Investment Counsel – Atlanta, GA
Penn Capital Management – Cherry Hill, NJ
Renaissance Investment Management – Cincinnati, OH
State Street Global Advisors – Boston, MA

Investment Managers – Non-US Equity
Acadian International – Boston, MA
Alliance Capital Management – New York, NY
Arrowstreet Capital – Cambridge, MA
AXA Rosenberg Investment Management – Orinda, CA
Fuller & Thaler Asset Management, Inc. – San Mateo, CA
GlobeFlex Capital, L.P. – San Diego, CA
Julius Baer Investment Management, Inc. – New York, NY
LSV Asset Management – Chicago, IL
McKinley Capital Management, Inc. – Anchorage, AK
Morgan Stanley Investment Management Limited – New York, NY
Pictet International Management Limited – London, England
State Street Global Advisors – Boston, MA
TT International Advisors, Inc. – London, England
Walter Scott & Partners Limited – Edinburgh, Scotland

Investment Manager – Futures
Frank Russell Securities – Tacoma, WA

Investment Manager – Foreign Currency
State Street Global Advisors – Boston, MA

Investment Managers – Private Equity
Alpha Capital Partners – Chicago, IL
Blue Chip Venture Company – Cincinnati, OH
Brantley Partners – Cleveland, OH
CID Equity Partners – Indianapolis, IN
Evergreen Pacific Partners – Seattle, WA
FdG Associates – New York, NY
FS Equity Partners LP – Los Angeles, CA
Goldman Sachs & Co. – New York, NY
Graham Partners, Inc. – Newtown Square, PA
Horsley Bridge Partners – San Francisco, CA
J.P. Morgan Investment Management – New York, NY
Kohlberg & Co. – Palo Alto, CA
Linsalata Capital Partners – Cleveland, OH
Mason Wells Private Equity – Milwaukee, WI
Morgenthaler Venture Partners – Cleveland, OH
Odyssey Investment Partners – New York, NY
Peppertree Partners – Cleveland, OH
Primus Venture Partners – Cleveland, OH
Swander Pace Capital Partners – San Francisco, CA
Transportation Resource Partners – Secaucus, NJ

Investment Managers – Fixed Income
BlackRock Financial Management – New York, NY
Dodge & Cox, Inc. – San Francisco, CA
Johnson Investment Counsel, Inc. – Cincinnati, OH
Wellington Management Company – Boston, MA
Western Asset Management Company – Pasadena, CA

Investment Managers – Real Estate
AEW Capital Management – Boston, MA
BlackRock Realty – San Francisco, CA
Carlyle Realty Partners – Washington, DC
CB Richard Ellis Investors – Los Angeles, CA
ING Clarion Real Estate – New York, NY
INVESCO Realty Advisors – Dallas, TX
J.P. Morgan Investment Management, Inc. – New York, NY
K.G. Redding & Associates, LLC – Chicago, IL
Koll Bren Schreiber Realty Advisors – Newport Beach, CA
Prudential Real Estate Investors – Parsippany, NJ
RREEF Real Estate Investment Managers – San Francisco, CA
UBS Realty Investors – Hartford, CT
Urdang Securities Management – Plymouth Meeting, PA

Master Custodians
Huntington National Bank – Columbus, OH
State Street Global Advisors – Boston, MA

Master Recordkeeper
Mellon Global Security Services – Pittsburgh, PA

Investment Analytics
Russell/Mellon Analytical Services – Pittsburgh, PA

Summary Schedule of Brokers' Fees for US Equity Transactions for the Year Ended June 30, 2005

Brokerage fees on US equity transactions for the fiscal year ended June 30, 2005:

Broker Name	Fees Paid	# of Shares Traded	Avg. Commission per Share
Merrill Lynch, Pierce, Fenner & Smith, Inc.	$ 504,984	14,011,565	$ 0.036
Investment Technology Group, Inc.	279,287	37,060,711	0.008
Bear Stearns and Co., Inc.	196,114	4,062,192	0.048
Liquidnet, Inc.	155,801	7,790,062	0.020
CitiGroup Global Markets, Inc.	137,828	7,093,999	0.019
Lehman Brothers, Inc.	118,301	4,534,593	0.026
UBS Warburg LLC	104,323	2,758,031	0.038
Prudential Equity Group	99,282	2,020,900	0.049
Jefferies and Co., Inc.	98,738	2,640,387	0.037
B-Trade Services LLC	96,857	5,173,579	0.019
Goldman, Sachs and Co.	94,194	4,533,902	0.021
Credit Suisse First Boston LLC	90,625	15,440,994	0.006
Instinet Clearing Services, Inc.	68,901	4,155,787	0.017
Banc of America Securities, Inc.	63,563	1,335,045	0.048
Lynch, Jones and Ryan, Inc.	63,060	2,997,800	0.021
Deutsche Bank Securities, Inc.	62,262	15,280,643	0.004
Morgan Stanley and Co., Inc.	57,506	2,029,804	0.028
Cantor Fitzgerald and Co., Inc.	53,953	2,097,500	0.026
Legg Mason Wood Walker, Inc.	53,501	1,087,444	0.049
Weeden and Co.	51,159	2,037,400	0.025
Capital Institutional Services	43,399	1,187,900	0.037
Green Street Advisors	39,960	795,400	0.050
Wachovia Securities LLC	36,198	778,325	0.047
Wave Securities LLC	29,316	1,487,010	0.020
Raymond, James and Associates, Inc.	25,382	681,045	0.037
Jones and Associates, Inc.	24,796	842,075	0.029
J.P. Morgan Securities, Inc.	24,627	585,900	0.042
La Branche Financial Services, Inc.	24,591	1,110,050	0.022
Bridge Trading Co.	24,450	745,140	0.033
McDonald Investments, Inc.	23,869	509,700	0.047
Citation Group	22,020	500,300	0.044
Knight Securities Broadcort Cap.	21,560	987,593	0.022
Keefe, Bruyette and Woods, Inc.	20,457	399,064	0.051
Friedman, Billings and Ramsey	20,164	470,520	0.043
Suntrust Capital Markets, Inc.	19,188	448,000	0.043
Bank Of New York	18,568	804,200	0.023
Sanford C. Bernstein and Co., LLC	17,337	406,700	0.043
Robert W. Baird and Co., Inc.	17,133	497,100	0.034
National Financial Services LLC	16,211	570,700	0.028
Miller Tabak and Co., LLC	16,092	1,156,113	0.014
SG Cowen and Co., LLC	15,340	342,250	0.045
CIBC World Markets Corp.	15,173	527,025	0.029
RBC Capital Markets Corp.	15,004	319,300	0.047
Brokers less than $15,000 (131)	438,583	17,818,230	0.025
Total US	$3,419,657	172,111,978	$ 0.020

Summary Schedule of Brokers' Fees for Non-US Equity Transactions For The Year Ended June 30, 2005

Brokerage fees on non-US equity transactions for the fiscal year ended June 30, 2005:

Broker Name	Fees Paid	# of Shares Traded	Avg. Commission per Share*
Credit Suisse First Boston LLC	$ 250,541	175,357,117	$ 0.001
Merrill Lynch and Co., Inc.	244,820	14,026,137	0.017
J.P. Morgan Securities, Inc.	151,422	55,007,216	0.003
Goldman Sachs and Co.	148,600	37,655,672	0.004
Lehman Brothers, Inc.	131,142	15,540,675	0.008
Deutsche Bank Securities, Inc.	123,974	16,444,549	0.008
Bear Stearns and Co., Inc.	109,308	17,279,766	0.006
CitiGroup Global Markets, Inc.	102,183	20,719,659	0.005
Credit Lyonnais Securities, Inc.	96,642	29,073,329	0.003
Societe Generale Bank	91,825	4,941,226	0.019
Morgan Stanley and Co., Inc.	62,032	3,321,212	0.019
ABN Amro Securities, Inc.	61,104	220,005,036	0.000
Nomura Securities International, Inc.	58,346	7,313,146	0.008
UBS Warburg LLC	53,418	4,119,324	0.013
Investment Technology Group, Inc.	48,103	2,610,047	0.018
Instinet Clearing Services, Inc.	35,766	2,459,938	0.015
SG Americas Securities LLC	34,809	1,074,290	0.032
Credit Agricole Securities, Inc.	33,365	958,114	0.035
Westminster Securities Corp.	31,718	1,111,358	0.029
Pershing Securities Ltd.	28,713	924,197	0.031
Daiwa Securities Co., Ltd.	26,109	1,000,766	0.026
MacQuarie Securities Ltd.	24,349	2,331,289	0.010
Raymond James and Associates, Inc.	19,956	890,643,784	0.000
ING Bank NV	18,354	7,647,056	0.002
HSBC Securities, Inc.	17,964	1,206,990	0.015
Capital Institutional Services	14,619	324,450	0.045
USCC Santander	13,384	3,352,562	0.004
CLSA Securities Ltd.	11,321	227,166	0.050
Mizuho Securities Co., Ltd.	11,090	243,611	0.046
ITG Securities Ltd.	9,984	6,418,698	0.002
J.P. Morgan Securities, Inc.	9,867	907,898	0.011
Kleinwort Benson Securities Ltd.	8,782	242,744	0.036
Cazenove and Co., Ltd.	8,729	610,108	0.014
Agora Corde Titul e Val Mob	8,648	4,435,100	0.002
Fox-Pitt, Kelton, Inc.	8,004	228,852	0.035
Brockhouse and Cooper, Inc.	7,782	156,444	0.050
KBC Financial Products Ltd.	7,449	323,121	0.023
ABG Securities, Inc.	7,160	157,851	0.045
CA IB Investment Bank	6,843	23,580,532	0.000
Carnegie International Corp.	6,753	244,386	0.028
ABG Sundal Collier Norge Ltd.	6,513	115,840	0.056
Julius Baer Brokerage SA	6,492	38,817	0.167
MainFirst Bank AG	6,077	80,342	0.076
Brokers less than $6,000 (85)	139,634	7,836,557	0.018
Total non-US	$2,303,694	1,582,296,972	$ 0.001

*The large volume of shares traded in one country's securities is skewing the average commission per share lower by $0.004.

Investment Section

Investment Notes

Investment Summary

Portfolio Type	Fair Value	% of Total Fair Value
US Equity	$4,126,741,112	46.0%
Non-US Equity	1,641,583,710	18.3%
Private Equity	168,413,224	1.9%
Fixed Income	2,006,710,541	22.4%
Real Estate	918,227,576	10.2%
Short-Term	108,334,508	1.2%
Net Portfolio Value	$8,970,010,671	100.0%

Reconciliation to Statement of Plan Net Assets	
Net Portfolio Value	$8,970,010,671
Accrued Income	(23,328,365)
Accounts receivable, securities sold	(272,015,591)
Accounts payable, securities purchased	434,467,857
Cash and STIF	(7,447,690)
Investments per Statement of Plan Net Assets	$9,101,686,882

Investment Results

FOOTNOTES TO INVESTMENT RESULTS TABLE ON PAGE 43:

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

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

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

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

(5) The Real Estate composite returns are reported one quarter in arrears beginning with the quarter ending June 30, 2002. To implement quarter in arrears reporting, the 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.

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

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

(8) The composite includes net of fee Real Estate and Private Equity 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. The Total Fund is impacted beginning June 30, 2002 with Real Estate and Private Equity March 31, 2002 market values and also with flows for the quarter ending June 30, 2002.

(9) As of 07/01/02 OSERS 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 (arrears), 2% CitiGroup 30-Day T-Bill. For the quarter ended June 30, 2002, Private Equity Benchmark (one quarter in arrears) reflects a 0% return.

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

buckconsultants
an ACS company

November 17, 2005

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, 2005 indicates that a contribution rate of 11.70% of payroll for 122,855 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. We review the data 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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Board of Trustees
School Employees Retirement System of Ohio
November 17, 2005
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 net claim costs. Such reserve is based on the projected claims and premium contributions for next fiscal year, as is described in the Clarification to Statement of Funding Policy issued by the Board in January 2005. As of June 30, 2005, the value of the health care fund was equal to about 168% of next year's projected net health care costs. Since total claims are projected to exceed total contributions in future years, it is expected that future reserve amounts will be less than the 150% target.

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

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,

Kim M. Nicholl, FSA, MAAA, EA
Principal, Consulting Actuary

Philip Bonanno, FCA, MAAA, EA
Director, Consulting Actuary

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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, 2005, 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, 2005 is 10.57%.

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. Effective with the 1995 fiscal year, the Retirement Board replaced the level cost financing of health care with pay-as-you-go financing. The portion of the employer contribution rate allocated to health care for the year ended June 30, 2005 is 3.43%.

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 2005, the minimum pay has been established as $27,400. 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.

Actuarial value of assets as of June 30, 2005 is based on a four-year average of adjusted market value returns. The difference between the actual returns at market value for the year and expected returns is determined. Twenty-five percent (25%) of that difference is added to the expected value along with corresponding amounts from each of the prior three years.

The following significant assumptions were used in the actuarial valuation as of June 30, 2005.

(1) A rate of return on the investments of 8.25% compounded annually (net after all System expenses) is assumed. 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) Salary increases of 4.25%, attributable to wage inflation, are projected and compounded annually.

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

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 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. Representative values of the assumed annual rates of service retirement are as follows.

Age	Male	Female
50	45%	36%
55	30	27
60	11	23
65	35	30
70	25	38
75	100	100

(5) Rates of separation from active service are for reasons other than retirement, disability or death. Representative values of the assumed annual rates of withdrawal are as follows.

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

(6) Representative values of the assumed annual rates of disability are as follows.

Age	Male	Female
30	.15%	.10%
35	.49	.10
40	.54	.21
45	.67	.25
50	1.10	.52
55	1.10	.81

(7) 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. Mortality for active members is 70% of the retiree table for males and 55% for females. Mortality for disabled members is developed from experience.

Representative values of the assumed annual rates of retiree mortality are as follows.

Service Retired Members, Beneficiaries and Survivors
1994 Group Annuity Mortality Table (-3,-1)

Age	Male	Female
20	.043%	.028%
30	.073	.033
40	.089	.065
50	.190	.131
60	.558	.386
70	1.803	1.271
80	4.517	3.536

Disability Retired Members

Age	Male	Female
40	2.257%	.745%
50	2.897	1.153
60	4.204	2.184
70	6.258	3.763
80	10.937	7.231

Marriage Assumption: 80% married with the husband three years older than his wife.

Valuation Method: Entry Age Normal cost method. Entry age is established on an individual basis.

(8) As a result of cost-of-living adjustments, 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, 2005

Present value of:	Basic Pension	Medicare Part B	Death Benefit	Total
Future benefits to present retirees and survivors	$ 5,333,410,385	$ 196,799,784	$ 20,661,992	$ 5,550,872,161
Monthly benefits and refunds to present inactive members	401,360,241	7,797,720	1,020,698	410,178,659
Allowances to present active members:				
Service	5,570,703,799	87,735,577	4,680,064	5,663,119,440
Disability	368,057,722	3,961,570	579,419	372,598,711
Survivor benefits	80,745,276	291,577	-	81,036,853
Refunds	(122,021,719)	5,171,634	61,855	(116,788,230)
Total AAL for active members	5,897,485,078	97,160,358	5,321,338	5,999,966,774
Total AAL	$11,632,255,704	$ 301,757,862	$ 27,004,028	$11,961,017,594

Active Member Valuation Data

Actuarial Valuation as of June 30	Number of Active Members	Annual Payroll (millions)	Average Annual Salary	% Increase in Average Salary
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	4.0
2004	123,139	2,394.1	19,442	3.3
2005	122,855	2,452.5	19,963	2.7

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
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	6.7	7,687
2004	4,300	32,500,992	3,730	2,094,156	60,569	491,618,849	6.6	8,117
2005	4,580	38,670,969	3,716	2,357,850	61,433	527,931,968	7.4	8,594

Analysis of Financial Experience

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

Type of Risk Area	Gain/(Loss) For Year In Millions 2005	2004	2003	2002	2000	1999
Age & Service Retirements If members retire at older ages than assumed, there is a gain. If younger ages, a loss.	$ (82.6)	$ (45.2)	$ (29.7)	$ 41.5	$ 27.4	$ 24.4
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	2.1	0.0	(0.3)	0.2	0.5	2.7
Death-In-Service Benefits If claims costs are less than assumed, there is a gain. If more claims, a loss.	(0.7)	0.5	(0.3)	1.6	(0.4)	(0.7)
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	101.6	83.6	28.0	(151.3)	(22.8)	47.3
Investment Return If there is greater investment return than assumed, there is a gain. If less return, a loss.	(397.4)	(763.8)	(781.4)	(533.6)	465.6	487.7
Withdrawal If more liabilities are released by other separations from active membership than assumed, there is a gain. If smaller releases, a loss.	52.7	56.6	38.8	(9.8)	(5.7)	(18.0)
New Members Additional unfunded accrued liability will produce a loss.	(42.7)	(48.6)	(37.1)	(38.6)	*	*
Death After Retirement If retirees live longer than assumed, there is a loss. If not as long, a gain.	12.4	23.3	30.0	44.1	14.4	1.0
Other Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	(81.7)	(0.4)	(24.7)	35.5	(136.2)	(84.6)
Non-Recurring Items Adjustments for plan amendments, assumption changes, or method changes.	0.0	0.0	31.7			
Total Gain/(Loss) During Year	$(436.3)	$(694.0)	$(745.0)	$(610.4)	$342.8	$459.8

* Included in "Other" risk area prior to 2002.
2001 data not available.

Actuarial Section

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)
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
2004	1,785	5,173	4,293	8,667	100	100	40
2005	1,943	5,551	4,467	8,893	100	100	31

STATISTICAL SECTION

Additions By Source

Table I

Fiscal Year	Employer Contributions	Member Contributions	Other Revenues	Investment Income/(Loss)	Total
2000	$303,129,460	$179,646,558	$3,194,230	$ 949,985,546	$1,435,955,794
2001	331,307,417	192,563,026	2,660,220	(632,419,714)	(105,889,051)
2002	337,924,392	210,098,081	4,780,142	(646,957,544)	(94,154,929)
2003	370,314,918	225,014,540	3,968,047	95,819,531	695,117,036
2004	391,440,663	258,131,243	4,007,479	1,151,401,043	1,804,980,428
2005	400,519,147	262,265,550	46,431,322*	825,771,210	1,534,987,229

*Includes Health Care premiums.

Deductions By Type

Table II

Fiscal Year	Benefits	Refunds	Administrative Expenses	Transfers to other Ohio Retirement Systems	Total
2000	$528,461,302	$22,332,580	$15,716,748	$4,123,815	$570,634,445
2001	617,167,500	21,817,451	16,004,407	4,198,302	659,187,660
2002	634,202,580	19,212,728	18,386,076	4,414,555	676,215,939
2003	687,618,942	19,575,616	19,289,261	4,885,777	731,369,596
2004	714,415,180	22,090,604	19,182,142	6,251,974	761,939,900
2005	779,306,161	27,112,818	18,926,844	5,991,510	831,337,333

Payments By Type

Table III

Year Ending June 30	Service Benefits	Disability Benefits	Survivor Benefits	Health Care Expenses	Death Benefits and Refunds	Total
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
2004	435,492,573	58,173,009	23,053,354	195,496,097	24,290,751	736,505,784
2005	472,721,360	60,901,710	24,648,650	218,816,560	29,330,699	806,418,979

Fiscal year 2005 **Benefits** in Table II and **Health Care Expenses** in Table III are reported without reduction for premiums paid by retirees. After reduction for the premiums of $40,595,447, the net amounts are $738,710,714 and $178,221,113, respectively. All other years show net amounts.

Number of Benefit Recipients By Type

Table IV

Years Ending June 30	Service	Disability	Survivor	Total
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
2004	51,323	5,180	4,066	60,569
2005	52,090	5,192	4,151	61,433

Number of Benefit Recipients

Table V

Amount of Monthly Benefit	Service	Disability	Survivor	Total
$ 1 — 250	19,330	966	2,055	22,351
251 — 500	11,876	1,133	1,143	14,152
501 — 750	7,615	966	534	9,115
751 — 1,000	4,671	727	203	5,601
1,001 — 1,500	4,874	848	139	5,861
1,501 — 2,000	2,026	351	43	2,420
over 2,000	1,698	201	34	1,933
	52,090	5,192	4,151	61,433

Retirement Averages

Table VI

Service Retirement

Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
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
2004	22.452	957.36	62.44	24,132
2005	22.568	1,041.85	62.57	26,040

Disability Retirement

Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
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
2004	20.780	1,090.08	52.45	24,096
2005	20.417	1,177.93	53.27	25,960

Schedule of Average Benefit Payments

Table VII

Retirement Effective Dates July 1, 1999 to June 30, 2005	Years Credited Service 5-9	10-14	15-19	20-24	25-29	30+
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
Period 7/1/03 to 6/30/04						
Average Monthly Benefit	$ 168	$ 370	$ 572	$ 809	$1,011	$1,731
Average Final Average Salary*	1,192	1,611	1,777	1,941	2,037	2,612
Number of Retirees	207	284	336	318	606	613
Period 7/1/04 to 6/30/05						
Average Monthly Benefit	$ 179	$ 363	$ 600	$ 847	$ 1,081	$1,949
Average Final Average Salary*	1,254	1,585	1,860	2,058	2,201	3,033
Number of Retirees	253	281	352	382	700	674

* 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
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
2004	883	61	371	194	49	14	50	138	6
2005	958	60	373	193	49	15	49	213	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 958 school districts and community schools. 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 nine member Board which works in conjunction with the System's Executive Director. Four of the nine Board members are elected by the general membership (those who contribute to SERS) and two are elected by retirees. Three members are appointed by the legislature, state treasurer and governor.

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 10.0% 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 qualified service credit to qualify for the health care benefits.

All benefit recipients enrolled in one of the health plans pay a monthly premium. The premium ranges from 15% to 100% of the cost, depending upon qualified years of service credit.

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. A refund of contributions only is available for those who stop working under age 65.