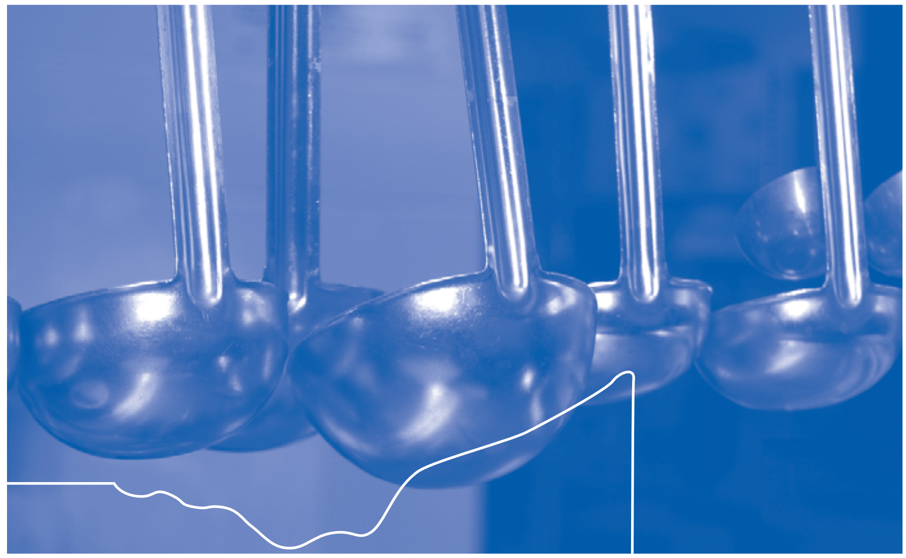
Serving the People Who Serve Our Schools



School Employees Retirement System of Ohio

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the year ended
June 30, 2010

Serving the People Who Serve Our Schools

School Employees Retirement System of Ohio

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the year ended June 30, 2010

Prepared by SERS Staff
Lisa J. Morris, Executive Director

300 E. Broad St., Suite 100, Columbus, Ohio 43215-3746
www.ohsers.org

“The mission of SERS is to provide pension benefit programs and services to our members, retirees, and beneficiaries that are soundly financed, prudently administered, and delivered with understanding and responsiveness.”

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INTRODUCTORY SECTION

SERS RETIREMENT BOARD

Left to right: Standing – Lisa Morris, Mark Anderson, Beverly Woolridge, Harry Lehman, Richard Sensenbrenner
Seated – Mary Ann Howell, Madonna Faragher, James Rossler, Jr., Catherine Moss, Barbra Phillips

Chair:
James A. Rossler, Jr.
Term Expires Nov. 4, 2012

Vice-Chair:
Barbra M. Phillips
Term Expires June 30, 2013

Employee Member:
Mark E. Anderson
Term Expires June 30, 2012

Employee Member:
Madonna D. Faragher
Term Expires June 30, 2011

Retiree Member:
Mary Ann Howell
Term Expires June 30, 2013

Appointed Member:
Harry J. Lehman
Term Expires Dec. 2, 2012

Retiree Member:
Catherine P. Moss
Term Expires June 30, 2012

Appointed Member:
Richard W. Sensenbrenner
Term Expires Sept. 28, 2012

Employee Member:
Beverly Woolridge
Term Expires June 30, 2013

Advisors

Independent Auditor
Clifton Gunderson LLP - Toledo, Ohio

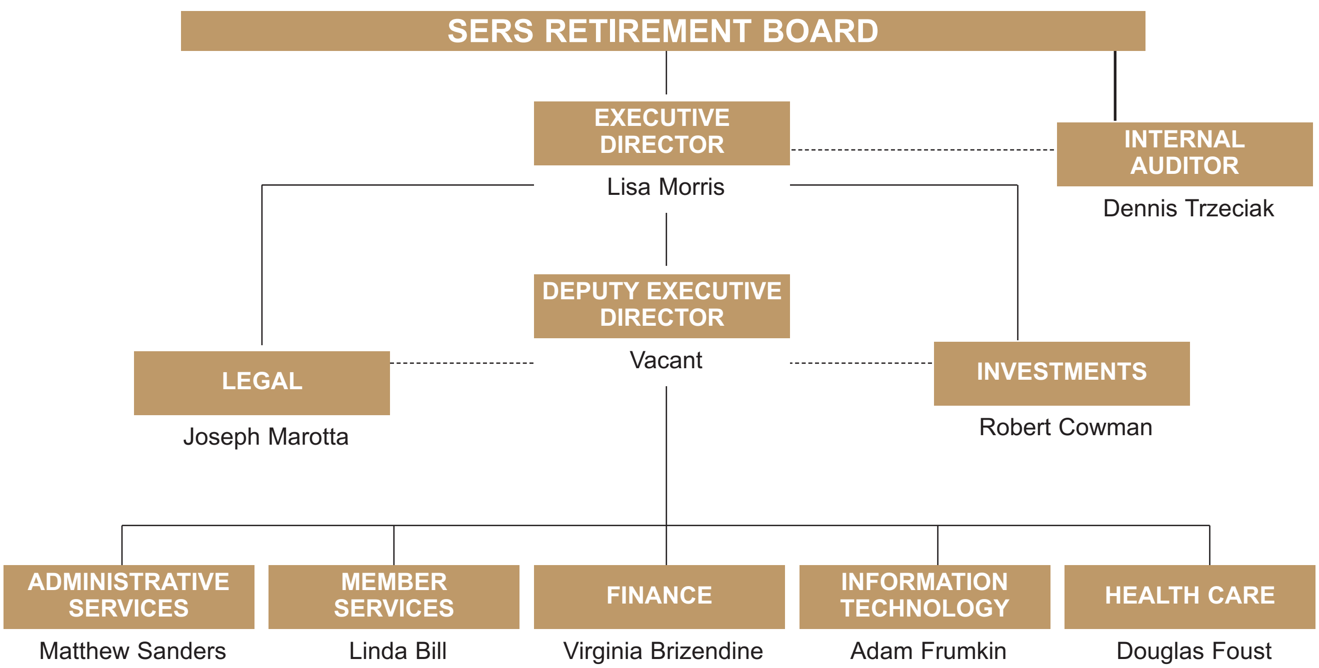
Actuary
Cavanaugh Macdonald Consulting, LLC - Kennesaw, Georgia

Investment Consultant
Summit Strategies Group - St. Louis, Missouri

Hedge Fund Consultant
Aksia LLC - New York, New York

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

Clockwise from top left – Virginia Brizendine, Linda Bill, Adam Frumkin, Joseph Marotta, Lisa Morris, Robert Cowman, Douglas Foust



PPC

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2010

Presented to

School Employees Retirement System of Ohio

In recognition of meeting professional standards for
plan funding 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

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, 2009

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

THE STATE OF OHIO

Auditor of State Mary Taylor, CPA
Making Your Tax Dollars Count Award

is presented to

School Employees Retirement System

for excellence in financial reporting.

You are a trustworthy guardian of taxpayer dollars
and deserve the highest amount of recognition
for your vigilance.

The 2009 Comprehensive Annual Financial Report (CAFR)
demonstrates your commitment to careful spending,
accurate fiscal recording and efficiency.

You are truly a model for government entities
throughout the state of Ohio.

The Seal of the Auditor of State of Ohio

Mary Taylor, CPA
Auditor of State

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
300 EAST BROAD ST., SUITE 100 • COLUMBUS, OHIO 43215-3746 • 614-222-5853
Toll-Free 1-866-280-7377 • www.ohsers.org

LISA J. MORRIS
Executive Director

December 15, 2010

Dear Chair and Members of the Retirement Board:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the School Employees Retirement System of Ohio (SERS) for the fiscal year ended June 30, 2010. The report provides information about the financial operations of the System, including management's stewardship of the funds entrusted to the System and compliance with all legal requirements placed on the System. 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, disability benefits, and survivor benefits that are paid upon the death of a member before retirement. A postretirement health care program is also provided, although it is not required by law.

This report is a combined effort of SERS' staff and advisors. We are 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. A narrative overview and analysis to accompany the basic financial statements is presented as management's discussion and analysis (MD&A). It can be found immediately following the report of the independent auditor in the Financial Section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

A system of internal accounting controls ensures the security of member and employer contributions and provides 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 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

Decreased Funding Prompts Health Care Program Changes On the heels of a 21.8% investment decline in FY2009, SERS' actuary delivered sobering news to the Board in November 2009 – the health care program would receive $141 million less in 2010 than 2009 because a greater proportion of the employer contributions would have to be applied toward pension funding. The Board immediately directed the Health Care staff to find solutions that would prevent the Health Care Fund from being depleted in

FY2014. From November 2009 to February 2010, SERS staff held three open meetings with representatives of the SERS Health Care Preservation Task Force to discuss ideas and solutions. The result was a plan that established an annual budget for health care which would preserve the existing Health Care Fund but raise premiums for all retirees and disability recipients enrolled in SERS' health care program. The Board approved the new annual budget concept and finalized the FY2011 health care program at the June meeting.

Employer Services Develops Digital Training Video In a collaborative effort that included staff from Employer Services, Information Technology, and Communications, SERS' first digital video was added to the website in June. Titled "Understanding Membership," this video is geared specifically to employers. With the help of Susan, the SERS Employer Services avatar, the digital video explains various facts about SERS' membership including membership requirements, membership of contract employees, dual membership with other retirement systems, and the hiring of public pension retirees.

Member Case Imaging Project Begins A cross-department team spent the last half of FY2010 planning the design and implementation phases of a project that will result in the conversion of 800,000 member cases into an estimated 11-15 million electronic images. A vendor was selected to image the cases and a work area was built onsite to provide security of the cases throughout the imaging process. In addition to training existing Records staff on the operation of the imaging equipment, SERS hired 10 temporary employees to assist in the quality assurance review. The entire project is expected to take 18 months.

Call Monitoring Initiated as a New Training Tool During the fiscal year, SERS staff finalized a program to strengthen customer service through the use of call monitoring, front-end messaging, cross-departmental training, and communications tracking. Staff developed a call monitoring and recording policy, procedure, and evaluation system which promotes consistency and provides additional opportunity for supervisors and staff to review performance. Additionally, guidelines were created for the use of a new communications tracking tool that will allow staff to document incoming calls consistently across the organization, and a reference guide was developed to aid staff in covering key points during member calls.

Media Outreach Initiative Due to a surge in media public records requests and newspaper articles questioning the sustainability of Ohio's public pension funds, Communications staff prepared a communications plan that included a media outreach initiative to the editorial boards of statewide newspapers. Meetings with newspapers began to be scheduled in June with 12 visits completed early in FY2011. The message at the editorial board meetings is that SERS is demographically different than the other pension systems and that our pensions are neither "lavish" nor "gold-plated." All pension-related topics, including double-dipping, transparency of public records, spiking, etc., have been discussed during these visits. In addition to meeting with newspaper editorial boards, SERS has countered incorrect and misleading information about SERS by sending letters to the editors of Ohio's eight largest newspapers in January and June, creating message maps and talking points for the Board, staff, members, retirees, and advocacy groups, and encouraging SERS members and retirees to contact their legislators and defend their pensions.

SERS Receives ENERGY STAR Award After more than a year of dedicated energy conservation efforts, SERS received an ENERGY STAR award in March 2010 from the US Environmental Protection Agency and

US Department of Energy. This distinction identifies our home office as one of the most energy efficient buildings in the nation, and one of only two in downtown Columbus. In a little more than a year, the building maintenance staff, along with the cooperation of SERS staff and tenants, increased the energy efficiency of the building by 23%. Since 2007, SERS has reduced natural gas consumption in the nine-year-old building by 35-40% and reduced electric usage by 15%.

INVESTMENTS

The primary objective of our investment policy is to ensure that the System meets its responsibilities for providing statutory retirement benefits and then other permissive benefits as authorized by the Board. The SERS Board assumes a moderate level of risk is reasonable and justified to enhance potential long-term investment results. The portfolio is diversified by asset class, investment approach, and individual investments within each asset class to reduce overall portfolio risk and volatility. SERS investment return was 12.3% for the fiscal year versus the benchmark return of 14.7%. The strongest sectors of the portfolio were equities (US and non-US), fixed income, and hedge funds. The net portfolio value in custody on an accrual basis was $9.0 billion on June 30, 2010, an increase of $862 million from the previous fiscal year.

FUNDING

SERS' objective is to receive contributions that, when expressed in terms of percent of active member payroll, will remain approximately level from one generation to the next; and, when combined with present assets and future investment returns, will be sufficient to meet present and future financial obligations. The results from the 2010 actuarial valuation point to an improvement in funding compared to the steep decline experienced in 2009. However, the investment losses of 2009 will continue to affect the funding of basic benefits for the next two years because SERS employs an asset valuation method that averages market returns over a four-year period. We are mindful that we cannot rely solely on future investment returns to move our funding ratio above 80 percent. This is why we sought changes in retirement eligibility that were enacted in 2008 and support the current efforts of the Ohio legislature to enact pension reform. We anticipate a bill that will include all Ohio statewide retirement systems will be introduced in the legislative session that begins in January.

For pension and death benefits, the actuarial value of assets at year-end was $10.8 billion with a corresponding actuarial accrued liability of $14.9 billion; the funded ratio increased from 68.4% over a 30-year period to 72.6% over a 29-year period.

SERS Medicare Part B reimbursement and health care benefits are postemployment benefits. The actuarial value of assets in the Medicare B Fund is $122 million; the actuarial accrued liability is $367 million. The funded ratio over a 30-year period showed a small improvement, increasing from 31.3% to 33.2%.

The actuarial value of assets in the Health Care Fund is $313 million; and the actuarial accrued liability is $2.4 billion. The funded ratio over a 30-year period is 13.7%. To provide additional funding for health care, all benefit recipients who are enrolled in the health care program pay a premium based on their date of retirement and/or years of service credit, and employers pay a surcharge for members whose salary is less than a minimum amount which is set by the Board. For more information on the funding of pension and postemployment benefits, please see the *Required Supplementary Information* in the Financial Section of this report.

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, 2009. This was the twenty-fifth consecutive year that SERS has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

SERS also received the Public Pension Coordinating Council (PPCC) Public Pension Standards Award for Funding and Administration for 2010. This annual award recognizes SERS for excellence in meeting professional standards for plan funding 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, funding, and disclosure to members.

Ohio Auditor of State Mary Taylor recognized SERS officials for their commitment to strong financial accountability with her presentation of the "Making Your Tax Dollars Count" award for the FY2009 audit. Fewer than five percent of all Ohio govermnent agencies are eligible for this award; to receive it entities must complete and submit a comprehensive annual financial report and receive an audit report with no findings or issues.

ACKNOWLEDGEMENTS

In April of this year, the Retirement Board officially recognized the contributions of Executive Director James Winfree who retired April 30, 2010. Through January 2003, Jim served for six years on the Retirement Board as the Ohio Attorney General's representative. He began his job as SERS fifth Executive Director in January 2004. Jim's strategic vision for SERS' future included a focus on strengthening the pension fund and improving services to members and retirees, preserving retiree health care benefits, and developing an organizational culture to support success. During this time, Senate Bill 148 was passed, which raised the retirement eligibility of new members; and the Health Care Preservation Task Force was established as a means to strengthen SERS' Health Care Fund, and maintain access to affordable and quality health care for retirees. Jim was instrumental in building strong relationships with advocacy groups that represent SERS' members and retirees, and brought the highest caliber of professionalism, compassion, and enthusiasm to his office. We wish him many years of active and enjoyable retirement. With Jim's retirement, the Board named Deputy Executive Director Lisa Morris as Interim Executive Director. On October 22, Barbra Phillips, Chair of the Retirement Board, announced that Ms. Morris had been named as SERS' sixth Executive Director and expressed the Board's confidence in her ability to meet the challenges facing SERS in the future. A search is underway to fill the Deputy Executive Director position.

The preparation of this report is the combined effort of the System's staff under the direction of the Retirement Board. It will be made available to all SERS-covered employers and other interested parties and published on our website. Summary financial information will be distributed to active and retired SERS membership. We hope that readers will find it informative and useful.

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, advisors, and others who help ensure the successful operation of the School Employees Retirement System of Ohio.

Respectfully submitted,

Lisa J. Morris
Executive Director

Michele L. Marra
Finance Director

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, provides testimony or otherwise educates Ohio legislators, congressional representatives, and regulatory agencies on the impact of these proposals.

State Legislation
From the 128th General Assembly:

HB 1 Biennial Budget (7/17/2009 Signed by the Governor)
At one point, the governor proposed language for this bill that would have reduced the state's employer contribution to the Ohio Public Employees Retirement System from 14% to 8% for the biennium. Among those voicing opposition were the public retirement systems, a number of member and retiree organizations, and the Ohio Retirement Study Council, which recommended disapproval. The bill passed without the language.

HB 30 Retirement Incentives (6/10/2009 House Financial Institutions, Real Estate and Securities, 1st hearing)
This bill requires an analysis of each proposed retirement incentive plan for Ohio Public Employees Retirement System members, and would prohibit a member who participates in such a plan from being reemployed by the same employer.

HB 164 Public High School Law Enforcement (5/6/2009 Referred to Public Safety and Homeland Security)
This bill authorizes a board of education to employ public high school law enforcement officers, and that those employees are members of the Ohio Public Employees Retirement System. This is a companion bill to SB 122.

HB 177 STRS Investment Personnel (6/2/2009 House Aging and Disability Services, 1st hearing)
This bill provides that investment personnel of the State Teachers Retirement System of Ohio may not receive performance-based bonuses or premiums in years of negative investment returns. The Ohio Retirement Study Council recommended disapproval.

SB 83 PERS Benefits (4/28/2009 Senate Health, Human Services and Aging, 3rd hearing)
This bill excludes certain compensation when determining retirement benefits under the Ohio Public Employees Retirement System.

SB 122 Public High School Law Enforcement (10/20/2009 Senate Education Committee, 1st hearing)
This bill authorizes a board of education to employ public high school law enforcement officers, and that those employees are members of the Ohio Public Employees Retirement System. This is a companion bill to HB 164.

SB 219 State Retirement – Felon (2/24/2010 Passed by Senate; 5/27/2010 Reported out by House Financial Institutions, Real Estate and Securities Committee)
This bill would allow termination of the disability benefit of a state retirement system member convicted of certain felonies committed while serving in a position of honor, trust, or profit.

Federal Legislation
From the 111th Congress:

HR 235 Social Security Fairness Act of 2009 (1/7/2009 Referred to House Committee on Ways and Means)
This bill repeals the Government Pension Offset (GPO) and Windfall Elimination Provision (WEP). HR 235 has 333 co-sponsors, including 15 Ohioans: Reps. Boccieri, Driehaus, Fudge, Kaptur, Kilroy, Kucinich, Latta, LaTourette, Ryan, Schmidt, Space, Sutton, Tiberi, Turner, and Wilson. This is a companion bill to S 484.

S 484 Social Security Fairness Act of 2009 (2/25/2009 Referred to Senate Committee on Finance)
This bill repeals the GPO and WEP. S 484 has 31 co-sponsors, including Ohio Sen. Sherrod Brown. This is a companion bill to HR 235.

HR 1221 Public Servant Retirement Protection Act of 2009 (2/26/2009 Referred to House Committee on Ways and Means)
This bill repeals the WEP and replaces it with a formula based on an individual's actual earnings during his/her years of work. HR 1221 has 22 co-sponsors. This is a companion bill to S 490.

S 490 Public Servant Retirement Protection Act of 2009 (2/26/2009 Referred to Senate Committee on Finance)
This bill repeals the WEP and replaces it with a formula based on an individual's actual earnings during his/her years of work. S 490 has no co-sponsors. This is a companion bill to HR 1221.

FINANCIAL SECTION

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditors' Report

The Retirement Board
School Employees Retirement System of Ohio
and
The Honorable Mary Taylor, CPA
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, 2010, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the management of SERS. 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 plan net assets of SERS as of June 30, 2010, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 7, 2010, on our consideration of SERS' internal control over financial reporting and on our test 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 on 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.

Offices in 17 states and Washington, DC

Member of HLB International

The Retirement Board
School Employees Retirement System of Ohio
and
The Honorable Mary Taylor, CPA

Management's discussion and analysis on pages 14 through 17 and the schedules of funding progress and employer contributions and related notes on pages 33 through 35 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on pages 36 and 37 is presented for the purpose of additional analysis and is not a required part 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 2 through 10, the investments section on pages 40 through 60, the actuarial section on pages 62 through 70, and the statistical section on pages 72 through 84 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.

Clifton Gunderson LLP

Toledo, Ohio
December 7, 2010

Management's Discussion and Analysis (Unaudited)

This discussion and analysis of the School Employees Retirement System of Ohio's (SERS) financial performance provides a narrative overview of financial activities for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with the information in our Letter of Transmittal, which is found in the Introductory Section of this report.

OVERVIEW OF FINANCIAL STATEMENTS

Following the management's discussion and analysis are the basic financial statements. Reviewing these statements, along with the accompanying notes, gives the reader a better understanding of SERS' financial position. 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 future benefits and any liabilities that are owed as of the statement date. The *Statement of Changes in Plan Net Assets* presents 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 the plans. The *Notes to Financial Statements* supply additional information that is essential for a full understanding of the data provided in the financial statements. The notes describe the history and purpose of the plans; present information about accounting policies and significant account balances and activities; and disclose material risks, subsequent events, and contingent liabilities, if any, that may significantly impact SERS' financial position. In addition to the financial statements and notes, *Required Supplementary Information* (RSI) is provided. This supplementary information includes data on funding progress and employer contributions, along with other information useful in evaluating the financial condition of SERS. Following the RSI is other supplementary information, including schedules with detailed information on investment and administrative expenses.

FINANCIAL HIGHLIGHTS

All funds recorded increases in net assets, except the Health Care Fund.

- Total additions to plan net assets were $1.9 billion, comprised of contributions of $860 million and net investment gains of $1.1 billion.
- Total deductions from plan net assets for fiscal year 2010 totaled $1.1 billion, an increase of 6.5% over fiscal year 2009 deductions.
- The increase in plan net assets was $886.4 million compared to the $2.7 billion decrease in 2009.

Comparative Additions by Source FY2009 & 2010
(in millions)

FINANCIAL ANALYSIS

A cost-sharing defined benefit public retirement system, such as SERS, has a long-term perspective on financial activities. Pension benefits are funded on an actuarial basis, thus SERS does not use the current contributions from members and employers to pay the pensions of current retirees. Instead, contributions are invested in assets with the highest possible return at an acceptable level of risk that will provide for the lifetime pensions of retirees.

Additions SERS is comprised of

CONDENSED SUMMARY OF TOTAL PLAN NET ASSETS
(in millions)

			Change	
ASSETS	2010	2009	Amount	Percent
Cash	$ 552.6	$ 635.8	$ (83.2)	(13.1)%
Receivables	499.7	357.0	142.7	40.0
Investments	8,837.1	8,184.9	652.2	8.0
Capital Assets	45.6	47.3	(1.7)	(3.6)
Other Assets	0.1	0.1	-	-
Total Assets	9,935.1	9,225.1	710.0	7.7
LIABILITIES				
Benefits & Accounts Payable	12.7	14.4	(1.7)	(11.8)
Other Liabilities	525.4	700.1	(174.7)	(25.0)
Total Liabilities	538.1	714.5	(176.4)	(24.7)
Net Assets Held in Trust	$ 9,397.0	$ 8,510.6	$ 886.4	10.4%

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, a separate plan under Internal Revenue Code §415, is funded by contributions from the retiree's last employer and invested separately in a short-term investment fund. Funding for the health care program comes from employers, retiree premium payments, the federal government (Medicare Part D subsidy), and investment income. The graph on the next page labeled "Comparison of Additions to Plan Net Assets by Fund" depicts the proportion that each source added to the individual fund's assets during FY2010.

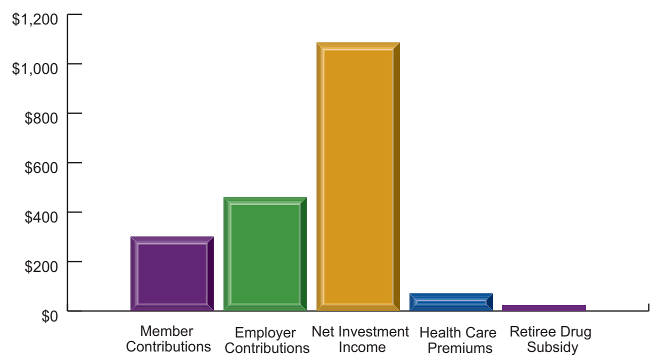
For financial statement purposes, employee contributions consist of 10% of payroll, and member purchases of restored and optional service credits. Employer contributions include 14% of payroll, the employer's share of optional and compulsory purchased service credit, early retirement incentives, and the health care surcharge. Combined employee and employer contributions increased 1.8%, yet active membership increased less than 1%. This small increase in active membership is consistent with increases in recent years. School employers in Ohio still rely heavily on property and school district income taxes for revenue; both have decreased as the unemployment rate and home foreclosures have soared. Tax levies for operations are routinely rejected by voters thus requiring school employers to make cuts in teaching and support positions to balance budgets.

Employer contributions to the Health Care Fund are derived from two sources. The first source is an allocation of the employers' 14% contribution after pension benefits are actuarially funded. This allocation decreased from 4.16% to .46% for FY2010 because FY2009 investment losses required that more of the employer contribution be allocated to basic benefits. The second is a health care surcharge for members who earn less than an actuarially determined minimum salary, which is established annually by the Board and did not change from the previous year. Regardless of the minimum compensation amount, legislated limits on SERS' surcharge revenue restrict the actual surcharge to 1.5% of statewide payroll, and no employer pays more than 2.0% of the district's payroll. This year, as it was last year, most employers paid 1.51% of payroll for the surcharge; only 52 of the 1,022 reporting employers paid less than 1.51%, or nothing at all. The health care surcharge decreased from $44.1 million in 2009 to $43.4 million in 2010.

In addition to employer contributions and investment income, additions to the Health Care Fund include health care premiums paid by retirees, which decreased 2.4% over the previous fiscal year. Enrollment declined 2.3% from 52,134 to 50,925. Decreases result when retirees and dependents become eligible for Medicare which reduces health care premiums, or when participation in the plan terminates. The other source of contributions to the Health Care Fund included $24.4 million in FY2010 from the federal government's Medicare Part D subsidy program, an increase of 3.8% over the previous year.

Investment income is allocated, in accordance with the actuary's recommendation, to all funds except the QEBA. The economy rebounded in FY2010, thus SERS' portfolio yielded investment income of

Additions to Plan Net Assets
(in millions)

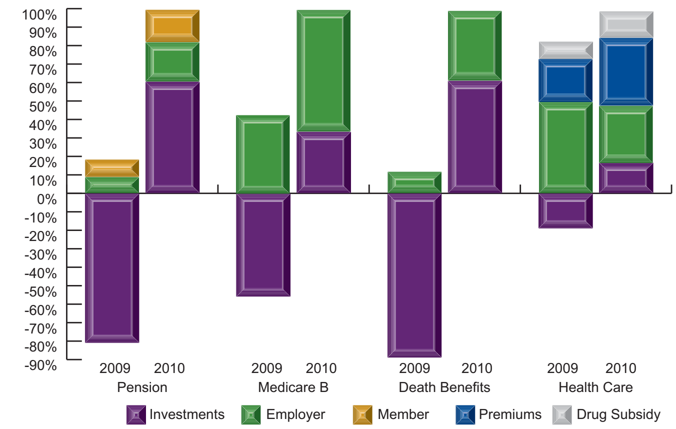


CONDENSED SUMMARY OF CHANGES IN TOTAL PLAN NET ASSETS
(in millions)

			Change	
ADDITIONS	2010	2009	Amount	Percent
Contributions	$ 860.4	$ 847.6	$ 12.8	1.5%
Net Investment Income (Loss)	1,087.5	(2,526.4)	3,613.9	143.0
Total Additions	1,947.9	(1,678.8)	3,626.7	216.0
DEDUCTIONS				
Benefits	999.0	938.9	60.1	6.4
Refunds & Transfers	42.3	37.4	4.9	13.1
Admin. Expenses	20.2	20.5	(0.3)	(1.5)
Total Deductions	1,061.5	996.8	64.7	6.5
Net Increase (Decrease)	886.4	(2,675.6)	3,562.0	133.1
Balance, Beginning of Year	8,510.6	11,186.2	(2,675.6)	(23.9)
Balance, End of Year	$ 9,397.0	$ 8,510.6	$ 886.4	10.4%

$1.1 billion. Investment net income is presented net of investment fees and is comprised of interest, dividends, and realized and unrealized investment gains and losses. Income from interest and dividends decreased $41.1 million to $226.5 million in FY2010 as interest rates remained low and quarterly dividends were cut. SERS' investment portfolio, with the exception of cash and short-term investments, is handled by external investment managers whose fees are based on asset performance. Therefore, total investment expenses increased 14.5% from $65.7 million in FY2009 to $75.2 million in FY2010. More information on investment results can be found in the Investment Section.

Comparison of Additions to Plan Net Assets by Fund

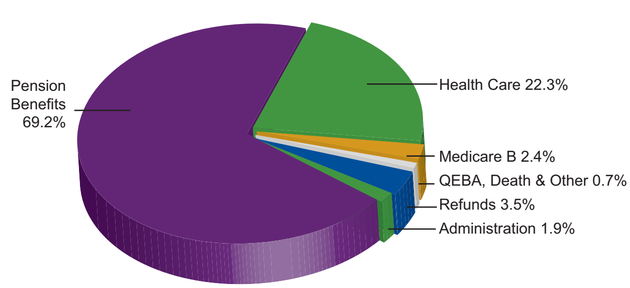


Deductions Expenses are incurred primarily for the purpose for which SERS was created: the payment of benefits to non-teaching Ohio public and charter school employees. Included in the deductions from plan assets were benefit payments, refunds of contributions due to member terminations or deaths, net transfers to other Ohio retirement 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 $37.9 million, or 5.5%. Retirees receive an annual 3% cost-of-living allowance on the anniversary of their retirement date which makes up approximately half of the increase. However, this increase was smaller than in past years, as the net increase in retirees was 370, compared to the net increase in FY2009 of 939 retirees. The decrease can be attributed to health care changes in previous years which caused some members to retire early due to less restrictive eligibility, and members working longer to recover savings lost in the market decline that had been intended to supplement or enhance their SERS pensions.

Total refunds paid increased 8.6% from 2009 to 2010. Upon application, lump sums are disbursed to members who have terminated public employment as well as to the beneficiaries of deceased members. Net transfers to other Ohio retirement systems increased 57.7%. If a member has been employed in a job covered by the State Teachers Retirement System of Ohio (STRS) or the Ohio Public Employees Retirement System (OPERS) as well as in a job covered by SERS, the member may combine the service credit and accounts in all the systems to receive one benefit. The system with the greatest service credit will be the system that will calculate and pay the benefit. Generally, a member will have a career position with OPERS or STRS, thus SERS transfers more monies to those systems than is received.

Deductions from Plan Net Assets

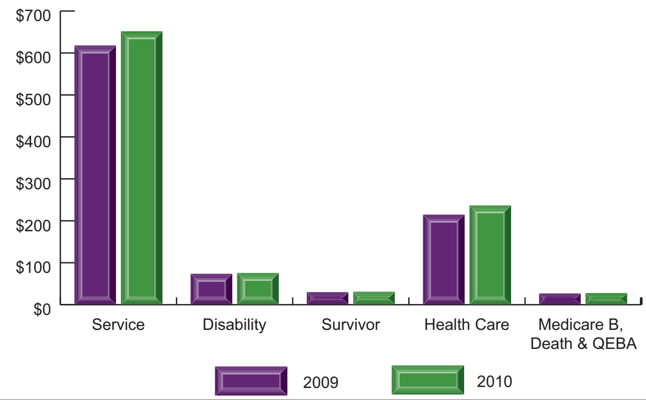


SERS reimburses a portion of the Medicare Part B premium to retirees eligible for SERS' health care program who provide proof of enrollment in Part B. The amount of Medicare Part B reimbursement is established by statute. For calendar year 2010, SERS reimbursed $45.50 of the $96.40 monthly Part B premium. Medicare Part B expense increased $244,000 or 1.0% in fiscal year 2010. The reimbursement amount has not changed since 2001; therefore, changes in this amount are driven by retirees' eligibility for Medicare Part B or termination of a benefit.

SERS pays a $1,000 death benefit to the designated beneficiary of service and disability retirees. Death benefit payments increased $456,000 or 25.6% in FY2010. Annual death benefit payments are susceptible to the timing of reporting and processing.

The majority of retirees are enrolled in Medicare Advantage plans, however SERS maintains a traditional, self-insured Preferred Provider Organization (PPO) plan for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care expense increased $21.5 million to $236.9 million, a 10.0% increase. More than two-thirds of this increase was in the prescription drug program, the result of increased usage (number of prescriptions filled per person) and an increase in the average cost per prescription. The Board has adopted increases in plan co-pays, deductibles, premiums, and other plan changes effective January 2011 which will stabilize the Health Care Fund for the short-term; however, current projections indicate that its funds will run out in FY2018. We continue to seek solutions that preserve access to health care coverage for current and future retirees, but health care is not mandated by statute. Funding sources are limited to those noted earlier in this analysis.

Comparative Benefit Payments
FY2009 & 2010
(in millions)



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 directed to:

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

Statement of Plan Net Assets as of June 30, 2010

	Pension Trust Fund	Medicare B Fund	Death Benefit Fund
ASSETS			
Cash & Operating Short Term Investments	$ 520,059,015	$ 4,157,833	$ 1,174,622
Receivables			
Contributions			
Employer	156,717,541	9,373,471	493,212
Employee	14,831,705	-	-
Investments Receivable	247,688,263	2,655,204	480,802
Other Receivables	843,878	-	-
Total Receivables	420,081,387	12,028,675	974,014
Investments at Fair Value			
US Equity	2,613,263,056	28,012,331	5,072,091
Non-US Equity	2,273,807,900	24,373,612	4,413,242
Private Equity	799,851,300	8,573,840	1,552,434
Fixed Income	1,799,359,006	19,287,856	3,492,382
Real Estate	797,569,899	8,549,385	1,548,006
Total Investments at Fair Value	8,283,851,161	88,797,024	16,078,155
Securities Lending Collateral	190,117,683	2,037,927	369,000
Capital Assets			
Land	3,315,670	-	-
Property & Equipment, at Cost	60,481,742	-	-
Accumulated Depreciation and Amortization	(18,206,615)	-	-
Total Capital Assets	45,590,797	-	-
Prepaids and Other Assets	65,219	-	-
TOTAL ASSETS	9,459,765,262	107,021,459	18,595,791
LIABILITIES			
Accounts Payable & Accrued Expenses	1,925,225	51,209	1,546
Benefits Payable	638,573	56,011	562,272
Investments Payable	313,631,582	3,361,909	608,729
Obligations under Securities Lending	190,206,394	2,038,878	369,172
TOTAL LIABILITIES	506,401,774	5,508,007	1,541,719
NET ASSETS HELD IN TRUST FOR PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS	$ 8,953,363,488	$ 101,513,452	$ 17,054,072

See accompanying notes to the financial statements.

QEBA Fund	Health Care Fund	TOTAL
$ 88,502	$ 27,125,171	$ 552,605,143
-	50,550,458	217,134,682
-	-	14,831,705
20	7,481,077	258,305,366
-	8,616,563	9,460,441
20	66,648,098	499,732,194
-	78,919,116	2,725,266,594
-	68,667,756	2,371,262,510
-	24,155,072	834,132,646
-	54,339,658	1,876,478,902
-	24,086,175	831,753,465
-	250,167,777	8,638,894,117
-	5,741,450	198,266,060
-	-	3,315,670
-	-	60,481,742
-	-	(18,206,615)
-	-	45,590,797
-	-	65,219
88,522	349,682,496	9,935,153,530
1,393	9,462,696	11,442,069
-	-	1,256,856
-	9,471,502	327,073,722
-	5,744,129	198,358,573
1,393	24,678,327	538,131,220
$ 87,129	$ 325,004,169	$ 9,397,022,310

FINANCIAL SECTION

Statement of Changes in Plan Net Assets for the year ended June 30, 2010

	Pension Trust Fund	Medicare B Fund	Death Benefit Fund
ADDITIONS			
Contributions			
Employer	$ 378,201,685	$ 22,619,935	$ 1,225,772
Employee	301,649,643	-	-
Other Income			
Health Care Premiums	-	-	-
Retiree Drug Subsidy	-	-	-
	679,851,328	22,619,935	1,225,772
Income from Investment Activity			
Net Appreciation in Fair Value	859,242,577	9,354,054	1,756,112
Interest and Dividends	217,116,896	2,362,271	443,537
	1,076,359,473	11,716,325	2,199,649
Investment Expenses	(72,110,421)	(784,638)	(146,957)
Net Income from Investment Activity	1,004,249,052	10,931,687	2,052,692
Income from Securities Lending Activity			
Gross Income	38,582,024	419,779	78,817
Brokers' Rebates	86,769	944	177
Management Fees	(374,863)	(4,079)	(766)
Net Income from Securities Lending Activity	38,293,930	416,644	78,228
Net Investment Income	1,042,542,982	11,348,331	2,130,920
TOTAL ADDITIONS	1,722,394,310	33,968,266	3,356,692
DEDUCTIONS			
Benefits			
Retirement	629,474,136	23,024,413	-
Disability	74,632,571	1,364,728	-
Survivor	29,973,530	1,305,213	-
Death	-	-	2,236,215
Health Care Expenses	-	-	-
	734,080,237	25,694,354	2,236,215
Refunds and Lump Sum Payments	37,159,685	-	-
Net Transfers to Other Ohio Systems	5,085,923	-	-
Administrative Expenses	17,594,183	4,111	40,872
	59,839,791	4,111	40,872
TOTAL DEDUCTIONS	793,920,028	25,698,465	2,277,087
Net Increase (Decrease)	928,474,282	8,269,801	1,079,605
NET ASSETS HELD IN TRUST FOR PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS			
Balance, Beginning of Year	8,024,889,206	93,243,651	15,974,467
Balance, End of Year	$ 8,953,363,488	$ 101,513,452	$ 17,054,072

See accompanying notes to the financial statements.

QEBA Fund	Health Care Fund	TOTAL
$ 133,164	$ 60,142,014	$ 462,322,570
-	-	301,649,643
-	72,034,549	72,034,549
-	24,414,855	24,414,855
133,164	156,591,418	860,421,617
231	25,958,110	896,311,084
-	6,535,077	226,457,781
231	32,493,187	1,122,768,865
-	(2,173,066)	(75,215,082)
231	30,320,121	1,047,553,783
-	1,161,294	40,241,914
-	2,612	90,502
-	(11,283)	(390,991)
-	1,152,623	39,941,425
231	31,472,744	1,087,495,208
133,395	188,064,162	1,947,916,825
119,458	-	652,618,007
-	-	75,997,299
-	-	31,278,743
-	-	2,236,215
-	236,915,618	236,915,618
119,458	236,915,618	999,045,882
-	-	37,159,685
-	-	5,085,923
1,393	2,603,597	20,244,156
1,393	2,603,597	62,489,764
120,851	239,519,215	1,061,535,646
12,544	(51,455,053)	886,381,179
74,585	376,459,222	8,510,641,131
$ 87,129	$ 325,004,169	$ 9,397,022,310

FINANCIAL SECTION

Notes to Financial Statements
June 30, 2010

1. Summary of Significant Accounting Policies

Basis of Accounting The financial statements of the School Employees Retirement System of Ohio (SERS) 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. Certain SERS investment assets, in particular global real estate and global private equity, use estimates in reporting fair value in the financial statements. These estimates are subject to a certain amount of uncertainty in the near term, which could result in changes in the values reported for those assets in the Statement of Plan Net Assets.

Employer Contributions Receivable SERS recognizes long-term receivables from some employers whose contributions are deducted from the money paid to them through the School Foundation Program, administered by the Ohio Department of Education. Collection of those contributions has transitioned from a calendar year basis, six months in arrears, to a fiscal year basis. Employers may spread this six-month catch-up of the arrearage evenly over a six-year period beginning July 2010.

Health Care Expenses Incurred and Unpaid Amounts accrued for health care expenses payable for recipients less than age 65 and for all prescription drug payments 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 Benefit, and Health Care Funds, in proportion to their use of the assets.

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.

Investments are reported at fair value. Fair value is the amount reasonably expected to be received for an investment in a current sale between a willing buyer and a willing seller. Fixed income securities, real estate investment trusts (REIT), derivatives, 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 currency. Short-term securities are valued at amortized cost, which approximates fair value. Investments for which no national exchanges or pricing services exist, such as private equity assets, are valued at fair value by the respective manager. Real estate may be valued by the manager or independent appraisers. SERS performs due diligence reviews of the investment pricing, process, and infrastructure of these assets to assure that the asset values provided by the managers are reasonable.

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 expenses consist 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, 2010 was $1,149.908. The unit holdings and net value of each of the funds at the close of the fiscal year were:

	Units	Value
Pension Trust Fund	7,546,148.38	$8,677,373,571
Medicare B Fund	80,889.37	93,015,307
Death Benefits Fund	14,646.35	16,841,944
Health Care Fund	227,889.56	262,051,939
Total	7,869,573.66	**$9,049,282,761**

Office Building, Equipment, and Fixtures (Non-Investment Assets) The cost of equipment and fixtures in excess of $5,000, and the office building 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 and amortization has been provided using the straight-line method over the following useful lives:

Description	**Estimated Lives (years)**
Furniture, equipment, and software	3-7
Building and improvements	40

Reserves Ohio Revised Code Section 3309.60 establishes various reserves to account for future and current benefit payments. The state statute gives 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 another account other than the Guarantee Account or Expense 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 Account, Employers' Trust Account, and Guarantee Account 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 Account, Employers' Trust Account, and Guarantee Account in an amount to fund all liabilities at the end of each year.
- **The Guarantee Account** Income derived from the investment pool and any gifts or bequests are accumulated in this account. The balance in this account is transferred to other reserve accounts to aid in the funding of future benefit payments and administrative expenses.
- **The Expense Account** This account provides for the payment of administrative expenses with the necessary money allocated to it from the Guarantee Account.

RESERVE ACCOUNT BALANCES AS OF JUNE 30, 2010

	Pension Trust Fund	Medicare B Fund	Death Benefit Fund	QEBA Fund	Health Care Fund	**Reserve Account Totals**
Employees' Svgs Acct.	$ 2,783,947,124	$ –	$ –	$ –	$ –	$ 2,783,947,124
Employers' Trust Acct.	(1,506,650,248)	–	–	–	325,004,169	(1,181,646,079)
Annuity and Pension Reserve Acct.	7,362,150,766	101,513,452	17,054,072	87,129	–	7,480,805,419
Survivors' Benefit Acct.	313,915,846	–	–	–	–	313,915,846
Guarantee Acct.	–	–	–	–	–	–
Expense Acct.	–	–	–	–	–	–
Fund Totals	**$ 8,953,363,488**	**$101,513,452**	**$ 17,054,072**	**$ 87,129**	**$ 325,004,169**	**$ 9,397,022,310**

2. Description of the System

Organization SERS is a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system. Established by state law in 1937, SERS provides retirement, disability, and survivor benefits to non-teaching employees of Ohio's public, vocational, technical, and community schools, community colleges, and The University of Akron.

The Retirement Board is responsible for the general administration and management of the retirement system. As of June 30, 2010, the Board is composed of nine members: four elected employee members; two elected retiree members; and three appointed investment expert members. One investment expert is appointed by the Governor, a second one by the State Treasurer, and the third one jointly by the Speaker of the House and President of the Senate of the General Assembly.

Several separate plans comprise the retirement system. The Pension Trust Fund, the Medicare B Fund, the Death Benefit Fund, and the Qualified Excess Benefit Arrangement (QEBA) Fund are classified as pension plans for federal tax purposes. The Pension Trust Fund holds the funds to pay the basic retirement, disability and survivor benefits authorized under state law, Ohio Revised Code (ORC) Chapter 3309. The Medicare B Fund reimburses a portion of the Medicare Part B premiums paid by eligible benefit recipients as permitted under ORC Section 3309.69. The current reimbursement is $45.50 per month. The Death Benefit Fund pays $1,000 to a designated beneficiary of a deceased retiree or disability benefit recipient as allowed under ORC Section 3309.50. The QEBA Fund pays benefits as allowed by federal tax law to retirees whose SERS benefits exceed Internal Revenue Code (IRC) 415(b) limits. A fifth plan, the Health Care Fund, provides money for payment of health care expenses under SERS health care coverage for retirees and other benefit recipients.

Pension Benefits A member who became covered by the retirement system before May 14, 2008, is eligible to retire under Tier 1 if the member has:

- Five (5) years of service credit and is at least 60 years old;
- 25 years of service credit and is at least 55 years old; or
- 30 years of service credit irrespective of age.

A member who is covered by SERS on or after May 14, 2008, is eligible to retire under Tier 2 if the member has:

- 10 years of service credit and is at least 62 years old;
- 25 years of service credit and is at least 60 years old; or
- 30 years of service credit and is at least 55 years old.

EMPLOYER AND EMPLOYEE MEMBERSHIP DATA (as of June 30, 2010)

Employer Members	
Local	374
City	192
Educational Service Center	57
Village	49
Higher Education	15
Vocational/Technical	49
Community Schools	265
Other	9
Total	1,010
Employee Members and Retirees	
Retirees and beneficiaries currently receiving benefits	66,127
Terminated employees entitled to but not yet receiving benefits	12,270
Total	78,397
Active Employees	
Vested active employees	78,296
Non-vested active employees	47,719
Total	126,015

The formula used in calculating an annual retirement benefit is as follows: number of years of service credit up to 30 years x 2.2% of the member's final average salary (FAS) + number of years of service credit over 30 years x 2.5% of FAS. If the member is under 65 or has less than 30 years of credit at the time of retirement, the annual benefit is reduced to cover a longer period of retirement.

If a member has been employed in a job covered by the State Teachers Retirement System of Ohio (STRS) or the Ohio Public Employees Retirement System (OPERS) as well as in a job covered by SERS, at retirement the member may receive a retirement benefit independently from each of the systems if eligible, or may combine the service credit and accounts in all the systems to receive one benefit. The system with the greatest service credit will be the system that will calculate and pay the benefit. While the salaries in one year will be added together, if the member has service credit in each system for the same year, the member can not be credited with more than one year of service credit for each 12 months in a year.

If the retiree returns to a SERS-covered position, then employee and employer contributions are required for the new position. The retiree accrues a new benefit in the form of an annuity based on the contributions paid by the retiree and the employer payable at age 65 or termination of employment, whichever is later. This is separate from the original SERS benefit. There are no other benefits available and the retiree does not accrue any additional service credit for the period of reemployment. Prior to age 65 and after termination of employment, a reemployed retiree may request a refund of the employee contributions for the reemployed period.

Disability benefits are available if the member:

- Has at least five (5) years of total service credit
- Files an application no later than two (2) years from the date that contributing service stopped
- Is permanently disabled, either physically or mentally, for work in the SERS-covered position, as determined by a physician appointed by SERS
- Became disabled after becoming a SERS member
- Did not receive a refund of the member's contributions
- Does not receive a service retirement benefit

If a member dies while working, before the member begins receiving a monthly service retirement benefit, or while receiving a disability benefit, the member's qualified survivors may be entitled to monthly benefits.

More information on these benefits may be found in the Plan Summary.

Health Care SERS offers medical and prescription health care coverage to qualifying benefit recipients. This coverage is discretionary under state retirement law. The retirement system is permitted, and reserves the right, to change or discontinue any health care plan or program at any time. The program is funded by employer contributions, benefit recipient premium payments, Medicare Part D subsidy, 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 FY2010, the amount of employer contributions directed to the Health Care Fund was 0.46% of covered payroll or $16.7 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 during the year. Statutes provide that no employer shall pay a health care surcharge greater than 2.0% 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 FY2010, the minimum compensation level was established at $35,800. The surcharge accrued for FY2010 and included in employer contributions in the *Statement of Changes in Plan Net Assets* is $43.4 million.

3. Contributions

State retirement law requires contributions by covered employees and their employers, and limits the maximum rate of contributions. The Retirement Board sets contribution rates within the allowable limits. The adequacy of employer contribution rates is determined annually by actuarial valuation using the entry age normal cost method. During FY2010, employees and their employers were required to contribute 10% and 14%, respectively, of active member payroll.

Employer and employee contributions were $416.9 million and $297.6 million, respectively, in 2010. The contribution amounts in the financial statements also include employee contributions for purchased service credit.

The Retirement Board, acting with the advice of the actuary, allocates the current employer contribution rate among the plans of the System. For FY2010, the allocation of the employer contribution rate to pension plan benefits was established as the rate necessary to cover normal cost and amortize the unfunded accrued liability. Of the 14% contribution rate paid by employers, 13.54% was allocated to the pension plans in the following rates:

Pension Trust Fund	12.74%
Medicare B Fund	.76%
Death Benefit Fund	.04%

The remaining .46% of the 14% employer contribution rate was allocated to the Health Care Fund.

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. In accordance with state law, the Board of Deposit designates SERS' depository bank, and the Treasurer of State 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, 2010, the carrying amounts of SERS' operating and investment cash deposits totaled $73,344,196, and the corresponding bank balances totaled $16,359,651. Of the bank balances, the Federal Deposit Insurance Corporation insured $180,595. Included in the insured amount was $157,397 which was collateralized at 102% with securities held in the name of SERS' pledging financial institutions. The remaining bank deposits of $16,179,050 were uninsured and 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. State law provides that the Treasurer of State is SERS' custodian. Therefore, SERS does not have a policy for investment custodial credit risk.

Credit Risk Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. ORC 3309.15 and the Board's "Statement of Investment Policy" (adopted February 2009) direct that the funds of SERS 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.

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. SERS does not hold investments representing 5% or more of plan net assets in any one organization.

Interest Rate Risk Interest rate risk is the risk that changes in interest rates will adversely affect the fair

INVESTMENTS AND SHORT-TERM HOLDINGS

	Fair Value *(in thousands)*
Commingled - Bonds	$ 59,436
Commingled - Non-US Equity	595,550
Currency Contract	(3,076)
Foreign Warrants, Rights & Vouchers	2,682
Futures	179
Hedge Funds	772,829
Mortgage and Asset Backed	161,476
Mutual Fund - Money Market	280,712
Non-US Bonds	239,592
Non-US Common and Preferred	1,711,191
Private Equity	834,133
Private Real Estate	750,657
Real Estate Investment Trusts	67,471
Swaps	(1,575)
US Agency	445,782
US Common & Preferred	1,833,594
US Corporate Bonds	648,549
US Government	322,353
Securities on Loan:	
Commingled - Non-US Equity	$ 1,913
Non-US Common and Preferred	60,612
Real Estate Investment Trusts	13,625
US Common & Preferred	118,844
Total Investments Fair Value	**$ 8,916,529**
Securities Lending Collateral Pool	**$ 198,266**

FAIR VALUE SUBJECT TO CREDIT RISK

	S&P Credit Quality Rating	***Fair Value*** *(in thousands)*
US Corporate Obligations	AAA	$ 13,297
	AA	35,886
	A	182,676
	BBB	233,692
	BB	88,561
	B	61,177
	CCC	28,829
	Not rated	4,431
Total		$ 648,549
Mortgage and Asset Backed	AAA	62,310
	AA	18,197
	A	22,304
	BBB	7,610
	BB	10,210
	B	18,119
	CCC	12,735
	CC	3,703
	Not rated	6,288
Total		$ 161,476
Foreign Obligations	AAA	77,654
	AA	23,938
	A	36,793
	BBB	74,568
	BB	13,780
	B	3,362
	C	578
	Not rated	8,919
Total		$ 239,592
Commingled - Bonds	AA	6,765
	BBB	6,419
	B	46,252
Total		$ 59,436
US Government	AAA	322,353
US Agency	AAA	445,782
Mutual Fund - Money Market	AAA	280,712
Total Debt Securities		**$2,157,900**

value of an investment. SERS does not have a policy for managing interest rate risk.

At June 30, 2010, SERS held interest-only strips that had a total fair value of $1,204,531. 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. SERS also held principal-only strips that had a total fair value of $18,863,422. These principal-only strips are sensitive to interest rate increases that may result in decreasing mortgage prepayments, thus increasing the average maturity of this investment.

FAIR VALUE SUBJECT TO INTEREST RATE RISK

Investment	*Fair Value (in thousands)*	Option Adjusted Duration (in years)
US Agency	$ 445,782	2.34
US Corporate Obligations	648,549	5.16
Commingled - Bonds	59,436	3.37
US Government	322,353	4.68
Foreign Obligations	239,592	5.01
Mortgage and Asset Backed	161,476	2.43
Mutual Fund - Money Market	280,712	N/A*
Total Debt Securities	**$ 2,157,900**	**3.38**

*Not available from our custodial banks, but impact would be immaterial.

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

FAIR VALUE SUBJECT TO FOREIGN CURRENCY RISK *(in thousands)*

Currency	Cash & Cash Equivalents	Fixed Income	Non-US Equities	Real Estate	Private Equity
Australian Dollar	($ 42,364)	$ 11,762	$ 71,696	$ –	$ –
Brazilian Real	(3,237)	15,533	56,896	–	–
British Pound Sterling	(171,299)	–	260,642	9,305	–
Bulgarian Lev	–	–	289	–	–
Canadian Dollar	(55,041)	27,067	59,899	–	–
Czech Koruna	3	–	616	–	–
Danish Krone	(7,275)	–	19,355	–	–
Euro	(267,230)	5,067	350,432	46,408	33,326
Hong Kong Dollar	(28,905)	–	114,547	–	–
Hungarian Forint	17	–	2,425	–	–
Indian Rupee	3	8,468	23,138	–	–
Indonesian Rupiah	(2,279)	8,085	8,886	–	–
Israeli Shekel	(3,600)	–	4,289	–	–
Japanese Yen	(165,429)	–	293,456	–	–
Malaysian Ringgit	1,430	1,678	12,953	–	–
Mexican Peso	5,411	9,830	14,644	–	–
New Zealand Dollar	(970)	4,999	1,128	–	–
Norwegian Krone	(4,072)	–	8,279	–	–
Pakistan Rupee	–	–	1,707	–	–
Philippines Peso	6	–	460	–	–
Polish Zloty	288	–	4,395	–	–
Romanian Leu	3	–	–	–	–
Russian Ruble	–	–	2,424	–	–
Singapore Dollar	(11,675)	–	33,081	–	–
South African Rand	1,186	–	38,732	–	–
South Korean Won	2,074	9,593	63,709	–	–
Swedish Krona	(22,276)	–	32,784	–	–
Swiss Franc	(41,121)	–	86,170	–	–
Taiwan Dollar	1,121	–	42,514	–	–
Thailand Baht	76	–	9,088	–	–
Turkish Lira	755	–	41,375	–	–
Ukraine Hryvana	–	–	9	–	–
	($814,400)	**$102,082**	**$1,660,018**	**$55,713**	**$33,326**

FINANCIAL SECTION

FUTURES CONTRACTS
As of June 30, 2010 and 2009 *(in thousands)*

Contract Type	Number of Contracts 2010	Number of Contracts 2009	Notional Value 2010	Notional Value 2009	Contract Value 2010	Contract Value 2009
Equity Index Futures Long	5,353	1,093	$ 310,490	$ 71,649	$310,490	$ 71,649
Equity Index Futures Short	(110)	(188)	(3,460)	(6,323)	(3,460)	(6,323)
Eurodollar Futures Long	70	124	17,385	30,719	17,385	30,719
Eurodollar Futures Short	(455)	(223)	(112,640)	(54,946)	(112,640)	(54,946)
US Treasury Futures Long	1,366	1,571	203,857	213,390	203,857	213,390
US Treasury Futures Short	(605)	(587)	(76,633)	(68,453)	(76,633)	(68,453)

FAIR VALUE OF FORWARD CURRENCY AND HEDGED CONTRACTS
As of June 30, 2010 and 2009 *(in thousands)*

	2010	2009
Forward Currency Purchases	$ 499,429	$ 399,032
Forward Currency Sales	1,213,048	1,018,323
Unrealized gain (loss)	(3,076)	(11,926)

OPTIONS CONTRACTS
As of June 30, 2010

Contract Type	Number of Contracts	Notional Value *(in thousands)*
Currency Written Put Options	146	$ 146,000
Currency Written Call Options	25	25,000
Fixed Income Purchased Call Options	208	208,000
Fixed Income Written Put Option	10	10,000

SWAP CONTRACTS
As of June 30, 2010 and 2009 *(in thousands)*

Contract Type	Notional Value 2010	Notional Value 2009	Fair Value 2010	Fair Value 2009
Credit Default	$ 18,811	$ 103,801	($2,069)	($19,819)
Interest Rate	115,781	119,369	494	2,495

Derivatives Derivatives are 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. SERS is exposed to various types of credit, market, and legal risks related to these investments. The investment staff continually monitors these types of investments.

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 since 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.

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 equity and fixed income futures during the fiscal year to rebalance its asset allocation and overlay its cash exposure in the US and Non-US equity portfolios. Only the most liquid futures are used by SERS to overlay the temporary and transactional cash held, and to rebalance asset allocations between asset classes.

Options give buyers the right, but not the obligation, to buy or sell an asset at a predetermined strike price over a specified period. The option premium is usually a small percentage of the underlying asset's value. When writing an option, SERS receives a premium up front and bears the risk of an unfavorable change in the price of the underlying asset during the option's life. When SERS purchases an option, it pays a premium to a counterparty who bears the risk of an unfavorable change in the price of the underlying asset during the option's life.

Swaps represent an agreement between two or more parties to exchange a sequence of cash flows during a predetermined timeframe. SERS utilizes swaps for several different reasons: to manage interest rate fluctuations, default by a borrower, and to gain market exposure without having to actually own the asset.

During the year ended June 30, 2010, SERS adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* GASB 53 was issued to address the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

Securities Lending SERS participates in two securities lending programs.

One program directly holds equity and REIT investments using Goldman Sachs Agency Lending (GSAL) as a third-party lending agent. The other program directly holds fixed income investments using Wachovia 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 in the securities lending program. Total net proceeds from GSAL and Wachovia were $1,276,813 and $237,038, respectively, during FY2010.

At June 30, 2010, SERS had credit risk exposure on the securities lending collateral because the collateral was less than the value of the securities loaned. Securities on loan at year-end totaled $198,358,573 and total collateral held for those securities was $198,266,060. 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, result in the gross earnings from lending activities, which is then split on a 85/15% basis with GSAL and Wachovia. 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, 2010, the GSAL collateral portfolio had an average weighted maturity of one day. The Wachovia collateral portfolio had an average weighted maturity of 21 days. 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 was $176,702 during FY2010.

Commitments As of June 30, 2010, unfunded commitments related to the real estate and private equity investment portfolios totaled $1.1 billion.

5. Capital Assets (Non-Investment Assets)

In June 2007, the Governmental Accounting Standards Board issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* GASB 51 states that intangible assets are subject to all the accounting and financial reporting requirements applicable to other types of capital assets. GASB 51 also offers specialized guidance on certain unique aspects of accounting and financial reporting for intangibles. There was no impact on the accompanying financial statements as a result of SERS adopting GASB 51 during the year ended June 30, 2010. Intangible assets, such as internally-developed software, will be capitalized in accordance with GASB 51.

CAPITAL ASSETS ACTIVITY for the year ended June 30, 2010

Cost:	Land	Office Building & Improvements	Furniture & Equipment	Total Capital Assets
Balances, June 30, 2009	$3,315,670	$53,042,629	$7,380,685	$63,738,984
Additions	–	–	64,218	64,218
Disposals	–	–	(5,790)	(5,790)
Balances, June 30, 2010	3,315,670	53,042,629	7,439,113	63,797,412
Accumulated Depreciation and Amortization:				
Balances, June 30, 2009	–	9,859,455	6,603,589	16,463,044
Additions	–	1,339,360	410,001	1,749,361
Disposals	–	–	(5,790)	(5,790)
Balances, June 30, 2010	–	11,198,815	7,007,800	18,206,615
Net Capital Assets, June 30, 2010	**$3,315,670**	**$41,843,814**	**$ 431,313**	**$45,590,797**

6. Pension Plan

For its employees, SERS contributes to OPERS, a cost-sharing, multiple-employer public retirement system comprised of three separate plans: the Traditional Plan (defined benefit plan); the Combined Plan (combination of defined benefit and defined contribution plans); and, the Member Directed Plan (defined contribution plan). OPERS provides retirement, disability, and survivor benefits for public employees of Ohio. OPERS issues a publicly available financial report for the plans. The report may be obtained by writing OPERS, 277 E. Town St., Columbus, OH 43215 or by visiting OPERS website: www.OPERS.org/investments/cafr.shtml.

Employees covered by OPERS were required to contribute 10% of their salary to the plan and employers were required to contribute 14%. Both rates are at the statutory maximum.

OPERS also provides postemployment health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees who are enrolled in either the Traditional or Combined Plans. Health care coverage for disability recipients is also available. The health care coverage provided by the retirement system is considered an other post-employment benefit (OPEB) as described in GASB Statement 45.

A portion of each employer's contribution to OPERS is set aside for the funding of postemployment health care. The portion of the employer rate set aside for postemployment health care was 5.5% of covered member payroll from July 1 through December 31, 2009 and was decreased to 5% for the remainder of the fiscal year.

The annual required pension and health care contributions for SERS' employees for the current year, and the two preceding years are shown in the chart to the right.

ANNUAL REQUIRED PENSION AND HEALTH CARE CONTRIBUTIONS TO OPERS FOR SERS EMPLOYEES

	Pension		Health Care	
Year Ended June 30	Annual Required Contribution	Percent Contributed	Annual Required Contribution	Percent Contributed
2010	$946,525	100%	$569,555	100%
2009	771,989	100	771,988	100
2008	780,230	100	679,802	100

7. Compensated Absences

As of June 30, 2010 and 2009, $1,585,439, and $1,749,259, respectively, were accrued for unused vacation and sick leave for SERS employees. The corresponding long-term portion of these liabilities is estimated at $708,047 and $670,160. The net decrease of $163,820 from June 30, 2009 included increases of $980,506 from earned vacation and decreases of $1,144,326 from usage of vacation and sick leave. 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 of SERS

SERS is self-insured for employee benefits for dental, medical, and hospitalization. A third-party administrator manages 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 a qualified plan under Internal Revenue Code (IRC) Section 401(a) 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 Section 101(a). The QEBA Fund is a qualified entity, created in accordance with IRC Section 415(b). 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, including theft or destruction of assets, general liability, employee injuries, and legal challenges to fiduciary decisions. SERS self-insures some risks through deductibles and retention, and purchases insurance for the remainder. For the past three years, there has been no reduction in coverage, and no claims have exceeded purchased limits.

11. Contingent Liabilities

On February 1, 2006, a Petition for Damages (*Timothy Ivan Usry et al. v. Baha Towers Limited Partnership et al)* was filed against multiple defendants, including the SERS Retirement Board, in the Civil District Court for the Parish of Orleans, State of Louisiana. For a period of time from 1991-2004 the plaintiff worked on the premises of Plaza Tower in New Orleans. SERS owned Plaza Tower from 1987 through September 1993. The plaintiff claimed that during his employment in Plaza Tower he was exposed to high levels of toxic substances, including asbestos and mold, and that as a result of this exposure he contracted mesothelioma. SERS filed its answer on May 26, 2006; discovery began November 2006 and is ongoing.

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. Funded Status and Funding Progress

The funded status of the Pension Trust, Medicare B, Death Benefit, and Health Care Funds as of June 30, 2010, the most recent actuarial valuation date is as follows:

FUNDED STATUS OF THE PENSION, DEATH BENEFIT, MEDICARE B, AND HEALTH CARE FUNDS *(in millions)*

Fund	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
Pension and Death Benefit	$14,855	$10,787	$4,068	72.6%	$2,843	143.1%
Medicare B	367	122	245	33.2	2,843	8.6
Health Care	2,369	325	2,044	13.7	2,843	71.9

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include trends and assumptions about future employment, mortality, and health care costs. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future. The *Schedules of Funding Progress* present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. These schedules are presented in the *Required Supplementary Information* section.

The accompanying *Schedules of Employer Contributions* present trend information about the amounts contributed to the plan by employers in comparison to the Annual Required Contributions (ARC). The ARC is actuarially determined using the parameters of GASB Statement 43 and the assumptions adopted by the Retirement Board. The ARC represents a projected rate (cost) required on an ongoing basis to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Several of the key methods and assumptions used in the latest actuarial valuation are presented below.

KEY METHODS AND ASSUMPTIONS USED IN ACTUARIAL VALUATIONS

Actuarial Information	Pension & Death Benefit	Medicare B	Health Care
Valuation date	June 30, 2010	June 30, 2010	June 30, 2010
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent closed	Level percent closed	Level percent open
Remaining amortization period	29 years	29 years	30 years
Assets valuation method	4-year smoothed market	4-year smoothed market	Market value of assets
Actuarial Assumptions:			
Investment rate of return compounded annually	8.0%	8.0%	5.25%
Health Care cost trend rate	N/A	N/A	9.5% initial, 5.0% ultimate

As disclosed previously, health care benefits are not guaranteed and are subject to change at any time. The health care valuation and projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members), and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of the benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Required Supplementary Information

Schedule of Funding Progress *(in millions)*
Pension and Postretirement Death Benefits, combined

Valuation Date June 30	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
2010	$14,855	$10,787	$4,068	72.6%	$2,843	143.1%
2009	14,221	9,723	4,498	68.4	2,787	161.4
2008	13,704	11,241	2,463	82.0	2,873	85.7
2007	13,004	10,513	2,562^	80.8	2,603	98.4
2006	12,327	9,423	2,974^	76.4	2,553	116.5
2005	11,659	8,780	2,948^	75.3	2,453	120.2

^ After change in calculation methods of health care assets, resulting in a $70 million future liability due to the Pension Trust Fund by the Health Care Fund.

Schedule of Funding Progress *(in millions)*
Medicare B

Valuation Date June 30	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
2010	$367	$122	$245	33.2%	$2,843	8.6%
2009	361	113	248	31.3	2,787	8.9
2008	358	131	227	36.6	2,873	7.9
2007	299	127	172^	42.5	2,603	6.6
2006	300	119	181^	39.7	2,553	7.1
2005	302	113	189^	37.4	2,453	7.7

^ After change in calculation methods of health care assets, resulting in a $70 million future liability due to the Pension Trust Fund by the Health Care Fund.

Schedule of Funding Progress *(in millions)*
Health Care

Valuation Date	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
06/30/2010	$2,369	$325	$2,044	13.7%	$2,843	71.9%
06/30/2009	4,280	376	3,904	8.8	2,787	140.1
06/30/2008 (1)	4,859	393	4,466	8.1	2,652	168.4
01/01/2008	4,513	391	4,122^	8.7	2,648	155.7
01/01/2007	4,307	340	3,967^	7.9	2,598	152.7

(1) Valuation date changed from January 1 to June 30.
^ After change in calculation methods of health care assets, resulting in a $70 million future liability due to the Pension Trust Fund by the Health Care Fund.

See notes to required supplementary information on page 35.

Schedule of Employer Contributions
Pension Benefits and Postretirement Death Benefit

Year ended June 30	Actuarial Annual Required Contributions	% Contributed
2010	$379,427,457	100%
2009	269,380,809	100
2008	243,150,199	100
2007	260,779,627	90(1)
2006	272,358,393(2)	87(1)
2005	239,089,392	100

Schedule of Employer Contributions
Medicare B

Year ended June 30	Actuarial Annual Required Contributions	% Contributed
2010	$22,619,935	100%
2009	21,688,294	100
2008	17,519,556	100
2007	17,729,746	104
2006	21,677,505(2)	95(1)
2005	16,956,695	100

Schedule of Employer Contributions and Other Contributing Entities
Postemployment Health Care

Year ended June 30	Actuarial Annual Required Contributions	% Contributed by Employers#	Federal Subsidy	Total % Contributed
2010	$315,535,278	19.1%	$24,414,855	26.8%
2009	373,789,127	43.7	23,504,101	50.0
2008	307,874,094	51.4	21,953,659	58.6
2007	299,379,524	57.1	20,202,965	63.8

(1) The percentage contributed is less than 100% due to contributions made toward the health care adjustment.
(2) The ARC decreased due to the adoption of the new actuarial assumptions retroactive to July 1, 2005.
The percent contributed by employers indicates the percentage of the ARC that was actually billed to employers (and paid) each year.

Note to Required Supplementary Schedules

Description of Schedule of Funding Progress

Each time a new benefit is added that 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 valuations at June 30, 2010.

Additional information as of the latest Pension Trust Fund and Death Benefit Fund actuarial valuation follows:

Actuarial cost method:	Entry age normal
Amortization method:	Level percent closed
Remaining amortization period:	29 years
Asset valuation method:	4-year smoothed market, with a limit of actuarial value of assets to a minimum of 80% and a maximum of 120% of the market value of assets
Actuarial assumptions:	Investment rate of return^ of 8.00% Projected salary increases* of 4.50% to 24.75% Cost-of-living adjustments of 3.00%

Additional information as of the latest Medicare B Fund actuarial valuation follows:

Actuarial cost method:	Entry age normal
Amortization method:	Level percent closed
Remaining amortization period:	29 years
Asset valuation method:	4-year smoothed market, with a limit of actuarial value of assets to a minimum of 80% and a maximum of 120% of the market value of assets
Actuarial assumptions:	Investment rate of return^ of 8.00%

Additional information as of the latest Health Care Fund actuarial valuation follows:

Actuarial cost method:	Entry age normal
Amortization method:	Level percent open
Remaining amortization period:	30 years
Asset valuation method:	Market value of assets
Actuarial assumptions:	Investment rate of return^ (Discount Rate) 5.25% compounded annually Medical Trend Assumption 9.5% initially, decreasing to 5.0% by 2017, level thereafter.

^ Includes price inflation at 3.50%
* Includes wage inflation at 4.00%

See accompanying independent auditor’s report.

Schedule of Administrative Expenses for the year ended June 30, 2010

	General Expenses	Investment Related Expenses	Total
Personnel Services			
Salaries	$ 9,237,405	$ 1,767,563	$ 11,004,968
Retirement Contributions	1,268,774	247,306	1,516,080
Insurance	2,165,769	262,701	2,428,470
Total Personnel Services	12,671,948	2,277,570	14,949,518
Professional Services			
Actuarial Advisors	142,466	-	142,466
Audit Services	101,264	-	101,264
Custodial Banking	117,255	-	117,255
Investment Related	-	5,261,080	5,261,080
Medical	430,154	-	430,154
Technical	1,433,907	240,185	1,674,092
Total Professional Services	2,225,046	5,501,265	7,726,311
Communications			
Postage	567,179	-	567,179
Telephone	80,947	-	80,947
Member / Employer Education	62,295	-	62,295
Printing and Publication	230,776	-	230,776
Total Communications	941,197	-	941,197
Other Services			
Computer Support Services	602,796	16,500	619,296
Office Equipment and Supplies	210,781	1,105	211,886
Training	144,806	14,409	159,215
Transportation and Travel	120,145	103,286	223,431
Memberships and Subscriptions	75,112	27,031	102,143
Property and Fiduciary Insurance	377,280	-	377,280
Facilities Expense	1,038,997	-	1,038,997
Administrative Banking Fees	25,366	-	25,366
Ohio Retirement Study Council	38,692	-	38,692
Miscellaneous	22,629	-	22,629
Total Other Services	2,656,604	162,331	2,818,935
Total Adminstrative Expenses before Depreciation	18,494,795	7,941,166	26,435,961
Depreciation and Amortization			-
Furniture & Equipment	410,001	-	410,001
Building and Improvements	1,339,360	-	1,339,360
Total Depreciation and Amortization	1,749,361	-	1,749,361
Total Administrative Expenses	$ 20,244,156	$ 7,941,166	$ 28,185,322

See accompanying independent auditor's report.

Schedule of Investment Expenses for the year ended June 30, 2010

Description of Expense	Net Assets Under Management	Direct Fees
US Equity	$ 2,631,554,341	$ 12,821,310
Non-US Equity	2,350,365,438	13,783,154
Private Equity	834,132,669	20,016,737
Fixed Income	2,331,318,939	9,448,029
Real Estate	828,133,200	11,204,686
Short Term	73,727,433	–
Total Investment Management Fees		67,273,916
Custody Service Fees		2,052,870
Master Recordkeeper Fees		1,025,465
Investment Consulting and Performance/Analytics Fees		1,993,262
Investment Administrative Expenses		2,869,569
Total Other Investment Expenses (see page 36)		7,941,166
Total Investment Expenses		$ 75,215,082

FINANCIAL SECTION

Schedule of Payments to Consultants

SERS paid the following non-investment related consulting fees in fiscal year 2010:

Actuarial Advisors	$ 142,466
Audit Services	101,264
Legal Counsel	56,354
Medical Consultant	31,820
Disability Exams	398,334
Information Technology Consultants	1,042,355
Health Care Consultants	95,430
Other Consultants	357,023
Total	$ 2,225,046

See accompanying independent auditor’s report.

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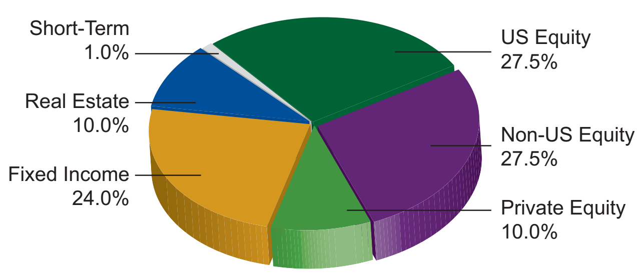
INVESTMENT SECTION

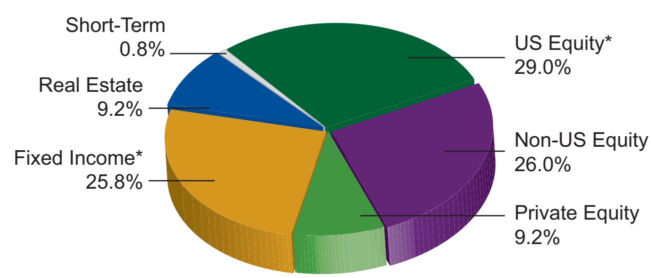
Investment Summary as of June 30, 2010

	Fair Value	Actual	Target	Range
US Equity*	$ 2,631,554,341	29.0%	27.5%	22.5% - 32.5%
Non-US Equity	2,350,365,438	26.0	27.5	22.5 - 32.5
Private Equity	834,132,669	9.2	10.0	5 - 15
Fixed Income*	2,331,318,939	25.8	24.0	19 - 29
Real Estate	828,133,200	9.2	10.0	5 - 15
Short-Term	73,727,433	0.8	1.0	0 - 5
Net Portfolio Value	$ 9,049,232,020	100.0%	100.0%	

*Hedge Funds are included in US Equity and Fixed Income Fair Values.

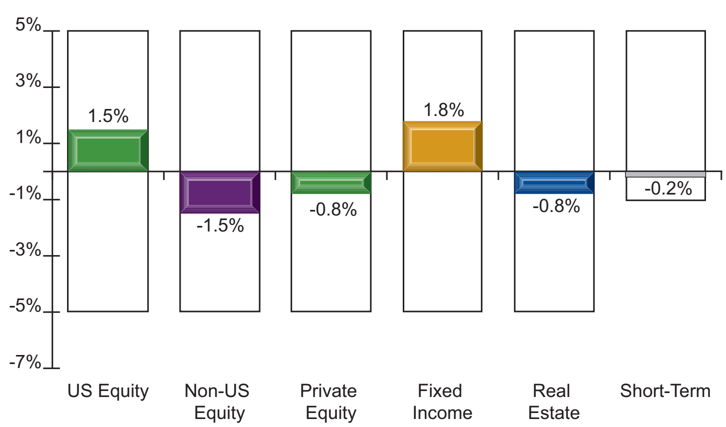
Asset Allocation – Total Fund as of June 30, 2010





*Hedge Funds are included in US Equity and Fixed Income Asset Allocations

Asset Allocation vs Policy



Note: Boxes represent permissible ranges around policy target weights.

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
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Toll-Free-866-280-7377 • www.ohsers.org

LISA J. MORRIS
Executive Director

December 15, 2010

Retirement Board, Members, Retirees, and Beneficiaries 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, 2010. Information in this section was compiled by SERS' Investment and Finance Staff, and BNY Mellon Performance and Risk Analytics.

Fiscal Year (FY) 2010 was a much better year than FY2009. Each portfolio had positive returns in FY2010 except for real estate. The investment return for the Total Fund was also positive.

During the fiscal year, the Board approved:

- Hiring three US equity managers and one fixed income manager.
- Dismissing one US equity manager, four Non-US equity managers and five hedge fund managers.
- Committing funds to nine hedge funds and three private equity partnerships.

Details about each portfolio are included on the following pages.

SERS' investment portfolio is diversified by asset class and by manager style within each asset class. This disciplined investment approach should result in attractive long-term returns. The Investment Staff appreciates the opportunity to work for the Retirement Board and SERS' members and retirees. We take the responsibilities of the job very seriously and do our best to maintain the confidence and trust of the Board and SERS' members and retirees.

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, prudently, and for the exclusive benefit of its members 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 also defines 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 return of our Policy Benchmark within prudent risk parameters. On June 30, 2010, SERS' policy portfolio and its corresponding benchmark were as follows:

Asset Allocation		Benchmark
• 27.5%	US Equities	Russell 3000 Index
• 27.5%	Non-US Equities	MSCI All Country World Free ex-US Index 50% Hedged
• 10.0%	Global Private Equity	S&P 500 Index + 3% (one quarter in arrears)
• 24.0%	Global Fixed Income	Barclays Capital Aggregate Bond Index
• 10.0%	Global Real Estate	80% NCREIF Property Index (one quarter in arrears) & 20% FTSE EPRA/NAREIT Developed Index
• 1.0%	Short-Term	Citigroup 30-Day US Treasury Bill Index

INVESTMENT STRATEGIES

Asset Allocation Effective July 1, 2010, SERS' Board adopted new asset allocation targets based on recommendations from SERS' Investment Consultant, Summit Strategies Group, and Staff. The new allocation targets combine US equities and Non-US equities into global equities; and increases the global hedge fund allocation to 15%, with 10% coming from global equities and 5% coming from global bonds. There were no additional changes to the asset allocation structure of the Fund during the 2010 fiscal year.

Diversification Broad diversification within an investment portfolio is used to control the level of risk and volatility within the portfolio over the long term. 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 over the long term.

SERS' hedge fund consultant, Aksia Research and Management Company, continued to assist the Board and Staff in the construction and diversification of SERS' hedge fund program and the selection of hedge fund managers.

INVESTMENT PERFORMANCE

Long-Term Performance SERS' Total Fund rebounded from the negative performance of last fiscal year although performance did not offset all of the FY2009 Total Fund loss. Trailing three-year returns are negative, but five- and ten-year Total Fund returns are positive. FY2010 Total Fund returns exceeded SERS' actuarial rate of 8.0%, and longer term returns are also above 8.0%.

The *Schedule of Investment Results* on the following page summarizes performance gross-of-fees versus benchmark performance for the Total Fund and each portfolio over selected periods. The schedule also reports the Total Fund performance net-of-fees.

Fiscal Year 2010 As previously mentioned, each of the portfolios except for real estate had a positive return for the fiscal year. In addition, the return for the Total Fund was 12.3% for the fiscal year versus 14.7% return for the Total Fund benchmark.

Schedule of Investment Results for the years ended June 30 (Gross of Fees)

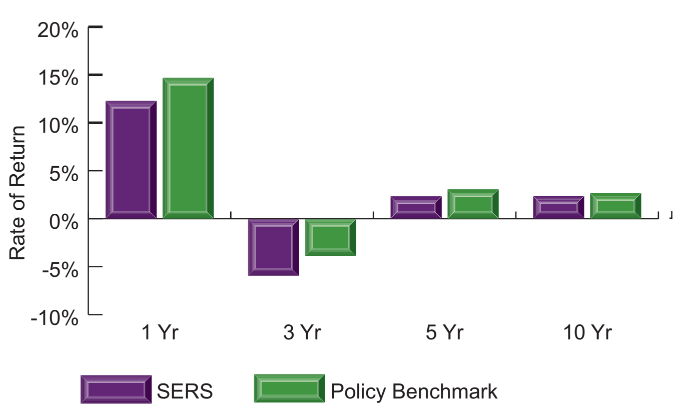
	2010	2009	2008	2007	2006	Annualized Rates of Return 3 Years	5 Years	10 Years
US Equity								
SERS[(1)*]	17.2%	(26.8)%	(15.1)%	18.8%	10.8%	(10.0)%	(0.8)%	(1.3)%
Russell 3000 Index	15.7	(26.6)	(12.7)	20.1	9.6	(9.5)	(0.5)	(0.9)
Non-US Equity								
SERS	15.4	(29.9)	(9.8)	34.3	30.4	(10.0)	5.0	2.7
Custom Non-US Equity Benchmark[(2)*]	12.1	(27.1)	(10.2)	29.6	27.8	(9.8)	4.0	1.6
Private Equity								
SERS[(3)*]	13.4	(17.2)	19.0	22.5	23.2	3.7	11.0	(2.2)
Custom Private Equity Benchmark[(4)*]	52.8	(35.1)	(2.1)	14.8	14.7	(1.0)	5.1	2.6
Hedge Funds								
SERS	14.5	(8.4)	n/a	n/a	n/a	n/a	n/a	n/a
HFRI Fund Weighted Composite Index	9.2	(10.1)	(1.3)	14.4	13.8	(0.3)	5.2	5.7
Fixed Income								
SERS	17.0	4.8	3.2	6.6	0.4	8.1	6.3	7.2
Barclays Aggregate Bond Index	9.5	6.1	7.1	6.1	(0.8)	7.6	5.5	6.5
Real Estate								
SERS[(5)*]	(16.1)	(35.2)	8.3	14.3	20.7	(16.2)	(4.1)	2.8
Custom Real Estate Benchmark[(6)*]	(2.8)	(16.8)	7.8	16.0	20.1	(4.4)	4.0	7.6
Short-Term								
SERS[(7)*]	0.4	2.8	4.4	5.5	4.4	2.5	3.5	3.4
Citigroup 30-Day Treasury Bill Index	0.1	0.5	3.0	5.0	4.0	1.2	2.5	2.4
Total Fund (Gross of Fees)								
SERS[(8)*]	12.3	(21.8)	(5.3)	19.3	13.2	(6.0)	2.4	2.4
Policy Benchmark[(9)*]	14.7	(19.1)	(4.6)	18.0	11.0	(3.9)	3.1	2.7
Total Fund (Net of Fees)								
SERS[(8)*]	11.5	(22.4)	(5.7)	18.7	12.7	(6.6)	1.8	1.9
Policy Benchmark[(9)*]	14.7	(19.1)	(4.6)	18.0	11.0	(3.9)	3.1	2.7

Source: BNY Mellon Performance and Analytics

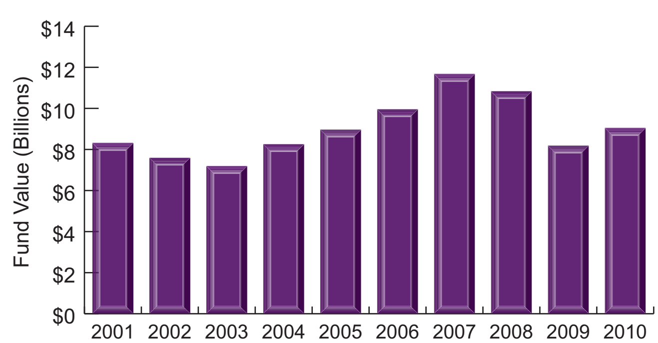
Investment results provided by BNY Mellon Performance and Risk Analytics are based upon a time-weighted rate of return methodology. Market value adjustments made to private equity, real estate, and hedge funds as of June 30 will be reflected in the investment returns in the next financial statement.

*See footnotes to table on page 53.

Total Fund Rates of Return vs Policy Benchmark (Gross of Fees)



Total Fund at Fair Value



US Equity

For the fiscal year ended June 30, 2010, the US equity portfolio gained 17.2%. The portfolio beat its benchmark, the Russell 3000 Index, which rose 15.7%. The 1.5% outperformance during fiscal year 2010 continued the turnaround in US equity results. The US equity portfolio performance still underperformed its benchmark on an annualized basis for the past three years by 55 basis points, five years by 36 basis points and ten years by 33 basis points; but as a result of significant portfolio changes and improved performance, both the three- and five-year numbers improved materially.

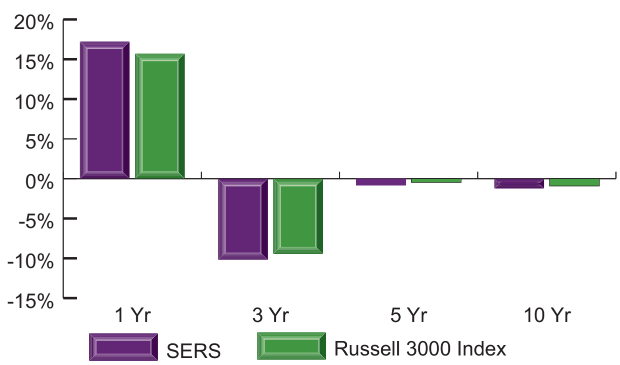
As of the end of March, 2010, the US equity markets completed a spectacular one-year rally off the March 2009 bottom. The Russell 3000 Index (the broadest Russell Index encompassing large, mid and small cap stocks) shot up 52.4% over this period with the Russell Midcap Index (which represents mid cap stocks) leading the way - skyrocketing 67.7%. The markets cheered the Recovery Act stimulus package which injected $814 billion into the US economy as well as a number of other crisis-fighting tools which helped to avert a 1930s style depression. However, as the benefits of the stimulus program dissipated and the economy again became sluggish, the rally fizzled. Fear and uncertainty again gripped the market as the Russell 3000 lost 11.3% during the fourth fiscal quarter ended June 30, 2010.

Biggest definitely was not best during the fiscal year as the Russell Top 200 Index (which represents the largest or mega cap stocks) rose 11.6%, significantly lagging the smaller cap indices. Meanwhile, the Russell Midcap Index performed best increasing 25.1%. The Russell 2000 Index (which represents small cap stocks) grew 21.5% and the Russell Microcap Index (which represents the smallest or micro cap stocks) grew 20.4%. Due to the large weight of the mega cap stocks in the broader indices, the performance of both the Russell 3000 and the Russell 1000 (which represents large and mid cap stocks) was muted. The Russell 3000 grew 15.7% while the Russell 1000 grew 15.2%.

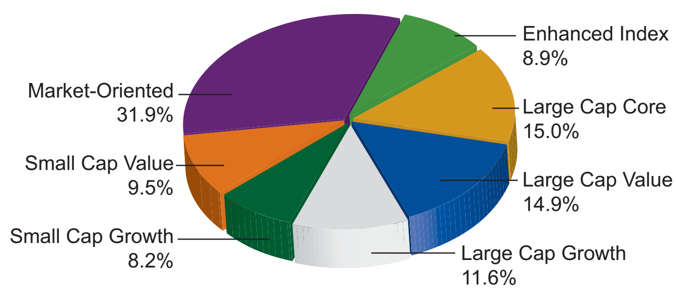
Value outperformed growth across all capitalizations primarily due to the recovery of financial stocks and a shift from more defensive growth stocks back into riskier assets. The Russell 3000 Value Index grew 17.6% compared to the Russell 3000 Growth Index, which only increased 14.0%. The Russell Top 200 Value Index grew 12.4% compared to the Russell Top 200 Growth Index, which increased 10.9%. The Russell 1000 Value Index grew 16.9% compared to the Russell 1000 Growth Index, which increased 13.6%. The Russell Midcap Value Index grew 28.9% compared to the Russell Midcap Growth Index, which increased 21.3%. The Russell 2000 Value Index grew 25.1% compared to the Russell 2000 Growth Index, which improved 18.0%.

Upon recommendation from Staff, the Board approved terminating one manager, hiring three new managers and designating three backup managers during the fiscal year. Effective July 1, 2010, the target allocation to US equity was reduced from 27.5% to 22.5%.

US EQUITY RETURNS



US EQUITY ALLOCATIONS



LARGEST INDIVIDUAL US EQUITY HOLDINGS AS OF JUNE 30, 2010

	Description	Shares	Market Price	Fair Value
1	Apple, Inc.	133,434	$ 251.53	$ 33,562,654
2	Exxon Mobil Corp.	504,273	57.07	28,778,858
3	Procter & Gamble Co.	476,478	59.98	28,579,150
4	Google, Inc.	52,677	444.95	23,438,631
5	Johnson & Johnson Co.	378,101	59.06	22,330,645
6	Microsoft Corp.	941,550	23.01	21,665,066
7	IBM Corp.	165,339	123.48	20,416,060
8	Occidental Petroleum Corp.	244,333	77.15	18,850,291
9	Colgate Palmolive Co.	238,653	78.76	18,796,310
10	Chevron Corp.	270,552	67.86	18,359,659

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

Non-US Equity

For the fiscal year ended June 30, 2010, SERS' Non-US equity portfolio returned 15.4%, outperforming its policy benchmark (MSCI All Country World-excluding the US Index with developed countries 50% hedged) by 3.3%. On an annualized basis, SERS' Non-US equity portfolio slightly underperformed over the three-year period by 0.2% yet outperformed the benchmark for both the five- and ten-year periods by 1.1% and 1.1% respectively.

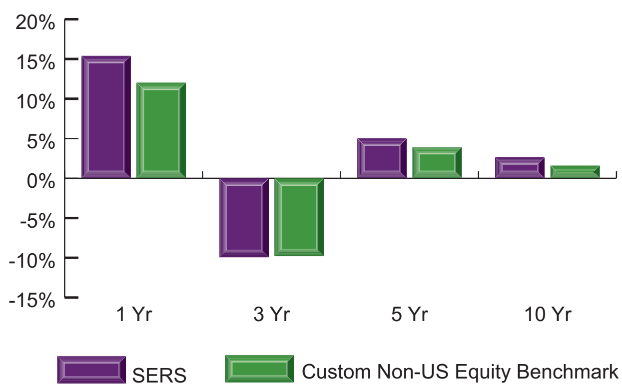
International equities rose sharply during a rally that started in March of 2009. By the end of March 2010 the MSCI EAFE Index rose 55.2% and the MSCI Emerging Markets Index gained 81.6%. Unfortunately, the nascent recovery came to a quick halt as investors lost confidence because of deteriorating economic conditions. Fears of global recession intensified as investors worried about Europe's sovereign debt crises, policy tightening in China, challenges in unwinding massive government stimulus packages, and the BP oil disaster. Returns of the MSCI Indices for developed and emerging markets reflected the pessimism as both ended the first half of 2010 down 12.2% and 6.0%, respectively.

Cross border equity flows started to decline during the second quarter of 2010 as international investors adjusted portfolio exposures. Widely considered a safe haven currency, the US dollar strengthened through April and May as investors rotated out of risky assets and into US Treasuries. The dollar rallied over most developed and emerging market currencies before a late June reversal. Currency volatility, highly sensitive to economic instability and uncertainty, will likely remain elevated over the next year.

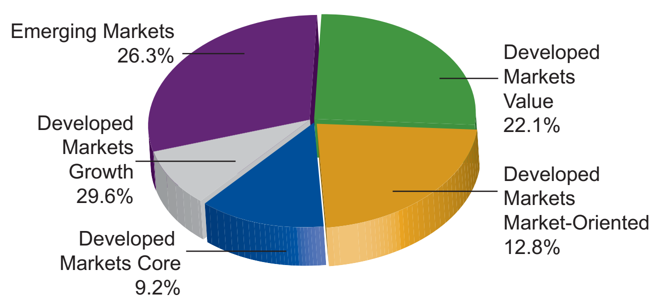
Although the recovery of 2009 was significant, the global economy continues to fluctuate. Whether it falls back into recession or continues to grow at a glacial pace is difficult to predict. More apparent is the unlikely chance of a substantial and sustainable recovery in equity markets over the next year.

Consistent with the Annual Plan, the target allocation for global equities was reduced from 55% of Total Fund assets to 45% effective July 1, 2010. This represents a reduction of 5% for each of the US and Non-US equity portfolios. During the fiscal year, the Board approved recommendations to terminate four Non-US equity investment managers. No new Non-US equity managers were hired.

NON-US EQUITY RETURNS



NON-US EQUITY ALLOCATIONS



LARGEST INDIVIDUAL NON-US EQUITY HOLDINGS AS OF JUNE 30, 2010

	Description	Country	Shares*	Market Price	Fair Value
1	Novartis AG	Switzerland	556,005	$ 48.78	$ 27,120,917
2	Nestle SA	Switzerland	390,570	48.41	18,906,438
3	Samsung Electronics Co., Ltd.	South Korea	28,561	633.41	18,090,709
4	GlaxoSmithKline PLC	United Kingdom	1,037,241	17.10	17,737,254
5	Sanofi-Aventis U.S. LLC	France	257,563	60.67	15,626,152
6	BASF SE	Germany	281,022	55.36	15,557,536
7	AstraZeneca	United Kingdom	315,205	47.41	14,944,326
8	China Mobile, Ltd.	Hong Kong	1,446,468	10.04	14,525,696
9	Novo Nordisk Inc.	Denmark	172,972	81.25	14,053,734
10	Canon, Inc.	Japan	347,528	37.63	13,077,971

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.*

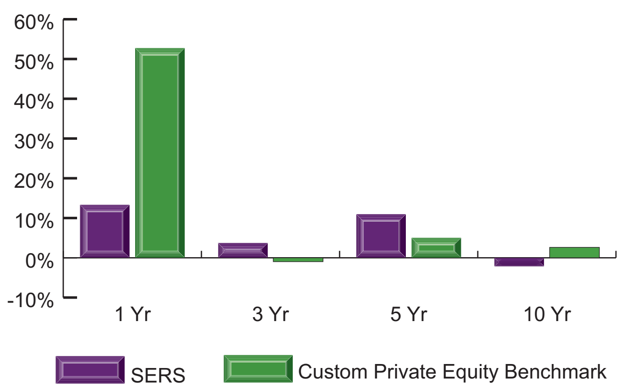
Global Private Equity

Global private equity consists of investments in venture capital limited partnerships, buyout limited partnerships, special situations limited partnerships, and other “non-public” investments in the US and outside the US. 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 public and non-public investments.

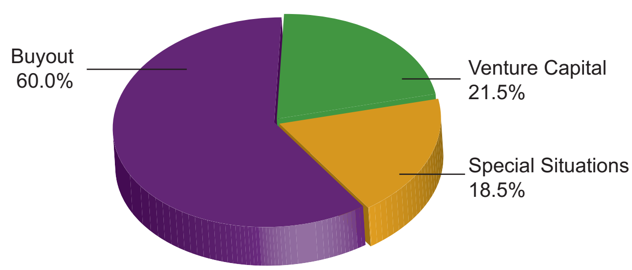
As of June 30, 2010, the market value of SERS’ private equity portfolio was $834.1 million, or 9.2% of the Total Fund. Unfunded commitments to private equity partnerships totaled $923.0 million at fiscal year end. Over the past fiscal year, SERS closed on commitments to three private equity partnerships totaling $120 million. Each commitment was in the amount of $40 million to middle market buyout funds that primarily focus on opportunities in North America. The investments presented three differentiated and historically successful strategies. The first commitment was to a technology focused middle market fund, the second was to a Midwest focused buyout fund and the final commitment was to a buyout fund that invests in under performing companies.

During the fiscal year, SERS’ private equity portfolio had an investment return of 13.4% versus the custom benchmark return of 52.8%. For the three-, five-, and ten-year periods, the private equity portfolio returned 3.7%, 11.0%, and (2.2%) respectively. Private equity returns are reported one quarter in arrears.

GLOBAL PRIVATE EQUITY RETURNS



ALLOCATION BY STRATEGY



LARGEST INDIVIDUAL GLOBAL PRIVATE EQUITY HOLDINGS
AS OF JUNE 30, 2010

	Description	Fair Value
1	GS Distressed Opportunities III, LP	$ 41,745,983
2	Horsley Bridge Fund VIII, LP	41,134,458
3	Thomas H. Lee Equity Fund VI, LP	35,262,045
4	Warburg Pincus Private Equity X, LP	33,653,619
5	Providence Equity Partners VI, LP	29,509,749
6	Horsley Bridge International III, LP	28,060,481
7	Performance Venture Capital, LP	27,361,752
8	FS Equity Partners V, LP	26,178,392
9	Fourth Cinven Fund, LP	22,916,772
10	Horsley Bridge VII, LP	22,430,499

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

Global Hedge Funds

SERS invests in hedge funds for purposes of diversification, risk reduction, and return enhancement. The global hedge fund portfolio, consisting of 38 funds as of June 30, 2010, is highly diversified across geographical regions, sectors and strategies, including equity long-short strategies, event-driven strategies, relative value strategies, and tactical trading strategies. Hedge fund assets, reflected in US equity and global fixed income portfolio asset values, totaled $781.9 million on June 30, 2010.

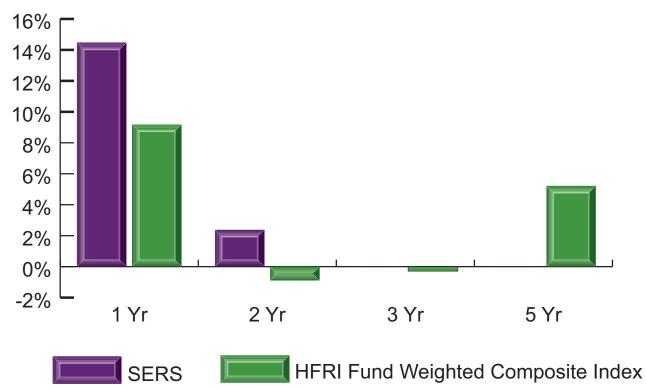
SERS' Investment Policy Statement targets hedge fund investments at 15% of total assets for fiscal year 2011. As of June 30, 2010, hedge funds represented slightly over 10% of total assets. SERS invested $420.1 million in hedge funds and added nine new funds to the portfolio during the fiscal year.

In calendar year 2009 hedge funds rebounded from record 2008 losses, posting returns in excess of 20% in aggregate. Net outflows also reversed. As of December 31, 2009, total hedge fund industry assets under management were $2.2 trillion. Hedge funds increased leverage slightly throughout most of 2009, but that trend abated and levels held steady beginning in November. Leverage remained relatively unchanged for the balance of FY2010.

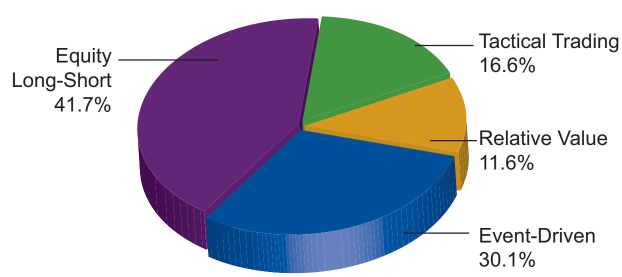
Hedge funds generally responded to pressure from investors to reduce fees and improve liquidity terms after suffering both negative returns and net outflows from redemptions after the start of the financial crisis. Many funds now offer reduced fees for larger investments or in exchange for reduced liquidity. Hedge funds also are diversifying their investor bases to reduce future outflows from redemptions.

During the fiscal year, SERS' hedge fund portfolio had an investment return of 14.5% versus its benchmark return of 9.2%. For the two-year period, the hedge fund portfolio produced returns of 2.4% versus a negative 0.9% for the benchmark.

GLOBAL HEDGE FUNDS RETURNS



ALLOCATION BY STRATEGY



LARGEST INDIVIDUAL GLOBAL HEDGE FUND HOLDINGS AS OF JUNE 30, 2010

	Description	Fair Value
1	Taconic Opportunity Offshore Fund Ltd.	$ 51,730,805
2	Visium Balanced Offshore Fund, Ltd.	50,482,998
3	Bridgewater Pure Alpha Fund I	43,956,191
4	Diamondback Offshore Fund Ltd.	39,872,015
5	Elm Ridge Value Partners Offshore Institutional Fund, Inc.	35,599,430
6	King Street Capital Ltd.	35,446,408
7	HealthCor Offshore Ltd.	35,167,955
8	Regiment Capital Ltd.	34,458,750
9	BlueCrest International Capital Ltd.	30,453,511
10	Viking Global Equities III Ltd.	29,319,082

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

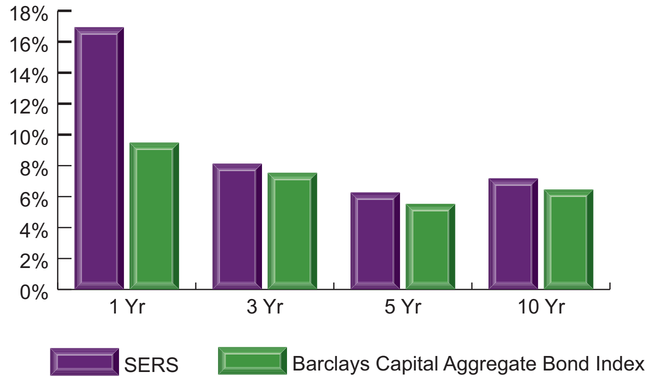
Global Fixed Income

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.

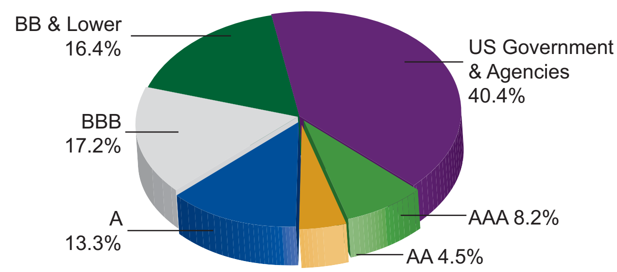
For the fiscal year ended June 30, 2010, SERS' fixed income portfolio outperformed the benchmark Barclays Capital Aggregate Bond Index by 750 basis points, returning 17.0% against the index return of 9.50%. Returns were primarily driven by an overweight to both investment grade and high yield corporate credit. SERS added one core fixed income manager during the year to help dampen possible future market volatility. SERS' investment managers collectively kept duration stable from the prior fiscal year at 4.4 years.

The US Treasury market returned 6.7%, agency mortgages gained 7.5%, investment grade credit yielded 15.9%, emerging market bonds increased 17.9% and the high yield market returned 26.8% for the year ended June 30, 2010. The market started to favor risk in the spring of 2009 as the economy began to rebound due to government stimulus programs. Corporate credits continued to rise throughout 2009 and into 2010 until the BP Oil disaster and the European Sovereign and Bank Credit Crisis occurred in late spring 2010. The market then shifted to favor US Treasuries and agency mortgages. The Federal Reserve kept the federal funds rate stable at 0 – 0.25% during the fiscal year to promote growth. The yield curve flattened slightly during the year with the spread between three-month and 30-year Treasuries at 371 basis points by year end.

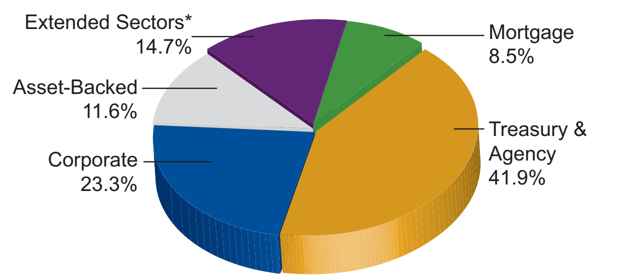
GLOBAL FIXED INCOME RETURNS



QUALITY DISTRIBUTION



SECTOR DISTRIBUTION



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

LARGEST INDIVIDUAL GLOBAL FIXED INCOME HOLDINGS AS OF JUNE 30, 2010

	Description	Rating	Par Value	Market Price	Fair Value
1	US Treasury Bill 09/23/2010	AAA	$ 45,000,000	$ 0.999	$ 44,986,406
2	American Express Centurion Bk 07/13/2010	BBB+	25,000,000	1.000	25,000,000
3	US Treasury Note .875% 01/31/2012	AAA	19,800,000	1.001	19,905,138
4	FNMA Pool #0AD0167 5.5% 09/01/2021	AAA	14,878,247	1.086	16,162,686
5	US Treasury Bill 09/09/2010	AAA	13,000,000	0.999	12,996,087
6	Ford Motor Credit Co LLC 7.375% 02/01/2011	B-	12,225,000	1.019	12,453,852
7	US Treasury Note 2.5% 04/30/2015	AAA	11,690,000	1.036	12,105,580
8	FNMA Pool #0968066 6.0% 10/01/2022	AAA	10,871,879	1.090	11,854,588
9	FNMA TBA 5.5% 08/01/2040	AAA	10,750,000	1.070	11,502,500
10	US Treasury Bill 12/30/2010	AAA	11,000,000	0.999	10,987,658

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

Global Real Estate

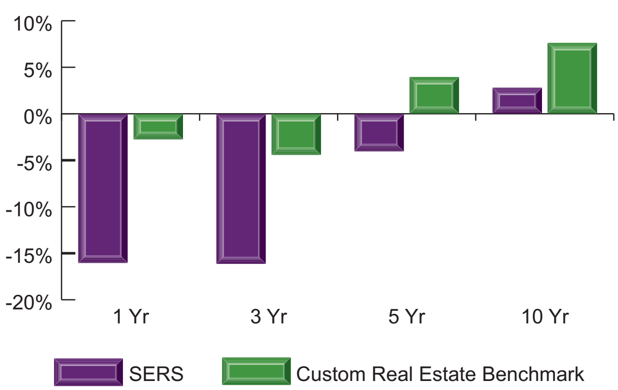
SERS invests in real estate to give diversification to the overall investment portfolio by providing a consistent income return from property cash flows and an inflation hedge through lease structures. SERS' global real estate portfolio consists of investments in private debt and equity structures as well as publicly-traded global real estate investment trusts (REITs). Investments in the global real estate portfolio are located across the US, Europe, and Asia.

SERS' target allocation to real estate is 10% of the Total Fund with a range of +/-5%. As of June 30, 2010, the real estate portfolio was approximately $828.1 million, or 9.2% of the Total Fund. Unfunded commitments to real estate funds totaled approximately $205.0 million at fiscal year end. During the past fiscal year, SERS did not make additional commitments to new or existing real estate managers.

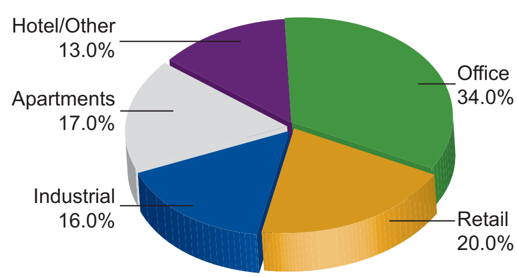
The fiscal year has been one of public market and private market divergence for commercial real estate. The speed, efficiency, and ability of global REITs to raise equity, clean-up balance sheets, and position resources for future acquisitions was rewarded in the global public markets. Global REITs increased in value 25.1% per FTSE EPRA/NAREIT Developed Index for the one-year period ended June 30, 2010. The opposite was true for privately held commercial real estate via commingled funds. The lack of new capital and market liquidity magnified leverage issues, and limited resources available for capital expenditures and leasing initiatives. As a result, private market commercial real estate in the US declined 1.5% for the same time period as measured by the NCREIF Property Index. As of the end of the fiscal year, the NCREIF Property Index and its European counterpart, Investment Property Databank, did show signs that property valuations were stabilizing for high-quality assets in major metropolitan markets.

During the fiscal year, SERS' real estate portfolio produced a total return of (16.1%) versus the custom real estate benchmark return of (2.8%). For three-, five-, and ten-year periods, the real estate portfolio produced returns of (16.2%), (4.1%), and 2.8% respectively. All returns, except global REITs, are reported one quarter in arrears.

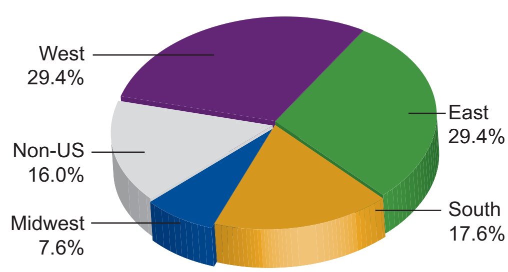
GLOBAL REAL ESTATE RETURNS



PROPERTY TYPE DIVERSIFICATION



REGIONAL DIVERSIFICATION



LARGEST INDIVIDUAL GLOBAL REAL ESTATE HOLDINGS AS OF JUNE 30, 2010

	Description	Fair Value
1	J.P. Morgan Strategic Property Fund	$ 95,918,017
2	UBS Realty Separate Account	62,329,653
3	RREEF America II	56,577,324
4	ING Clarion Lion Properties Fund	55,202,002
5	Prudential RISA II	53,009,290
6	Carlyle Realty Partners V	40,168,962
7	Prudential RISA	39,049,108
8	ING Clarion Lion Industrial Trust	33,512,765
9	Carlyle Asia Real Estate Partners II	24,997,947
10	Colony Investors VIII	24,306,252

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

Investment Consultants & Investment Managers

Investment Consultants
- Aksia LLC
- Summit Strategies Group, Inc.

Investment Managers – US Equity
- Aronson + Johnson + Ortiz
- Brown Capital Management
- Delaware Investment Advisers
- DePrince, Race and Zollo
- Donald Smith & Company, Inc.
- First Eagle Investment Management
- GlobeFlex Capital
- INTECH Investment Management
- Jacobs Levy Equity Management
- Lord Abbett & Co.
- Manning & Napier Advisors, Inc.
- Neuberger Berman
- PENN Capital Management
- State Street Global Advisors
- Vaughan Nelson Investment Management

Investment Managers – Non-US Equity
- Acadian Asset Management
- Arrowstreet Capital
- Dimensional Fund Advisors
- GlobeFlex Capital
- LSV Asset Management
- McKinley Capital Management, Inc.
- Mondrian Investment Partners Limited
- Morgan Stanley Investment Management Limited
- Pictet Asset Management Limited
- Scottish Widows Investment Management
- State Street Global Advisors
- TT International Investment Management
- Walter Scott & Partners Limited

Investment Manager – Futures
- Russell Implementation Services, Inc.

Investment Managers – Foreign Currency
- Pareto Investment Management Limited
- State Street Global Advisors

Securities Lending Agents
- Goldman Sachs Agency Lending

Investment Managers – Private Equity
- Blue Chip Venture Company
- Blue Point Capital Partners
- Brantley Partners
- Bridgepoint Capital Limited
- Charterhouse Capital Partners
- CID Capital
- Cinven Limited
- Coller Capital
- Evergreen Pacific Partners
- FdG Associates
- Francisco Partners
- FS Equity Partners
- Goldman Sachs & Company
- Graham Partners, Inc.
- Horsley Bridge Partners
- J.P. Morgan Investment Management, Inc.
- Kohlberg & Company
- Leonard Green & Partners
- Linsalata Capital Partners
- Mason Wells Private Equity
- Monomoy Capital Partners
- Morgenthaler Venture Partners
- Oak Hill Capital Partners
- Oaktree Capital Management
- Odyssey Investment Partners
- Peppertree Partners
- Performance Equity Management
- Primus Venture Partners
- Providence Equity Partners
- Quantum Energy Partners
- Silver Lake Partners
- Swander Pace Capital Partners
- Thomas H. Lee Partners
- Transportation Resource Partners
- Warburg Pincus

Distribution Manager – T. Rowe Price

Investment Managers – Fixed Income
- Artio Global Management
- Dodge & Cox, Inc.
- Goldman Sachs & Company
- J.P. Morgan Investment Management, Inc.
- Johnson Investment Counsel, Inc.
- Loomis, Sayles & Company
- Western Asset Management Company

Investment Managers – Hedge Funds
- Angelo, Gordon & Co.
- Aristeia Capital
- BlueCrest Capital Management
- Brevan Howard Asset Management
- Bridgewater Associates, Inc.
- Brookside Capital Investors
- D.E. Shaw Investment Management
- Davidson Kempner Capital Management
- Diamondback Capital Management
- Elm Ridge Capital Management
- Eminence Capital
- Glenview Capital Management
- GoldenTree Asset Management
- HealthCor Management
- Karsch Capital Management
- King Street Capital Management
- Lansdowne Partners Limited Partnership
- Level Global Investors
- Linden Advisors
- Loch Capital Management
- Marathon Asset Management
- Mariner Investment Group
- Meditor European Hedge Fund
- OMG Capital
- Pacific Investment Management Company
- Paulson & Co. Inc.
- Regiment Capital Management
- Renaissance Technologies
- Stark Offshore Management
- Samlyn Capital
- Taconic Capital Advisors
- Theorema Asset Management Limited
- Tudor Investment Corporation
- ValueAct Capital Management
- Viking Global Investors
- Visium Asset Management

Investment Managers – Real Estate
- AEW Capital Management
- Beacon Capital Partners
- BlackRock Realty
- CB Richard Ellis Investors
- Colony Capital
- Fillmore Capital Partners
- ING Clarion Real Estate
- INVESCO Realty Advisors
- J.P. Morgan Investment Management, Inc.
- KBS Realty Advisors
- Madison Marquette
- Prudential Real Estate Investors
- Rockspring Property Investment Managers
- Rothschild Realty Managers
- RREEF Real Estate Investment Managers
- The Carlyle Group
- UBS Realty Investors

Custodians
- BNY Mellon Asset Servicing
- Huntington National Bank

Master Recordkeeper
- BNY Mellon Asset Servicing

Investment Analytics
- BNY Mellon Performance & Risk Analytics

Summary Schedule of Brokers' Fees for US Equity Transactions for the year ended June 30, 2010

Broker Name	Fees Paid	# of Shares Traded	Avg. Commission per Share
Instinet Clearing Services, Inc.	$ 231,525	13,073,643	$ 0.018
Jefferies & Co.	115,392	3,608,368	0.032
Cantor Fitzgerald & Co., Inc.	109,913	3,050,572	0.036
JonesTrading Institutional Services, LLC	108,709	3,096,342	0.035
UBS Warburg, LLC	105,814	5,337,713	0.020
J.P. Morgan Securities, Inc.	101,571	4,567,491	0.022
Barclays Capital	86,131	2,910,207	0.030
Broadcort	83,348	3,142,036	0.027
Morgan Stanley & Co., Inc.	79,676	3,519,034	0.023
First Boston	74,941	4,377,767	0.017
Goldman, Sachs & Co.	74,660	4,297,784	0.017
Investment Technology Group, Inc.	67,499	10,259,816	0.007
Deutsche Bank Securities, Inc.	59,769	4,757,981	0.013
Liquidnet, Inc.	53,177	2,909,492	0.018
ICAP Securities USA, LLC	46,818	1,275,500	0.037
Wachovia Capital Markets, LLC	40,012	1,363,265	0.029
BNY ConvergEx Execution Solutions, LLC	34,558	1,711,103	0.020
Stifel Nicolaus Co., Inc.	31,736	994,770	0.032
Knight Securities	29,315	1,200,428	0.024
Merrill Lynch, Pierce, Fenner & Smith, Inc.	28,761	6,721,137	0.004
Friedman, Billings and Ramsey	27,550	1,036,766	0.027
SG Americas Securities, LLC	26,661	2,666,141	0.010
CitiGroup Global Markets, Inc.	25,555	959,700	0.027
Cowen & Co., LLC	24,020	1,279,329	0.019
RBC Capital Markets Corp.	23,605	801,268	0.029
Oppenheimer and Co., Inc.	22,281	1,162,782	0.019
Raymond, James & Associates, Inc.	20,679	621,942	0.033
Sanford C. Bernstein & Co., Inc.	20,023	652,312	0.031
Weeden & Co., Inc.	19,373	1,084,980	0.018
Macquarie Securities, Inc.	17,140	523,748	0.033
Pershing, LLC	16,776	487,356	0.034
William Blair	15,674	393,164	0.040
Sidoti and Company, LLC	14,341	348,529	0.041
Pension Financial Services, Inc.	14,320	452,747	0.032
Rosenblatt Securities, LLC	13,994	863,704	0.016
Robert W. Baird & Co., Inc.	13,877	458,715	0.030
BB&T Capital Markets	12,490	409,243	0.031
Ridge Clearing and Outsourcing	12,188	406,535	0.030
Needham and Co.	11,918	313,492	0.038
Keybank Capital Markets, Inc.	11,132	382,472	0.029
JNK Securities, Inc.	10,882	510,740	0.021
Morgan, Keegan and Co.	10,877	338,326	0.032
Guzman and Co.	10,616	791,222	0.013
Brokers with less than $10,600 (92)	215,031	17,312,924	0.012
Total US	$ 2,174,332	116,432,586	$ 0.019

INVESTMENT SECTION

Summary Schedule of Brokers' Fees for Non-US Equity Transactions for the year ended June 30, 2010

Broker Name	Fees Paid	# of Shares Traded	Avg. Commission per Share
J.P. Morgan Securities, Inc.	$ 286,022	254,626,843	$ 0.001
Merrill Lynch, Pierce, Fenner & Smith, Inc.	237,665	191,344,594	0.001
Credit Suisse Securities, LLC	215,766	245,725,908	0.001
Morgan Stanley & Co., Inc.	185,564	166,709,891	0.001
CitiGroup Global Markets, Inc.	172,938	154,529,535	0.001
Nomura Securities International, Inc.	158,911	107,469,523	0.001
UBS Securities, LLC	137,457	125,047,020	0.001
Deutsche Bank AG	125,578	112,387,404	0.001
Instinet Clearing Services, Inc.	119,726	187,861,632	0.001
Macquarie Securities, Inc.	112,981	72,342,924	0.002
SG Securities	108,660	159,410,673	0.001
Goldman Sachs & Co.	97,521	69,424,144	0.001
Credit Lyonnais Securities, Inc.	69,509	37,987,668	0.002
Credit Agricole Cheuvreux	65,624	41,670,647	0.002
HSBC Securities, Inc.	52,825	36,977,966	0.001
State Street Global Markets, LLC	50,429	92,931,393	0.001
ITG, Inc.	46,121	83,252,958	0.001
Cantor Fitzgerald & Co., Inc.	44,426	8,558,141	0.005
Euroclear Bank	37,205	10,909,123	0.003
ABN Amro Bank NV	36,846	22,896,936	0.002
Union Bank Securities	36,540	39,933,156	0.001
China International Capital Corp.	35,641	17,801,350	0.002
Daiwa Securities America, Inc.	35,335	21,740,645	0.002
Jefferies & Co.	32,795	23,554,272	0.001
Brockhouse & Cooper, Inc.	28,923	50,346,569	0.001
Knight Securities International Ltd.	27,821	44,330,846	0.001
Exane SA	27,750	18,844,846	0.001
Pershing Securities Ltd.	27,321	18,433,238	0.001
Calyon Securities	23,897	9,039,915	0.003
Barclays Capital	20,310	14,189,191	0.001
Sanford C. Bernstein & Co., Inc.	18,008	30,337,248	0.001
Banco Santander	16,962	6,664,747	0.003
Neonet Securities	16,103	32,230,330	0.000
BNP Paribas SA	15,177	11,081,482	0.001
SG Warburg Securities	15,049	7,489,516	0.002
Cap Institutional Services, Inc.	14,075	8,423,935	0.002
Liquidnet, Inc.	13,264	18,973,545	0.001
KBC Financial Products Ltd.	13,254	8,600,082	0.002
MainFirst Bank AG	12,764	9,136,216	0.001
Samsung Securities	12,747	4,235,642	0.003
ING Barings Corp.	12,710	6,238,239	0.002
Svenska Handelsbanken	12,312	8,482,439	0.001
Redburn Partners LLP	10,694	7,133,553	0.001
Garban Securities	10,676	13,987,375	0.001
Brokers with less than $10,600 (124)	239,137	227,382,514	0.001
Total Non-US	$ 3,091,039	2,840,675,814	$ 0.001

Investment Notes

Investment Summary

Portfolio Type	Fair Value	% of Total Fair Value
US Equity	$ 2,631,554,341	29.0%
Non-US Equity	2,350,365,438	26.0
Private Equity	834,132,669	9.2
Fixed Income	2,331,318,939	25.8
Real Estate	828,133,200	9.2
Short-Term	73,727,433	0.8
Net Portfolio Value	$ 9,049,232,020	100.0%

Reconciliation to Statement of Plan Net Assets	
Net Portfolio Value	$ 9,049,232,020
Accrued Income and Expenses	143,253
Accounts receivable, securities sold	(258,293,930)
Accounts payable, securities purchased	327,073,722
Cash and cash equivalents	(479,260,948)
Investments per Statement of Plan Net Assets	$ 8,638,894,117

Investment Results

FOOTNOTES TO INVESTMENT RESULTS TABLE ON PAGE 43:

(1) The US equity composite includes cash equitization as of November 1998. Prior to October 1994, the US equity benchmark was the S&P 500 Index.

(2) From inception to July 1997 - 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 ACWI ex-US (developed markets 50% hedged).

(3) Private equity returns are reported one quarter in arrears beginning with quarter ending June 30, 2002, and do not reflect the adjustment to fair market value. 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 the quarter ended June 30, 2002.

(5) The real estate composite returns are reported one quarter in arrears beginning with the quarter ending June 30, 2002, and do not reflect the adjustment to fair market value. To implement quarter in arrears reporting, the returns for private real estate assets were recorded as zero for the quarter ended June 30, 2002. Public Real Estate returns are reported in the current quarter.

(6) From inception to June 2002, benchmark consisted of 100% NCREIF Property Index (one quarter in arrears). Starting in July 2002, the benchmark consists of 80% NCREIF Property Index (one quarter in arrears) and 20% FTSE EPRA/NAREIT Developed 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) Effective February 1, 2009, the SERS benchmark weighting became 27.5% Russell 3000 Index, 27.5% MSCI ACWI ex-US Index (50% developed markets hedged), 24% Barclays Aggregate Index, 10% SERS Real Estate Custom Benchmark, 10% Private Equity Benchmark, and 1% CitiGroup 30 Day T-Bill Index. This change superseded the benchmark that was implemented on May 31, 2007 of 29% Russell 3000, 29% MSCI ACWI ex-US Index (50% developed markets hedged), 24% Lehman Brothers Aggregate Index, 10% SERS Real Estate Custom Benchmark, 7% S&P 500 Index + 300 bps, and 1% CitiGroup 30 Day T-Bill Index. Prior to May 31, 2007, SERS' Policy Benchmark consisted of 46% Russell 3000 Index, 16% MSCI ACWI ex-US Index (50% developed markets hedged), 23% Lehman Brothers Aggregate Index, 10% SERS Real Estate Custom Benchmark, 3% S&P 500 Index + 300 bps, 2% CitiGroup 30 Day T-Bill Index. For the quarter ended June 30, 2002, Private Equity Benchmark (one quarter in arrears) reflects a 0% return.

Statement of Investment Policy

I. Purpose of Policy Statement

The purpose of this Statement of Investment Policy (Policy Statement) is to set forth the investment philosophy and objectives of the Retirement Board (Board) for the School Employees Retirement System of Ohio (SERS).

This Policy Statement:

A. incorporates and is subject to all restrictions and obligations set forth in Chapter 3309 of the Ohio Revised Code;

B. establishes investment policies and describes the organization and division of responsibilities necessary to implement the Board's philosophy and objectives prudently; and

C. establishes a framework for monitoring investment activity, and promotes effective communication between the Board, Staff, and other involved parties.

This Policy Statement is subject to change at any time by the Board. The Board will review the Policy Statement and revise it periodically to assure it continues to reflect the investment philosophy, objectives and strategies of the Board.

II. Investment Philosophy

The Board recognizes the need to prudently manage SERS assets (the Fund) to meet its statutory and fiduciary obligations and to achieve or exceed its objectives. The Board’s investment philosophy is grounded in fundamental, prudent investment principles, incorporating modern portfolio theory and in-depth analyses and monitoring. The Board believes it can provide consistent, long-term performance at appropriate levels of risk. By delineating responsibilities and defining policy objectives, this Policy Statement reflects the Board’s investment philosophy.

III. Investment Objectives

The Investment Objectives of SERS are:

A. to assure that SERS provides statutorily-mandated retirement benefits,

B. to earn a net-of-fees total return that equals or exceeds the Actuarial Assumed Rate approved by the Board over the long-term, and

C. to enhance risk-adjusted investment returns of the Fund in a prudent and cost-effective manner.

IV. Risk Management

A. The Board evaluates risk in terms of the probability of not earning the actuarial assumed rate over the long-term. Diversification across asset classes, within asset classes, and across investment styles, sectors and securities will be employed to reduce overall portfolio risk and volatility.

B. Other risks, including but not limited to those such as interest rate risk and credit risk will be managed and carefully monitored by Investment Managers and Investment Staff.

V. Implementation Approach

A. The Board reserves certain responsibilities for itself, while delegating other responsibilities to the Executive Director, the Director of Investments, Investment Staff, Investment Managers, Investment Consultants, the Compliance Officer and other Investment Service Providers. These responsibilities are described in this Policy Statement.

B. In fulfilling its fiduciary duties the Board utilizes a competent and qualified Staff to manage daily operations.

C. The Board requires regular reporting on the Fund’s investment program to ensure compliance with its Policy Statement.

VI. Investment Organization and Responsibilities

A. Responsibilities of the ***Board***

The Board as a fiduciary is responsible for ensuring that Fund assets are managed prudently and effectively, in compliance with applicable laws and this Policy Statement, for the exclusive benefit of participants.

Responsibilities of the ***Board*** include:

1. establishing controls and systems to ensure that Fund fiduciaries comply with applicable laws;

2. establishing asset allocation and investment policies for SERS assets;
3. appointing and discharging those responsible for managing SERS assets, including the Executive Director and Board consultants;
4. appointing and discharging Investment Managers;
5. monitoring and reviewing investment performance and policy compliance;
6. requesting, receiving and reviewing reports from Investment Staff, Board consultants and other entities, if applicable; and
7. reviewing, approving and revising an Annual Investment Plan (Annual Plan).

B. Responsibilities of ***Staff***

Staff will administer Fund assets as fiduciaries, and in accordance with applicable federal and state laws and regulations, this Policy Statement, ethics laws, codes of professional conduct (in particular, the CFA Standards of Professional Conduct and Code of Ethics), and other applicable codes and/or regulations. Staff will establish plans, policies and procedures to carry out these duties.

1. The ***Executive Director*** is responsible for:
   a. ensuring that reports of the Fund’s investment performance are presented on a timely basis;
   b. retaining vendors, consultants, and advisors as necessary to assist staff;
   c. approving for Board consideration the recommendation of the Director of Investments’ and Investment Staff to appoint or discharge Investment Managers;
   d. discharging Investment Managers on an emergency basis in accordance with paragraph VI.G., below, following a recommendation by the Director of Investments, the Investment Staff and with the concurrence of the Investment Consultant;
   e. appointing and discharging Investment Director and Investment Staff; and
   f. overseeing the investment function.
2. The ***Director of Investments*** is responsible for:
   a. overseeing the Investment Program and keeping the Executive Director advised;
   b. preparing and presenting to the Board for approval the Annual Plan;
   c. implementing the Annual Plan;
   d. investigating and researching new and emerging investment concepts and strategies, and recommending or implementing appropriate strategies;
   e. informing Investment Managers, Investment Consultants and others providing investment services to SERS about the requirements of applicable laws and Board policies, and monitoring their compliance with said laws and policies;
   f. adjusting allocations to Asset Classes and Investment Managers as needed, and in accordance with this Policy Statement;
   g. recommending the appointment or discharge of Investment Managers to the Executive Director and the Board, as needed;
   h. discharging Investment Managers on an emergency basis in accordance with paragraph VI.G., below following a recommendation by Investment Staff and with the concurrence of the Investment Consultant and approval by the Executive Director;
   i. activating back-up investment managers previously approved by the Board, and advising the Board of such actions at its next scheduled meeting;
   j. approving investment manager style changes and additions and advising the Board at its next scheduled meeting; however, any change in mandate requires prior Board approval;
   k. supervising Investment Staff;

l. monitoring and evaluating the effectiveness of executed securities transactions and reporting annually to the Board the performance of agents who execute securities transactions on behalf of SERS;

m. periodically reporting proxy voting activity to the Board; and

n. regularly reporting the status of the Fund and its multi-period performance to the Board.

3. The ***Investment Staff*** is responsible for:

a. promptly voting, or instructing Investment Managers to vote, proxies and related actions, and maintaining detailed records of proxy votes and related actions for the Director of Investments;

b. regularly reporting the status of the Fund and its multi-period performance to the Director of Investments;

c. meeting and speaking with existing or potential Investment Managers periodically to review and assess the quality of their investments and management of assets;

d. performing ongoing due diligence to evaluate and monitor Investment Manager capabilities relative to managing Fund assets;

e. recommending to the Director of Investments additions or withdrawals from Investment Manager accounts, or rebalancing of asset class allocations;

f. recommending to the Director of Investments the appointment or discharge of Investment Managers;

g. investing assets of the Cash Equivalents portfolio;

h. investigating and researching new and emerging investment concepts and strategies, and recommending or implementing those strategies to the Director of Investments; and

i. preparing regular periodic reports for the Director of Investments on the performance of agents who execute securities transactions on behalf of SERS.

C. Responsibilities of ***Investment Service Providers***

Investment Service Providers who do business or seek to do business with SERS will act in the best interest of SERS when providing services to SERS or the Fund. Investment Service Providers will:

1. comply with all applicable federal and state laws and regulations, with this Policy Statement, and with all applicable professional codes and regulations;
2. have established ethics and conflict of interest policies and procedures, and proper internal compliance controls in place if applicable;
3. disclose to Investment Staff any actual or potential conflict of interest at the earliest opportunity;
4. disclose any investigation of, or litigation involving its operations, to Investment Staff as permitted by law; and
5. provide annual or other periodic disclosures as required.

The Director of Investments will adopt procedures as appropriate to implement this section.

D. Responsibilities of ***Investment Managers***

Investment Managers and Investment Staff managing assets internally are responsible for prudently investing Fund assets as fiduciaries. In addition to those applicable responsibilities described in VI.C., Investment Managers and internal staff members will:

1. manage assets within their control in compliance with all applicable federal and state laws and regulations, including but not limited to applicable ethics requirements, this Policy Statement, contractual obligations, and applicable professional codes of conduct;
2. inform the Director of Investments and Investment Staff of any substantial changes in investment strategy, portfolio structure, asset value, and of any organizational changes, including that of ownership, affiliation, organizational structure, financial condition, or changes in professional personnel staffing in the investment management organization;
3. present in-depth reports to Investment Staff;
4. recommend to Investment Staff changes to investment guidelines the Investment Manager believes would

enhance investment performance on a risk adjusted basis; and

5. select such agents for the execution of transactions, at such prices, and at such commission rates as in the good faith judgment of the Investment Manager will be in the best interest of the Fund's assets, taking into consideration in the selection of such agents not only the available prices and rates of brokerage commissions, but also other factors relevant to the transaction.

E. Responsibilities of ***Investment Consultants***

Investment Consultants will:

1. provide services as a fiduciary and in accordance with all applicable federal and state laws and regulations including, but not limited to, applicable ethics requirements; in accordance with this Policy Statement; and with all applicable professional codes and/or regulations;
2. provide independent and unbiased research, information and advice to the Board and Staff;
3. assist in the development and amendment of this Policy Statement;
4. assist in the development of strategic asset allocation targets and ranges;
5. assist in the development of performance measurement standards;
6. monitor and evaluate Investment Manager performance as appropriate on an ongoing basis;
7. recommend the retention or discharge of Investment Managers to Staff or the Board as appropriate;
8. collaborate with Investment Staff in the due diligence of potential Investment Managers and existing Investment Managers, as requested by Staff;
9. assist in the development of criteria for and procedures to be utilized in the selection of Investment Managers;
10. provide research, information and advice on investment topics and strategies considered relevant by the Investment Consultant, or when requested by the Board or Investment Staff;
11. provide those services delineated in the Advisory or Consultant Agreement; and
12. provide any other advice or services that the Board, Executive Director or Director of Investments determines from time to time are necessary, useful or appropriate to fulfill the objectives of this Policy Statement.

F. Responsibilities of the ***Compliance Officer***

The Compliance Officer is responsible for:

1. monitoring and reporting compliance with this Policy Statement and Board Resolutions;
2. ensuring that investment management agreements and related contracts comply with the Policy Statement;
3. ensuring that Investment Service Providers and Investment Managers comply with Sections VI.C. and D., herein; and
4. identifying and, in concert with Investment Staff, resolving compliance violations by Investment Managers and Investment Staff relative to their respective investment guidelines. Staff will ensure that those accounts with guideline violations are efficiently and effectively brought back into compliance.

G. Emergency Situations

The Board authorizes the Executive Director and the Director of Investments to discharge investment managers without Board approval in emergency situations where immediate action is necessary to protect the interests of the Fund. In such emergency situations the Executive Director or the Director of Investments will notify the Chairman or Vice Chairman of the Board prior to taking action, if possible, and will notify the Board of its actions by email within one business day of said discharge. Staff will address the situation with the Board at its next scheduled meeting.

VII. Implementation Strategies

A. Asset Allocation

The Board will conduct an asset and liability study every three to five years, sooner if necessary, in order to establish allocation targets and ranges for asset classes within distinct capital markets.

In order to identify the investment horizon of SERS and its cash flow requirements, liability considerations will include but not be limited to current and expected future values of the benefits, contributions, and total assets.

Having given due consideration to an asset and liability study conducted by the Investment Consultant, which study met the requirements of this Policy Statement, the Board hereby recognizes and reaffirms the following asset allocation for SERS:

ASSET CLASS	TARGET	RANGE
Equity	**65%**	**60% - 70%**
Domestic	27.5%	22.5% - 32.5%
International	27.5%	22.5% - 32.5%
Global Private Equity	10%	5% - 15%
Fixed Income	**35%**	**30% - 40%**
Global Bonds	24%	19% - 29%
Global Real Estate	10%	5% - 15%
Cash Equivalents	1%	0% - 5%

The Board authorizes the use of Hedge Fund and Portable Alpha strategies in the Fund. Allocations to said strategies in total will not exceed 10% of the Fund's value.

B. Derivatives

The Board authorizes the use of derivatives in the Fund and authorizes the Director of Investments with the advice and assistance of the Investment Consultant to develop and implement derivatives strategies as needed. The Director of Investments will adopt a derivatives policy setting forth general guidelines for derivatives use.

C. Leverage

The Board authorizes the use of leverage in the Fund and authorizes the Director of Investments with the advice and assistance of the Investment Consultant to develop and implement certain leverage strategies. The Director of Investments will adopt a leverage policy setting forth general guidelines for the use of leverage.

D. Rebalancing

The Director of Investments will adopt a rebalancing strategy for the Fund, which ensures adherence to the asset allocation strategy in Section VII.A. The strategy may delegate certain authority to Investment Staff.

E. Currency Hedging

The Board authorizes currency hedging in the Fund and authorizes the Director of Investments with the advice and assistance of the Investment Consultant to develop and implement currency hedging strategies as needed.

F. Transition Management

The Board authorizes the Executive Director and the Director of Investments to hire Transition Managers as needed.

G. Proxy Voting

The Board authorizes Investment Staff to vote proxies of common stock owned by SERS and to hire proxy services as required to implement this strategy. The Director of Investments will adopt and implement procedures for voting proxies as described in the Proxy Policy.

H. Securities Lending

The Board authorizes Investment Staff to develop and implement a securities lending program which may involve the appointment or discharge of third party securities lending agents by the Executive Director or the Director of Investments.

I. Investment Managers

The Board will approve Investment Managers and Backup Investment Managers based upon recommendations of Investment Staff or Investment Consultants as may be appropriate, and discussions with some Managers during Board presentations.

Investment Managers will adhere to investment guidelines established by Investment Staff, as well as all applicable laws and policies. The Director of Investments is authorized to establish and amend said investment guidelines as needed.

It is a goal of the Board to increase the utilization of Ohio-qualified Investment Managers when an Ohio-qualified Investment Manager offers quality services and safety comparable to other Investment Managers available to the Board, and the use of such Investment Manager is consistent with the Board's fiduciary duties.

J. Approved Agents

Agents, or broker/dealers who may provide execution of securities transactions for SERS will be evaluated on the basis of financial soundness, underwriting capabilities, research services, execution costs, and any other capabilities necessary in the execution of such transactions. Investment Managers which use such agents will use their good faith judgment to ensure that said agents will perform in the best interest of the Fund.

It is a goal of the Board to increase its utilization of Ohio-qualified agents for the execution of domestic equity and domestic fixed income trades when an Ohio-qualified agent offers quality, services, and safety comparable to other agents available to the Board or its Investment Managers, and the use of such agent is consistent with the Board's fiduciary duties.

K. Security Litigation

SERS will follow the securities litigation policy and procedures as approved by the Board in setting out a course of action that best represents the interests of SERS' participants and beneficiaries.

L. Other

The strategies listed herein are not meant to constrain the Director of Investments from prudently managing the Investment Program. The Director of Investments may develop and implement additional investment strategies as needed.

VIII. Performance

A. Performance Measurement Standard

Performance evaluation for the Fund will focus on total return, on an accrual accounting basis, including realized and unrealized capital gains and losses, and income. Valuations are to be made at least on a quarterly basis and period returns are to be geometrically linked. Private market asset returns may be reported one quarter in arrears. Cash and cash equivalents will be included in the portfolio's return. Performance will be calculated on a gross-of-fee basis.

B. Performance Benchmark – Total Fund

Performance of the Fund relative to benchmarks will be examined monthly, and will be reported for multiple time periods as needed. The Board's Investment Consultant will calculate and report performance net-of-fees on a quarterly basis.

The performance benchmark for the Fund will be the target-weighted average of the performance benchmark for each asset class.

C. Performance Benchmarks – Asset Classes

The long-term performance benchmark for each asset class is shown below. For purposes of this section, long-term refers to rolling three to five year periods. Performance in each asset class should meet or exceed the Benchmark measure.

Asset Class	Benchmark Measure
Domestic Equity	Russell 3000 Index
International Equity	Morgan Stanley Capital International – All Country World Free ex-U.S. Index – 50% hedged for developed countries
Global Private Equity	Standard & Poor's 500 Index plus 300 basis points (one quarter in arrears)
Global Fixed-Income	Lehman Brothers Aggregate Bond Index
Global Real Estate	80% NCREIF Property Index (one quarter in arrears); 20% FTSE EPRA/NAREIT Global Real Estate Index
Cash Equivalents	Citigroup 30-day T-Bill Index

D. Performance Benchmarks – Hedge Funds

Hedge Funds will be measured against performance benchmarks at the portfolio level, as follows:

1. The performance benchmark for Absolute Return Hedge Fund Portfolios will be the HFRI Fund Weighted Composite Index; and
2. The performance benchmark for Portable Alpha Hedge Fund Portfolios funded from the Domestic Equity Asset Class will be the Standard & Poor's 500 Index.

Portable Alpha Portfolio Performance will be net of the cost of providing the underlying beta.

E. Performance Benchmarks – Individual Investment Managers

Investment Staff will establish performance benchmarks for each Investment Manager based on its respective style.

IX. Review and Evaluation

The Board will review and evaluate periodic reports on the investment performance of Fund assets. Greater emphasis will be placed on three to five year results. The intended frequency for review and evaluation, subject to change by the Board, is as follows:

A. Monthly – Investment Report including total Fund market value, asset allocation, performance of the Fund and each asset class, and the Fund's compliance with this Policy Statement.

B. Quarterly – Summary Investment Report presented by the Investment Consultant, including highlights and commentary about market conditions, investment performance, asset composition and characteristics for each asset class, and relevant manager level information.

This policy supersedes the policy adopted August 2, 1985 and all revised policies dated 8/01/08; 2/21/08; 10/01/07; 10/20/05; 9/15/00; 10/23/98; 6/19/98; 12/12/97; 7/25/97; 3/21/97;12/20/96; 11/22/96; 6/21/96; 4/25/96; 9/15/95; 7/28/95; 6/16/95; 3/17/95; 1/20/95; 10/21/94; 5/20/94; 3/06/92; 4/07/89; 9/04/87; 1/09/87.

ACTUARIAL SECTION

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

November 12, 2010

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, 2010 indicates that a contribution rate of 12.57% of payroll for 126,015 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 the contribution:

- to basic benefits, the post-retirement death benefit and the Medicare Part-B supplement, the portion which will pay normal cost and 29-year amortization of unfunded actuarial accrued liabilities; and
- to health care, 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 2001-2005 fiscal years. 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 Statements No. 25 and No.43

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Board of Trustees
November 12, 2010
Page 2

The financial condition of health care 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 20-year solvency period for the health care reserve fund. Such reserve is based on the projected claims and premium contributions for the next twenty years, as is described in the Statement of Funding Policy adopted by the Board on September 19, 2008. Since total claims are projected to exceed total contributions in future years, it is currently anticipated that future reserve fund amounts will be depleted in 2018.

The current benefit structure is outlined in the Plan summary. The benefits were changed for those who begin membership on or after May 14, 2008. For those members the normal and early retirement eligibilities were changed and the early retirement benefit was actuarially adjusted for benefits commencing before age 65 or 30 years of service. This change had a minimal impact on valuation results this year but will reduce overall costs in future years as more members are covered by the new benefit structure.

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, the Schedule of Funding Progress, and the Schedule of Employer Contributions in the Financial Section. For fiscal years prior to June 30, 2008, the information was provided by previous actuaries.

Based upon the results of the valuation of the basic benefits, the post-retirement death benefit and Medicare Part-B supplement as well as the expected asset losses that will be reflected in the smoothed actuarial value of assets over the next three years absent significant asset gains in those years, it is our opinion that the School Employees Retirement System of Ohio will only continue in sound condition in accordance with actuarial principles of level percent of payroll financing with benefit reductions and/or contribution rate increases from employers, members or both.

Sincerely,

Thomas J. Cavanaugh, FSA, FCA, EA, MAAA
Chief Executive Officer

TJC:kc

S:\Ohio SERS\2010\Miscellaneous Correspondence\Board of Trustees letter

Pension

Summary of Actuarial Assumptions and Methods

The SERS Board adopted the following actuarial assumptions and methods May 11, 2006, on the recommendation of its actuary. These assumptions were based on an analysis of plan experience for the five-year period July 1, 2000 through June 30, 2005, and were adopted for use in the valuation as of June 30, 2006. All historical information and data shown in this report with a valuation date prior to June 30, 2008, were obtained from the previous actuaries' valuation reports.

Funding Method Basic benefits are determined using the entry age normal actuarial cost method. Under this cost method, projected service retirement, termination, disability, and death benefits are determined for all active members. Cost factors, which are developed to produce level annual costs in each year from the age at hire (entry age) to the assumed retirement age, are applied to the projected benefits to determine the "normal cost." The normal cost is the portion of the total cost of the plan allocated to the current year. The normal cost for contribution refunds is assumed to end in the last year of the assumed eligibility, and is spread over all years of service.

The "actuarial accrued liability" for active members is then calculated as the portion of the total cost of the plan allocated to prior years. The actuarial accrued liability for retirees currently receiving benefits, for active members beyond the assumed retirement age, and for inactive members entitled to future benefits, is equal to the present value of the benefits expected to be paid.

The dollar amount of the total actuarial accrued liability in excess of the value of the plan net assets is called the "unfunded actuarial accrued liability." Funding requirements under the entry age actuarial cost method are determined by adding the normal cost and the cost to amortize the unfunded liability.

Actuarial assumptions are used to determine the projected benefits and cost factors. The effect of differences between these assumptions and the actual experience of the plan is calculated each year when the annual actuarial valuation is performed. These differences produce either actuarial gains or losses that result in an adjustment of the unfunded liability.

Contributions During FY2010, active members and their employers were required to contribute 10% and 14%, respectively, of active member payroll. The Board allocates the employer contribution rate of 14% among basic benefits (pension, Medicare B, and death benefit) and health care in accordance with its funding policy. For the year ended June 30, 2010, the policy required the determination of a rate for basic benefits to cover normal cost and to amortize the unfunded actuarial accrued liabilities over a 29-year period. The remaining portion of the employer contribution was allocated to health care benefits.

Pension Trust Fund	12.74%
Death Benefit Fund	.04
Medicare B Fund	.76
Health Care Fund	.46
	14.00%

The Ohio Revised Code (ORC) also provides for an employer contribution surcharge as an additional source of funding for health care. The surcharge is equal to 14% of the difference between a minimum pay amount and the member's pay, if below that minimum, pro-rated for partial service credit. For FY2010, the minimum pay amount was established at $35,800. The employer surcharge cap is applied at 2.0% of each employer's payroll and at 1.5% of total payroll statewide.

Asset Valuation Method 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 sizeable and persistent, a change is made to the actuarial assumptions.

SERS' Board adopted a method of valuing investment assets that recognizes a "smoothed" market value of those assets. The smoothed value of assets recognizes the difference between actual and expected performance for each year in equal amounts over a four-year period.

Economic Assumptions The following economic assumptions were used in the actuarial valuation as of June 30, 2010.

- **Investment Return** Net after all System expenses, the return on investments is compounded annually at 8.0%.
- **Inflation Rate** The inflation assumption is 3.5% per year. The real rate of return is the portion of total investment return, which is more than the inflation rate. Considering inflation recognition of 3.5%, the 8.0% investment return rate translates to an assumed real rate of return of 4.5%.
- **Benefit increases** Cost-of-living adjustments of 3.0% per year after retirement are assumed.
- **Payroll Growth** Salary increases attributable to payroll growth of 4.0% are projected and compounded annually. Additional projected salary increases ranging from 0.5% 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%	4.00%	24.75%
1	13.25	4.00	17.25
2	10.75	4.00	14.75
3	8.75	4.00	12.75
4	7.75	4.00	11.75
5	5.75	4.00	9.75
6	4.75	4.00	8.75
7	3.75	4.00	7.75
8	2.75	4.00	6.75
9	1.75	4.00	5.75
10-14	0.75	4.00	4.75
15 & over	0.50	4.00	4.50

Non-Economic Assumptions

- **Retirements** Representative values of the assumed annual rates of service retirement are as follows:

Age	Male	Female
50	40.0%	33.0%
55	25.0	25.0
60	10.0	20.0
62	15.0	15.0
65	25.0	25.0
70	20.0	20.0
75	100.0	100.0

- **Death-in-Service and Disability Benefits** Separation from active service other than retirement or termination of employment assumed rates are:

			Disability	
Age	Male	Female	Male	Female
30	0.044%	0.017%	0.112%	0.075%
40	0.053	0.033	0.405	0.157
50	0.114	0.065	0.825	0.394
60	0.335	0.193	0.825	0.608
70	1.082	0.635	0.825	0.608
74	1.557	0.917	0.825	0.608

- **Death after Retirement** For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table, set back one year for both men and women. Special mortality tables are used for disability retirement. This assumption is used to measure the probabilities of each benefit payment being made after retirement.
- **Marriage Assumption** Based on prior experience, it is assumed that 80% of retirees are married, with the husband three years older than his wife.

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 or 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 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 AS OF JUNE 30, 2010

Present value of:	Basic Benefits	Medicare B	Death Benefit	Total
Future benefits to present retirees and survivors	$ 7,351,062,443	$ 228,810,849	$ 23,150,932	$ 7,603,024,224
Benefits and refunds to present inactive members	498,930,826	10,003,340	1,611,995	510,546,161
Allowances to present active members				
Service	6,413,328,535	111,182,642	6,465,983	6,530,977,160
Disability	316,401,962	4,977,711	427,820	321,807,493
Survivor benefits	111,317,145	1,922,425	-	113,239,570
Withdrawal	132,308,556	9,655,258	54,757	142,018,571
Total Active AAL	6,973,356,198	127,738,036	6,948,560	7,108,042,794
Total AAL	$ 14,823,349,467	$ 366,552,225	$ 31,711,487	$ 15,221,613,179

Active Member Valuation Data

Actuarial Valuation as of June 30	Number of Active Members	Annual Payroll *(millions)*	Average Annual Salary	% Increase in Average Salary
2010	126,015	$2,842.7	$22,558	1.5%
2009	125,465	2,787.4	22,216	4.2
2008	124,370	2,651.8	21,322	0.8
2007	123,013	2,603.3	21,163	2.2
2006	123,266	2,553.3	20,714	3.8
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
2010	2,694	$37,351,889	2,324	$1,331,166	66,127	$729,859,717	5.2%	$11,037
2009	3,103	41,970,065	2,164	504,642	65,757	693,838,994	6.4	10,552
2008	3,448	46,243,749	2,159	1,256,318	64,818	652,373,571	7.4	10,065
2007	3,596	44,864,781	2,588	4,249,533	63,529	607,386,140	7.2	9,561
2006	3,750	40,115,408	2,662	1,276,484	62,521	566,770,892	7.4	9,065
2005	3,683	38,670,969	2,819	2,357,850	61,433	527,931,968	7.4	8,594

Analysis of Financial Experience

Gains and Losses in Accrued Liabilities Resulting from Differences
Between Assumed Experience and Actual Experience in the Pension, Medicare B, and Death Benefit Funds

Type of Risk Area	Gain/(Loss) for Year in Millions 2010	2009	2008	2007	2006	2005
Age and Service Retirements If members retire at older ages than assumed, there is a gain. If younger ages, a loss.	$ (40.6)	$ (50.8)	$ (96.1)	$ 13.4	$ 37.9	$ (82.6)
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	(23.4)	(28.7)	(3.5)	0.9	1.2	2.1
Death-In-Service Benefits If claims costs are less than assumed, there is a gain. If more claims, a loss.	(0.5)	(0.6)	(0.6)	(0.3)	0.2	(0.7)
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	182.5	107.5	95.8	121.0	76.4	101.6
Investment Return If there is greater investment return than assumed, there is a gain. If less return, a loss.	390.5	(2,265.2)	(6.6)	504.3	44.7	(397.4)
Withdrawal If more liabilities are released by other separations from active membership than assumed, there is a gain. If smaller releases, a loss.	11.0	(11.9)	8.1	(73.2)	(52.9)	52.7
New Members Additional unfunded accrued liability will produce a loss.	(38.1)	(50.4)	(51.3)	(37.2)	(36.7)	(42.7)
Death after Retirement If retirees live longer than assumed, there is a loss. If not as long, a gain.	46.5	51.8	72.4	(10.2)	15.8	12.4
Other Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	(29.6)	200.1	81.2	(1.1)	(145.4)	(81.7)
Non-Recurring Items Adjustments for plan amendments, assumption changes, or method changes.	0.0	0.0	0.0	0.0	156.5	0.0
Total Gain/(Loss) During Year	$ 498.3	$(2,048.2)	$ 99.4	$ 517.6	$ 97.7	$ (436.3)

ACTUARIAL SECTION

Short-Term Solvency Test

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

If the contributions are level in concept and soundly executed, SERS will pay all promised benefits when due, which is 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 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.

Under the level percent of payroll financing, liabilities for active member contributions on deposit and the liabilities for future benefits to present retirees and beneficiaries will be fully covered by present assets except in rare circumstances. In addition, liabilities for active member benefits earned or to be earned in the future will be partially covered by the remainder of present assets. Generally, if SERS has been using level cost financing, the funded portion of active member benefits will increase over time.

Solvency Test
Pension and Death After Retirement Benefits[1]

	Aggregate Accrued Liabilities for *(in millions)*				**Portion of Accrued Liabilities Covered by Reported Assets**		
June 30	**(1) Active Member Contributions**	**(2) Retired Members & Beneficiaries**	**(3) Active Members (Employer Financed Portion)**	**Actuarial Value of Assets**	**(1)**	**(2)**	**(3)**
2010	$2,569	$7,364	$5,288	$10,787	100%	100%	16%
2009	2,470	7,034	4,664	9,723	100	100	5
2008	2,291	6,632	4,730	11,241	100	100	45
2007*	2,180	6,413	4,710	10,640	100	100	44
2006*	2,064	6,006	4,557	9,542	100	100	32
2005*	1,943	5,551	4,467	8,893	100	100	31

* Reported by prior actuarial firm.

Solvency Test
Medicare B Benefits[1]

	Aggregate Accrued Liabilities for *(in millions)*				**Portion of Accrued Liabilities Covered by Reported Assets**		
June 30	**(1) Active Member Contributions**	**(2) Retired Members & Beneficiaries**	**(3) Active Members (Employer Financed Portion)**	**Actuarial Value of Assets**	**(1)**	**(2)**	**(3)**
2010	$0	$239	$181	$122	100%	51%	0%
2009	0	239	174	113	100	47	0
2008	0	241	168	131	100	54	0

[1] Solvency Test combines Pension, Death After Retirement Benefits, and Medicare B Benefits for valuations performed prior to 6/30/2008.

Health Care

Summary of Actuarial Assumptions and Methods

Governmental Accounting Standards Board (GASB) Statements 43 and 45 require actuarial valuations of retiree medical and other postemployment benefit plans.

Funding Method The medical and drug benefits of the plan are determined using the entry age normal actuarial cost method with the normal cost rate determined as a level percentage of payroll. GASB requires the discount rate used to value a plan to be based on the likely return of the assets held in trust to pay benefits. The discount rate used in this valuation is 5.25%.

Contributions Gains and losses are reflected in the unfunded accrued liability that is amortized by regular annual contributions as a level percentage of payroll within a 30-year period, on the assumption that payroll will increase 4.00% annually. The assumptions recommended by the actuary are, in the aggregate, reasonably related to the experience under the plan and to reasonable expectations of anticipated experience under the plan and to meet the parameters for the disclosures under GASB 43 and 45. The valuation indicates that the Annual Required Contribution (ARC) required to actuarially fund the plan is 5.93% of active payroll payable for the fiscal year ended June 30, 2010. Any net claims or premiums paid for retiree health care are considered contributions toward the ARC.

Year Ended	Annual Required Contribution (ARC) (a)	Employer Contribution (b)	Retiree Drug Subsidy (RDS) Contribution (c)	Total Contribution (d) = (b) + (c)	Percentage of ARC Contributed (d) / (a)
June 30, 2010	$315,535,278	$ 60,142,014	$24,414,855	$ 84,556,869	26.8%
June 30, 2009	373,789,127	163,411,488	23,504,101	186,915,589	50.0
June 30, 2008	307,874,094	158,393,761	21,953,659	180,347,420	58.6
June 30, 2007	299,379,524	170,948,274	20,202,965	191,151,239	63.8

Asset Valuation Method 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 sizeable and persistent, a change is made to the actuarial assumptions.

Economic Assumptions The following economic assumptions were used in the actuarial valuation as of June 30, 2010.

- **Investment Return** Net after all plan expenses, the return on investments is compounded annually at 5.25%.
- **Inflation Rate** The inflation assumption is 3.5% per year. The real rate of return is the portion of total investment return which is more than the inflation rate. Considering inflation recognition of 3.5%, the 5.25% investment return rate translates to an assumed real rate of return of 1.75%.
- **Medical Trend Assumption** Initially health care cost increase of 9.5%, decreasing gradually to 5.0% in year 2017 and beyond.

Calendar Year	Indemnity and PPO	HMO
2010	9.5%	9.0%
2011	9.0	8.5
2012	8.5	8.0
2013	7.5	7.0
2014	6.5	6.0
2015	6.0	5.5
2016	5.5	5.0
2017 and beyond	5.0	5.0

Non-Economic Assumptions

- **Age-related morbidity** Per capita costs are adjusted to reflect expected cost changes related to age. The increase to the net incurred claims is assumed to be:

Participant Age	Annual increase Medical	Prescription
41 - 45	2.50%	1.25%
46 - 50	2.60	1.30
51 - 55	3.20	1.60
56 - 60	3.40	1.70
61 - 65	3.70	1.85
66 - 70	3.20	1.60
71 - 75	2.40	1.20
76 - 80	1.80	0.90
81 - 85	1.30	0.65

- **Anticipated Plan Participation** 50% of male retirees will choose spousal coverage, while only 40% of female retirees will choose spousal coverage.

*100% of disabled retirees are assumed to participate. 50% of members retiring from inactive status are assumed to participate.

Years of Service at Retirement*	Member Participation
10 - 14	25.00%
15 - 19	45.00
20 - 24	70.00
25 - 29	75.00
30 - 34	80.00
35 and over	90.00

- **Death after Retirement** Assumed rates are as follows:

Annual Rates of Post-Retirement Death

	Healthy		Disabled	
Age	Male	Female	Male	Female
20	0.048%	0.028%	2.104%	1.826%
30	0.078	0.033	2.204	1.958
40	0.100	0.065	2.304	2.090
50	0.233	0.131	2.404	2.222
60	0.709	0.386	3.906	2.366
70	2.173	1.271	4.861	2.601
80	5.586	3.536	7.812	5.547

Actuarial Accrued Liabilities

The results of the computed actuarial accrued liabilities, using the entry age normal actuarial cost method, are disclosed in the schedule to the right.

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ACTUARIAL ACCRUED LIABILITIES AS OF JUNE 30, 2010

Present value of benefits payable on account of present retired members and beneficiaries	$ 962,176,979
Present value of benefits payable on account of active members	2,416,835,277
Present value of benefits payable on account of deferred vested members	8,175,583
Total liabilities	$3,387,187,839

STATISTICAL SECTION

Statistical Section

The objectives of the statistical section are to provide additional historical perspective, context, and relevant details to assist readers in using information in the financial statements, notes to the financial statements, and required supplementary information in order to understand and assess SERS' overall financial condition.

The schedules and graphs beginning on page 73 show financial trend information about the change in SERS' assets for the past 10 years. These schedules provide detailed information about the trends of key sources of asset additions and deductions, which assist in providing a context framing how SERS' financial position has changed over time. The financial trend schedules presented are:

- Net Assets by Fund
- Changes in Net Assets
- Benefit and Refund Deductions from Net Assets by Type

The schedules beginning on page 80 show demographic and economic information. This information is designed to assist in understanding the environment in which SERS operates. The demographic and economic information and the operating information presented include:

- Employee and Employer Contribution Rates
- Demographics of New Pension Benefit Recipients
- Demographics of Active and Retired Members
- Retired Members by Type of Benefit
- Retirees, Spouses, and Dependents Receiving Health Care Coverage
- Principal Participating Employers
- Average Benefit Payments

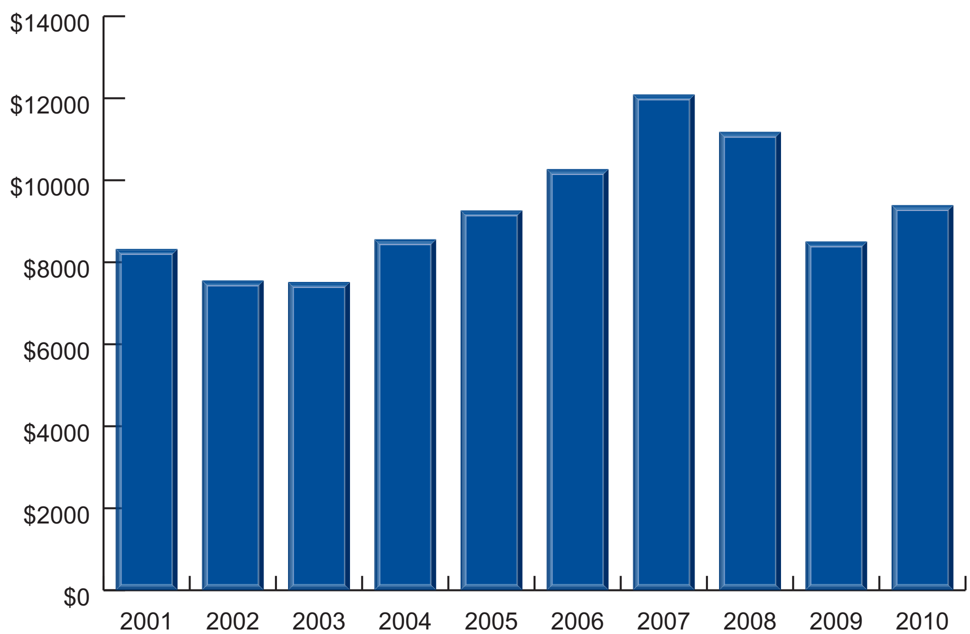
Net Assets by Fund

Last 10 years

	Pension Trust Fund	Medicare B Fund	Death Benefit Fund	QEBA Fund	Health Care Fund	Total Fund
2010	$ 8,953,363,488	$101,513,452	$17,054,072	$87,129	$325,004,169	$ 9,397,022,310
2009	8,024,889,206	93,243,651	15,974,467	74,585	376,459,222	8,510,641,131
2008	10,646,564,348	124,627,144	22,278,877	69,717	392,680,731	11,186,220,817
2007	11,546,062,014	139,902,535	25,270,739	4,899	386,355,370	12,097,595,557
2006	9,833,948,677	124,178,222	22,076,462	7,429	295,561,933	10,275,772,723
2005	8,866,129,871	114,696,809	20,758,872	36,868	267,482,155	9,269,104,575
2004	8,133,054,479	111,221,576	20,306,868	11,052*	300,860,704	8,565,454,679
2003	7,096,479,273	103,481,031	18,897,237		303,556,610	7,522,414,151
2002	7,091,939,175	111,154,470	20,340,023		335,233,043	7,558,666,711
2001	7,861,021,652	128,691,592	23,610,466		315,713,869	8,329,037,579

* The Qualified Excess Benefit Arrangement was established January 2003; funding commenced November 2003.

Total Net Assets *(in billions)*



Changes in Net Assets

Last 10 fiscal years

PENSION TRUST FUND	2010	2009	2008	2007
ADDITIONS				
Employer Contributions	$ 378,201,685	$ 268,645,839	$ 259,394,723	$ 232,846,344
Employee Contributions	301,649,643	295,788,567	284,910,486	276,759,362
Other Income	–	–	–	–
Total Investment Income/(Loss), Net	1,042,542,982	(2,434,825,781)	(731,527,482)	1,863,226,769
TOTAL ADDITIONS	1,722,394,310	(1,870,391,375)	(187,222,273)	2,372,832,475
DEDUCTIONS				
Pension Benefits	734,080,237	696,152,597	650,991,508	606,753,367
Refunds and Lump Sum Payments	37,159,685	34,213,067	38,907,918	33,638,741
Net Transfers to other Ohio Systems	5,085,923	3,224,094	4,723,303	2,873,755
Administrative Expenses	17,594,183	17,694,009	17,652,664	17,453,275
TOTAL DEDUCTIONS	793,920,028	751,283,767	712,275,393	660,719,138
Net increase (decrease)	928,474,282	(2,621,675,142)	(899,497,666)	1,712,113,337
Net assets held in trust:				
Balance, Beginning of Year	8,024,889,206	10,646,564,348	11,546,062,014	9,833,948,677
Balance, End of Year	**$ 8,953,363,488**	**$ 8,024,889,206**	**$ 10,646,564,348**	**$ 11,546,062,014**

HEALTH CARE FUND	2010	2009	2008	2007
ADDITIONS				
Employer Contributions	$ 60,142,014	$ 163,411,488	$ 158,393,761	$ 170,948,274
Other Income	96,449,404	97,284,347	94,660,706	91,823,048
Total Investment Income/(Loss), Net	31,472,744	(58,751,419)	(18,289,836)	49,307,490
TOTAL ADDITIONS	188,064,162	201,944,416	234,764,631	312,078,812
DEDUCTIONS				
Health Care Expenses	236,915,618	215,409,645	226,436,827	219,438,662
Administrative Expenses	2,603,597	2,756,280	2,002,443	1,846,713
TOTAL DEDUCTIONS	239,519,215	218,165,925	228,439,270	221,285,375
Net increase (decrease)	(51,455,053)	(16,221,509)	6,325,361	90,793,437
Net assets held in trust:				
Balance, Beginning of Year	376,459,222	392,680,731	386,355,370	295,561,933
Balance, End of Year	**$ 325,004,169**	**$ 376,459,222**	**$ 392,680,731**	**$ 386,355,370**

2006	2005	2004	2003	2002	2001
$ 234,875,166	$ 255,633,456	$ 213,736,648	$ 182,919,583	$ 102,321,473	$ 90,091,402
272,615,865	262,265,550	258,131,243	225,014,540	210,098,081	192,563,026
610,054	–	–	–	–	–
1,080,786,996	793,539,701	1,098,850,856	91,598,224	(619,870,709)	(605,415,851)
1,588,888,081	1,311,438,707	1,570,718,747	499,532,347	(307,451,155)	(322,761,423)
569,027,766	533,714,925	492,405,489	456,834,182	425,754,214	397,234,511
31,037,063	27,112,818	22,090,604	19,575,616	19,212,728	21,817,451
3,587,709	155,635	2,244,495	917,730	(365,587)	1,538,082
17,416,737	17,379,937	17,402,953	17,664,721	17,029,967	14,975,992
621,069,275	578,363,315	534,143,541	494,992,249	461,631,322	435,566,036
967,818,806	733,075,392	1,036,575,206	4,540,098	(769,082,477)	(758,327,459)
8,866,129,871	8,133,054,479	7,096,479,273	7,091,939,175	7,861,021,652	8,619,349,111
$ 9,833,948,677	**$ 8,866,129,871**	**$ 8,133,054,479**	**$ 7,096,479,273**	**$ 7,091,939,175**	**$ 7,861,021,652**

2006	2005	2004	2003	2002	2001
$ 157,404,134	$ 126,355,575	$ 159,550,942	$ 171,313,952	$ 218,967,729	$ 236,898,701
70,152,335	40,595,447	27,947,708	15,579,621	13,496,715	10,693,490
30,524,217	19,976,256	34,640,957	3,189,950	(15,550,768)	(11,328,226)
258,080,686	186,927,278	222,139,607	190,083,523	216,913,676	236,263,965
228,570,748	218,816,560	223,443,805	220,510,358	196,443,492	172,133,424
1,430,160	1,489,267	1,391,708	1,249,598	951,010	724,977
230,000,908	220,305,827	224,835,513	221,759,956	197,394,502	172,858,401
28,079,778	(33,378,549)	(2,695,906)	(31,676,433)	19,519,174	63,405,564
267,482,155	300,860,704	303,556,610	335,233,043	315,713,869	252,308,305
$ 295,561,933	**$ 267,482,155**	**$ 300,860,704**	**$ 303,556,610**	**$ 335,233,043**	**$ 315,713,869**

Changes in Net Assets (continued)

Last 10 fiscal years

MEDICARE B FUND	2010	2009	2008	2007
ADDITIONS				
Employer Contributions	$ 22,619,935	$ 21,688,294	$ 18,337,305	$ 18,450,617
Other Income	–	–	–	–
Total Investment Income/(Loss), Net	11,348,331	(27,612,707)	(8,388,671)	22,332,826
TOTAL ADDITIONS	33,968,266	(5,924,413)	9,988,634	40,783,443
DEDUCTIONS				
Pension Benefits	25,694,354	25,449,935	25,258,432	25,055,794
Administrative Expenses	4,111	9,145	5,593	3,336
TOTAL DEDUCTIONS	25,698,465	25,459,080	25,264,025	25,059,130
Net increase (decrease)	8,269,801	(31,383,493)	(15,275,391)	15,724,313
Net assets held in trust:				
Balance, Beginning of Year	93,243,651	124,627,144	139,902,535	124,178,222
Balance, End of Year	**$101,513,452**	**$93,243,651**	**$124,627,144**	**$139,902,535**

DEATH BENEFIT FUND	2010	2009	2008	2007
ADDITIONS				
Employer Contributions	$ 1,225,772	$ 734,970	$ 835,348	$ 1,070,630
Other Income	–	–	–	–
Total Investment Income/(Loss), Net	2,130,920	(5,218,168)	(1,600,480)	4,265,549
TOTAL ADDITIONS	3,356,692	(4,483,198)	(765,132)	5,336,179
DEDUCTIONS				
Pension Benefits	2,236,215	1,780,430	2,185,460	2,083,437
Administrative Expenses	40,872	40,782	41,270	58,465
TOTAL DEDUCTIONS	2,277,087	1,821,212	2,226,730	2,141,902
Net increase (decrease)	1,079,605	(6,304,410)	(2,991,862)	3,194,277
Net assets held in trust:				
Balance, Beginning of Year	15,974,467	22,278,877	25,270,739	22,076,462
Balance, End of Year	**$17,054,072**	**$15,974,467**	**$22,278,877**	**$25,270,739**

QEBA FUND*	2010	2009	2008	2007
ADDITIONS				
Employer Contributions	$133,164	$115,573	$172,260	$ 82,745
Other Income	–	–	–	–
Total Investment Income/(Loss), Net	231	1,109	1,129	32
TOTAL ADDITIONS	133,395	116,682	173,389	82,777
DEDUCTIONS				
Pension Benefits	119,458	110,465	107,772	85,106
Administrative Expenses	1,393	1,349	799	201
TOTAL DEDUCTIONS	120,851	111,814	108,571	85,307
Net increase (decrease)	12,544	4,868	64,818	(2,530)
Net assets held in trust:				
Balance, Beginning of Year	74,585	69,717	4,899	7,429
Balance, End of Year	**$ 87,129**	**$ 74,585**	**$ 69,717**	**$ 4,899**

* The Qualified Excess Benefit Arrangement (QEBA) was established January 2003; funding commenced November 2003.

2006	2005	2004	2003	2002	2001
$ 20,535,685	$ 17,735,032	$ 17,390,201	$ 15,609,515	$ 16,178,916	$ 3,667,340
62,510	–	–	–	–	–
13,538,975	10,290,424	14,996,522	872,761	(9,764,147)	(13,761,654)
34,137,170	28,025,456	32,386,723	16,482,276	6,414,769	(10,094,314)
24,652,637	24,547,223	24,307,188	23,826,601	23,596,306	56,480,052
3,120	3,000	338,990	329,114	355,585	266,749
24,655,757	24,550,223	24,646,178	24,155,715	23,951,891	56,746,801
9,481,413	3,475,233	7,740,545	(7,673,439)	(17,537,122)	(66,841,115)
114,696,809	111,221,576	103,481,031	111,154,470	128,691,592	195,532,707
$124,178,222	**$114,696,809**	**$111,221,576**	**$103,481,031**	**$111,154,470**	**$128,691,592**

2006	2005	2004	2003	2002	2001
$ 1,054,246	$ 759,058	$ 744,272	$ 471,868	$ 456,274	$ 649,974
6,889	–	–	–	–	–
2,571,377	1,964,827	2,912,708	158,596	(1,771,920)	(1,913,983)
3,632,512	2,723,885	3,656,980	630,464	(1,315,646)	(1,264,009)
2,259,722	2,217,881	2,200,147	2,027,422	1,905,283	2,013,003
55,200	54,000	47,202	45,828	49,514	36,689
2,314,922	2,271,881	2,247,349	2,073,250	1,954,797	2,049,692
1,317,590	452,004	1,409,631	(1,442,786)	(3,270,443)	(3,313,701)
20,758,872	20,306,868	18,897,237	20,340,023	23,610,466	26,924,167
$22,076,462	**$20,758,872**	**$20,306,868**	**$18,897,237**	**$20,340,023**	**$23,610,466**

2006	2005	2004	2003	2002	2001
$ 41,850	$ 36,026	$ 18,600			
–	–	–			
9	2	–			
41,859	36,028	18,600			
71,298	9,572	6,259			
–	640	1,289			
71,298	10,212	7,548			
(29,439)	25,816	11,052			
36,868	11,052	–			
$ 7,429	**$ 36,868**	**$ 11,052**			

Benefit and Refund Deductions from Net Assets by Type

Last 10 fiscal years

PENSION BENEFITS	2010	2009	2008	2007
Service Retirement	$629,474,136	$595,262,076	$554,521,059	$514,824,466
Disability Retirement	74,632,571	72,571,590	69,632,988	66,278,496
Survivor Benefits	29,973,530	28,318,931	26,837,461	25,650,405
Total Pension Benefits	$734,080,237	$696,152,597	$650,991,508	$606,753,367
Refunds				
Separation	$ 36,344,287	$33,499,028	$38,147,667	$ 33,316,422
Beneficiaries	815,398	714,039	760,251	322,319
Total Refunds	$ 37,159,685	$34,213,067	$38,907,918	$ 33,638,741

MEDICARE B REIMBURSEMENT	2010	2009	2008	2007
Service Retirement	$ 23,024,413	$22,790,277	$ 22,542,191	$ 22,350,668
Disability Retirement	1,364,728	1,340,431	1,334,470	1,317,953
Survivor Benefits	1,305,213	1,319,227	1,381,771	1,387,173
Total Medicare B Reimbursement	$ 25,694,354	$25,449,935	$ 25,258,432	$ 25,055,794

DEATH BENEFITS	2010	2009	2008	2007
Service	$ 1,969,489	$1,538,800	$ 1,965,949	$ 1,880,256
Disability	266,726	241,630	219,511	203,181
Total Death Benefits	$ 2,236,215	$1,780,430	$ 2,185,460	$ 2,083,437

HEALTH CARE EXPENSES	2010	2009	2008	2007
Medical	$120,931,746	$112,696,150	$129,186,181	$128,160,112
Prescription	113,971,467	99,283,588	95,603,763	89,957,159
Other	2,012,405	3,429,907	1,646,883	1,321,391
Total Health Care Expenses	$236,915,618	$215,409,645	$226,436,827	$219,438,662

2006	2005	2004	2003	2002	2001
$481,929,589	$450,815,396	$413,743,800	$382,324,194	$355,422,159	$330,712,415
62,669,473	59,656,369	56,956,255	53,859,560	51,081,315	48,349,429
24,428,704	23,243,160	21,705,434	20,650,428	19,250,740	18,172,667
$569,027,766	$533,714,925	$492,405,489	$456,834,182	$425,754,214	$397,234,511
$ 29,065,065	$ 26,667,001	$ 21,496,787	$ 19,269,813	$ 18,483,724	$ 18,850,323
1,971,998	445,817	593,817	305,803	729,004	2,967,128
$ 31,037,063	$ 27,112,818	$ 22,090,604	$ 19,575,616	$ 19,212,728	$ 21,817,451

2006	2005	2004	2003	2002	2001*
$ 22,007,666	$ 21,896,392	$ 21,742,514	$ 21,342,363	$ 21,135,767	$ 50,969,689
1,278,217	1,245,341	1,216,754	1,163,920	1,155,196	2,554,641
1,366,754	1,405,490	1,347,920	1,320,318	1,305,343	2,955,722
$ 24,652,637	$ 24,547,223	$ 24,307,188	$ 23,826,601	$ 23,596,306	$ 56,480,052

2006	2005	2004	2003	2002	2001
$ 2,062,198	$ 2,018,318	$ 1,992,963	$ 1,813,287	$ 1,693,283	$ 1,794,722
197,524	199,563	207,184	214,135	212,000	218,281
$ 2,259,722	$ 2,217,881	$ 2,200,147	$ 2,027,422	$ 1,905,283	$ 2,013,003

2006	2005	2004	2003	2002	2001
$131,562,641	$113,102,587	$125,213,303	$119,676,586	$107,055,941	$ 94,577,874
95,589,547	105,195,298	97,155,916	99,511,288	87,642,652	76,695,342
1,418,560	518,675	1,074,586	1,322,484	1,744,899	860,208
$228,570,748	$218,816,560	$223,443,805	$220,510,358	$196,443,492	$172,133,424

* Legislation provided for a retroactive Medicare B reimbursement.

Employee and Employer Contribution Rates

Last 10 fiscal years

Fiscal Year	Employee Rate	Employer Rate: Pension	Medicare B	Death Benefit	Health Care	Total
2010	10%	12.74%	0.76%	0.04%	0.46%	14%
2009	10	9.06	0.75	0.03	4.16	14
2008	10	9.13	0.66	0.03	4.18	14
2007	10	9.96	0.68	0.04	3.32	14
2006	10	9.76	0.78	0.04	3.42	14
2005	10	9.84	0.70	0.03	3.43	14
2004	10	8.36	0.70	0.03	4.91	14
2003	9	7.46	0.69	0.02	5.83	14
2002	9	5.83	0.71	0.02	7.44	14
2001	9	3.47	0.71	0.02	9.80	14

Note: The employee contribution rate was increased for all employees on July 1, 2003.

Demographics of New Pension Benefit Recipients

Last 10 fiscal years

Average Service Benefit

Year Ended June 30	Service Credit	Monthly Amount	Age	Salary
2010	23.5	$ 1,159	64.0	$ 29,644
2009	21.9	1,098	62.6	28,211
2008	22.2	1,095	62.5	27,815
2007	22.1	1,109	62.6	27,827
2006	22.3	1,041	63.0	26,007
2005	22.6	1,042	62.6	26,040
2004	22.5	957	62.4	24,132
2003	22.2	916	62.2	22,965
2002	22.4	892	62.3	22,065
2001	22.1	851	62.3	21,125

Average Disability Benefit

Year Ended June 30	Service Credit	Monthly Amount	Age	Salary
2010	18.0	$ 1,258	55.4	$ 29,055
2009	16.0	1,306	53.0	29,074
2008	15.0	1,269	53.0	28,538
2007	16.0	1,239	53.0	27,097
2006	16.0	1,252	53.0	27,093
2005	20.4	1,178	53.3	25,960
2004	20.8	1,090	52.5	24,096
2003	21.4	1,127	52.7	24,557
2002	21.2	1,048	52.2	22,637
2001	20.1	1,123	52.4	21,668

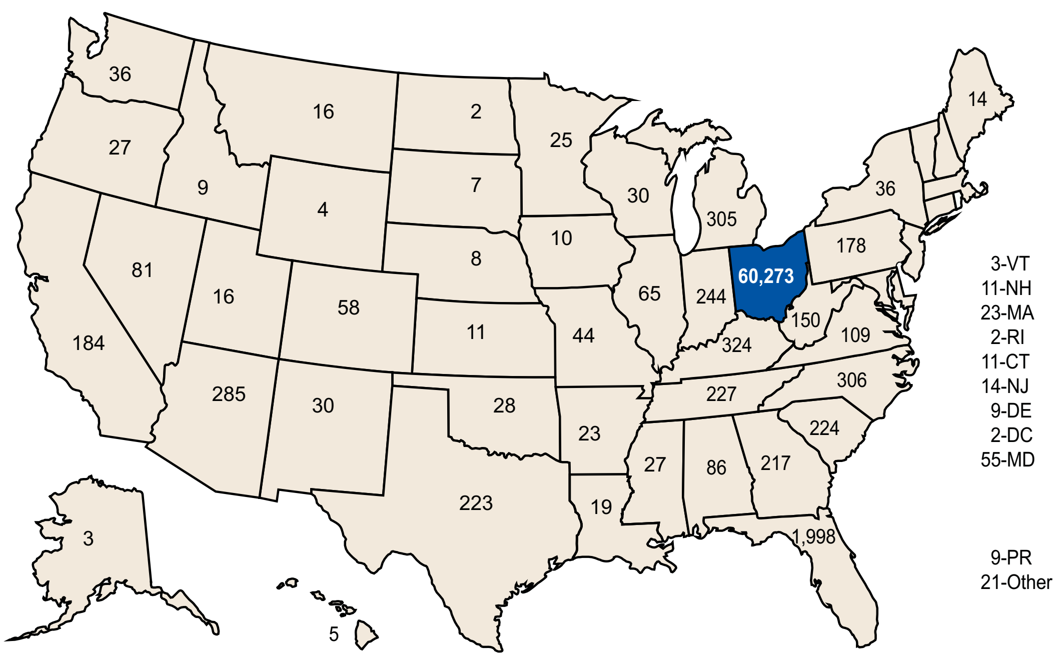
Demographics of Active and Retired Members

Fiscal Year 2010

	Active Members			Percentage of Distribution		
	Male	Female	Total	Male	Female	Total
Under 20	398	309	707	0%	0%	0%
20 to 29	5,465	5,750	11,215	4	5	9
30 to 39	5,743	11,229	16,972	5	9	14
40 to 49	9,071	27,560	36,631	7	21	28
50 to 54	5,585	17,705	23,290	5	14	19
55 to 59	4,977	13,551	18,528	4	11	15
60 to 64	3,525	8,265	11,790	3	7	10
65 to 69	1,655	2,850	4,505	1	2	3
70 and over	902	1,475	2,377	1	1	2
	37,321	88,694	126,015	30%	70%	100%

	Retired Members and Beneficiaries			Percentage of Distribution		
	Male	Female	Total	Male	Female	Total
Under 55	944	1,096	2,040	2%	2%	4%
55 to 59	1,107	1,602	2,709	2	2	4
60 to 64	1,951	5,529	7,480	3	8	11
65 to 69	2,761	8,326	11,087	4	13	17
70 to 74	3,082	9,133	12,215	5	14	19
75 to 79	2,783	8,136	10,919	4	12	16
80 to 84	2,283	7,220	9,503	3	11	14
85 to 89	1,422	5,211	6,633	2	8	10
90 to 94	529	2,273	2,802	1	3	4
95 to 99	83	580	663	0	1	1
100 and over	3	73	76	0	0	0
	16,948	49,179	66,127	26%	74%	100%

Retired Members and Beneficiaries by State



Retired Members by Type of Benefit

Amount of Monthly Benefit	Total	Service	Disability	Survivor
$ 1 - $ 250	12,919	11,602	164	1,153
251 - 500	12,461	10,412	747	1,302
501 - 750	10,475	8,725	920	830
751 - 1000	7,842	6,578	810	454
1001 - 1500	10,128	8,562	1,231	335
1501 - 2000	5,336	4,524	678	134
over 2000	6,698	5,867	714	117
	65,859	56,270	5,264	4,325
Average Monthly Benefit		$ 923	$1,172	$ 584
Average Age		74.7	64.5	70.8

Retirees, Spouses, and Dependents Receiving Health Care Coverage

Attained Age	Number of Males	Number of Females	Total Number
Under 30	163	169	332
30 - 39	11	11	22
40 - 49	125	166	291
50 - 59	1,069	1,432	2,501
60 - 64	1,129	2,707	3,836
65 - 69	2,199	5,271	7,470
70 - 74	3,221	6,588	9,809
75 - 79	3,012	5,905	8,917
80 - 84	2,362	5,728	8,090
85 - 89	1,538	4,496	6,034
90 - 94	595	2,014	2,609
95 - 99	96	531	627
100 and over	5	62	67
	15,525	35,080	50,605

Principal Participating Employers

Current fiscal year and nine fiscal years ago

	Fiscal Year 2010			Fiscal Year 2001		
Participating School's Name	Covered Employee Members	Rank	Percentage of Total System	Covered Employee Members	Rank	Percentage of Total System
Columbus City Schools	3,976	1	3.16%	3,861	2	3.34%
Cleveland Metropolitan School District	3,219	2	2.55	4,397	1	3.80
Cincinnati Public Schools	2,948	3	2.34	3,008	3	2.60
University Of Akron	2,196	4	1.74	1,338	7	1.16
Toledo Public Schools	1,643	5	1.30	1,928	4	1.67
Akron Public Schools	1,585	6	1.26	1,706	5	1.47
Dayton Public Schools	1,371	7	1.09	1,637	6	1.41
South-Western City Schools	1,162	8	0.92	1,142	8	0.99
Lakota Local Schools	1,071	9	0.85	–		–
Columbus State Community College	1,009	10	0.80	–		–
Parma City School District	–		–	995	9	0.86
Canton City Schools	–		–	950	10	0.82
All Other	105,835		83.99	94,722		81.88
Total	126,015		100.00%	115,684		100.00%

In fiscal year 2010 "All other" consisted of:

	Covered Employee Members	Number of School Districts
Local School Districts	38,480	373
City School Districts	45,691	185
Educational Service Centers	7,376	57
Exempted Village Districts	5,339	49
Higher Education	2,564	13
Vocational/Technical Schools	2,964	49
Community Schools	3,117	265
Other	304	9

Average Benefit Payments

Last 10 fiscal years

	Years of Credited Service					
Retirement Effective Dates	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30 +**
Period 7/1/09 to 6/30/10						
Average Monthly Benefit	$ 196	$ 427	$ 680	$ 993	$ 1,283	$ 2,216
Average Final Average Salary	1,343	1,848	2,105	2,422	2,681	2,906
Number of Retirees	393	349	275	315	346	725
Period 7/1/08 to 6/30/09						
Average Monthly Benefit	$ 204	$ 419	$ 681	$ 938	$ 1,250	$ 2,178
Average Final Average Salary	1,402	1,802	2,115	2,264	2,504	2,765
Number of Retirees	364	341	379	492	528	732
Period 7/1/07 to 6/30/08						
Average Monthly Benefit	$ 209	$ 373	$ 635	$ 969	$ 1,219	$ 2,122
Average Final Average Salary	1,434	1,648	1,989	2,327	2,426	2,803
Number of Retirees	356	350	424	530	657	811
Period 7/1/06 to 6/30/07						
Average Monthly Benefit	$ 202	$ 415	$ 632	$ 938	$ 1,232	$ 2,082
Average Final Average Salary	1,382	1,751	1,959	2,260	2,449	3,121
Number of Retirees	344	312	364	417	578	722
Period 7/1/05 to 6/30/06						
Average Monthly Benefit	$ 188	$ 368	$ 629	$ 849	$ 1,138	$ 1,947
Average Final Average Salary	1,328	1,569	1,895	2,070	2,267	2,905
Number of Retirees	288	318	328	403	403	675
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
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 7/1/02 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 7/1/01 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 7/1/00 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

PLAN SUMMARY

PLAN SUMMARY

Established by state law in 1937, SERS is a state-wide defined benefit plan that provides retirement, disability, and survivor benefits to non-teaching employees of Ohio's public, vocational, technical, and community schools, community colleges, and The University of Akron.

The Retirement Board is responsible for the general administration and management of the retirement system. The Board is composed of nine members: four elected employee members: two elected retiree members; and three appointed investment expert members. One investment expert is appointed by the Governor, a second one by the State Treasurer, and the third one jointly by the Speaker of the House and President of the Senate of the General Assembly.

The day-to-day operations are administered by a professional staff led by the Executive Director.

COVERED EMPLOYEES

All non-teaching employees of Ohio's public, vocational, technical, and community schools, community colleges, and The University of Akron are required to be members unless their position permits exemption from membership, optional membership, or the position is excluded from membership.

Compulsory or Mandatory Coverage

Compulsory coverage is required for any employee who:

- Is employed in a position for which the person is not required to have a certificate or license issued by the Ohio Department of Education (ODE); or
- Performs a service common to the normal daily operation of an educational unit even though the person is employed and paid by one who has contracted with the school to perform the service.

Exemption from Coverage

The following individuals may choose exemption from coverage by filing a written application with the employer within the first month after being employed:

- A student who is not a member at the time of the student's employment and who is employed by the school, college, or university in which the student is enrolled and regularly attending classes;
- An emergency employee serving on a temporary basis in case of fire, snow, earthquake, flood, or other similar emergency; or
- An individual employed in a program established under the Federal Job Training Partnership Act.

Optional Coverage

A school or governing board member may choose to become a member by making application within thirty (30) days of taking office. A school board member is a member of a city, local, exempted village, or joint vocational school district board of education, and a governing board member is a member of an educational service center governing board.

Exclusion from Coverage

The following employees are excluded from SERS coverage:

- Any person having a license issued by the ODE and employed in a public school in this state in an educational position, as determined by the ODE, under programs under federal law and financed in whole or in part from federal funds, but for which no licensure requirements for the position can be made under the provisions of such federal law;
- Any person who participates in an alternative retirement plan (ARP) established by a college or university; and
- University of Akron police officers who are covered by the Ohio Public Employees Retirement System of Ohio (OPERS).

CONTRIBUTIONS

The employee and employer are required to contribute a percentage of the employee's compensation to SERS to fund the benefits available. Employees contribute 10% of their gross compensation. Employers contribute 14%. Members are entitled to a return of their contributions if they meet eligibility requirements, either in the form of monthly benefits, or a single lump-sum payment after termination of employment.

SERVICE CREDIT

The amount of a member's service credit determines:

- Eligibility for retirement or disability benefits
- The amount of a benefit
- Eligibility for health care coverage and the amount of the health care premium

It also determines the eligibility of a member's dependents for survivor benefits, the amount of benefits, and availability of health care coverage.

Service credit is accrued through contributions during school employment, for other periods at no cost, and for other service that may be purchased.

Contributing Service Credit

One year of service credit is granted upon completion of 120 or more days of paid school employment within a fiscal year (July 1 through the following June 30). Any portion of a day constitutes one full day. If service is less than 120 days, a fractional amount of service credit is prorated on the basis of a 180-day school year.

Free Service Credit

Additional service credit up to three years is available at no cost for periods a member received Workers' Compensation. In addition, certain periods of military service may be available at no cost.

Purchased Service Credit

The following additional service credit may be available for purchase:

- Previously refunded SERS service credit
- Employer authorized unpaid leaves of absence
- Any service after July 1, 1991, in a position for which SERS membership was compulsory, but for which a member was permitted to, and did, sign an exemption from membership form
- Any service before July 1, 1991, in a position for which SERS membership was optional, and a member did not choose to become a member
- Up to five years of service with public or private school, college, or university in another state, or operated by the federal government, which has been chartered or accredited by the proper government agency if the service in a comparable position in Ohio would have been covered by a Ohio state retirement system, or an Ohio municipal retirement system except the Cincinnati Retirement System
- Periods of military service
- Up to two years for periods when the member was required to resign because of pregnancy or adoption of a child
- School board member service prior to July 1, 1991
- Cincinnati Retirement System covered service
- Service covered by the Ohio Police & Fire Pension Fund or Ohio Highway Patrol Retirement System if not being used in a benefit under those systems

Other Ohio State Retirement System Service Credit

If a member has been employed in a job covered by the State Teachers Retirement System of Ohio (STRS) or the Ohio Public Employees Retirement System (OPERS) as well as in a job covered by SERS, at retirement the member may receive a retirement benefit independently from each of the systems if eligible, or may combine the service credit and accounts in all the systems to receive one benefit. The system with the greatest service credit will be the system that will calculate and pay the benefit. While the salaries in one year will be added together, if the member has service credit in each system for the same year, the member cannot be credited with more than one year of service credit for each 12 months in a year.

Early Retirement Incentive Program

An employer may establish an Early Retirement Incentive program (ERI), which would allow employees 50 years or older to retire early, or increase the service credit of those employees eligible to retire. Under an ERI, an employer may purchase up to five years of service credit for its eligible employees. If an employer has an ERI, it notifies all eligible employees of the plan and its requirements.

AGE AND SERVICE RETIREMENT

Eligibility

A member who became covered by the retirement system before May 14, 2008, is eligible to retire under **Tier 1** if the member has:

- Five (5) years of service credit and is at least 60 years old
- 25 years of service credit and is at least 55 years old
- 30 years of service credit irrespective of age

A member who is covered by SERS on or after May 14, 2008, is eligible to retire under **Tier 2** if the member has:

- 10 years of service credit and is at least 62 years old
- 25 years of service credit and is at least 60 years old
- 30 years of service credit and is at least 55 years old

Calculating a Benefit

The calculation of a benefit is determined using the member's salary, service credit, and age.

The **salary** used is the Final Average Salary (FAS) which is the average of the three (3) highest years of salary. If a member has more than one covered job, the salaries will be combined.

The **service credit** used is the total service credit at the time of retirement.

The **age** used to calculate a benefit is the member's actual age at the time at retirement.

The formula used in calculating a benefit is as follows.

1. The value of a year of service credit is determined by multiplying your FAS by 2.2%, and by 2.5% for each year above 30 years of service credit. If the result is less than $86.00, then $86.00 is the value of each year.
2. The number of years of service credit is then multiplied by this value of each year. The result is the annual retirement benefit for a member with 30 years of credit or who is age 65 at the time of retirement.
3. If the member is under 65 or has less than 30 years of credit at the time of retirement, the annual benefit is reduced to cover a longer period of retirement.

Payment Plans

At retirement, a member must choose a payment plan. There are two categories of plans. One category pays a monthly benefit for the retiree's life with no further payments after the retiree's death; this is Plan B, a single life allowance. The other category pays a monthly benefit to the retiree for life, and after death, provides a continuing benefit to a designated beneficiary. The plans in this category are Plan A, C, D (Joint Life plans), E (Limited Life plan), and F (Multiple Beneficiaries plan). Choosing one of these plans will result in a reduced monthly benefit to the retiree depending on the retiree's age, the beneficiary's age, and the plan chosen.

Partial Lump Sum Option Payment

In addition to selecting a payment plan, a member may take part of a benefit in a one-time partial lump sum option payment (PLOP), which will permanently reduce the lifetime monthly benefit.

Reemployment

A retiree may be reemployed after retirement. A job in the private sector does not affect the retiree's benefit.

However, if the job is in a position covered by SERS, the State Teachers Retirement System of Ohio, the Ohio Public Employees Retirement System, the Ohio Police & Fire Pension Fund, or the Ohio Highway Patrol Retirement System, SERS must be notified. If the retiree returns to work in a job covered by any of these systems before the retiree has received a SERS benefit for two months, the retiree forfeits the benefit payment for each of the two months in which the retiree worked.

If the retiree returns to a SERS-covered position, then employee and employer contributions are required for the new position. The retiree accrues a new benefit in the form of an annuity based on the contributions paid by the retiree and the employer. This is separate from the original SERS benefit. There are no other benefits available, and the retiree does not accrue any additional service credit for the period of reemployment.

DISABILITY BENEFITS

A member is entitled to a benefit under one of two disability plans. A member who became a member on or after July 29, 1992, is covered under the **new disability plan**. A member before July 29, 1992, is covered by the **old disability plan** unless they exercised a one-time election to switch to the new plan.

The following describes the common and different features of both plans.

Eligibility

Under both plans, a member is eligible for disability benefits if the member:

- Has at least five (5) years of total service credit;
- Files an application no later than two (2) years from the date that your contributing service stopped;
- Is permanently disabled, either physically or mentally, for work in your SERS-covered position as determined by a physician appointed by SERS;
- Became disabled after becoming a SERS member;
- Did not receive a refund of the member's contributions; and
- Does not receive a service retirement benefit.

Under the old disability plan, a member also must apply before turning 60 years old. Under the new disability plan a member may apply at any age.

Benefit Payment

Old Disability Plan

Under the old disability plan, an annual benefit is calculated by the following formula using total service credit and Final Average Salary (FAS):

1. The value of a year of service credit is determined by multiplying your FAS by 2.2%. If the result is less than $86.00, then $86.00 is the value of each year.
2. The number of years of service credit is then multiplied by this value of each year.

Service credit includes all service credit the member has at the time of the benefit effective date plus the number of years between the member's current age and age 60. The benefit cannot be less than 30% of FAS or more than 75%.

New Disability Plan

Under the new disability plan, the amount of an annual benefit is the greater of: 45% of FAS; or total service credit at the time of the application multiplied by 2.2% of FAS. The following chart shows the applicable percentage amounts under this plan.

Total Service Credit	Percentage of the Member's FAS
5-21 years	45.0%
22	46.2
23	48.3
24	50.4
25	52.5
26	54.6
27	56.7
28	58.8
29 or more years	60.0

Termination of Benefits

A disability benefit under either plan stops if any one of the following events occurs:

- A subsequent SERS medical re-examination finds that the member is no longer disabled
- The member returns to a SERS-covered job
- The member's death
- The member requests that benefits end

Under the **new disability plan**, benefits also will end after a specified number of months as shown:

Age at Effective Date	Period Benefits Payable
Younger than 60	Until age 65
60 or 61	60 months
62 or 63	48 months
64 or 65	36 months
66, 67 or 68	24 months
69 or older	12 months

At the end of the period, the member can apply for a service retirement benefit, which is calculated the same as an age and service retirement benefit.

DEATH BENEFIT

At death after retirement or receipt of a disability benefit, the retiree or disability benefit recipient's beneficiary is entitled to a one-time lump sum payment of $1,000.

SURVIVOR BENEFITS

Eligibility

If a member dies while working, before the member begins receiving a monthly service retirement benefit, or while receiving a disability benefit, the member's qualified survivors are entitled to certain benefits.

A beneficiary qualifies for benefits in the following order:

1. Person designated in writing by the member on a form provided by SERS
2. If there is no designated beneficiary or the beneficiary died before the member, the statutory order of beneficiaries applies

The statutory order of succession is as follows, the member's:

1. Surviving spouse
2. Surviving children
3. Dependent parent who is age 65 or older
4. Surviving parents
5. Estate

The first qualifying beneficiary is entitled to a one-time, lump-sum payment of only the member's employee contributions to SERS, or monthly benefits if otherwise eligible. However, if the member is survived by children under age 18 or 22, if still in school, or mentally or physically incompetent children, only a monthly benefit is available to the qualifying survivors.

Monthly benefit payments are available if the member:

1. Had at least one and one-half (1½) years of contributing service credit
2. Had at least one-quarter (¼) year of Ohio service credit earned within two and one-half (2½) years prior to death
3. Was not receiving a service retirement benefit

The following survivors are eligible for monthly benefits:

1. Surviving spouse at age 62
2. Surviving spouse at any age if the member had 10 or more years of service credit; or if there are qualified children; or has been declared mentally or physically incompetent by a court
3. Children who have never married, are under 18, or 22 if still in school; or have been declared mentally or physically incompetent by a court
4. Dependent parent age 65 or older

Benefit Payments

The amount of the monthly benefit is determined under one of the following schedules whichever pays the greater benefit.

	SCHEDULE I	**SCHEDULE II**
Number of Qualified Beneficiaries	**Monthly Benefit Shall Not be Less than**	**As a Percent of the Member's Final Average Salary**
1	$ 96*	25%
2	186	40
3	236	50
4	236	55
5 or more	236	60

*Not less than $106 to spouse if the member had 10 or more years of service credit.

SCHEDULE III

If the member had 20 or more years of service credit, the benefit will be calculated as follows:

Years of Service	As a Percent of the Member's Final Average Salary
20	29%
21	33
22	37
23	41
24	45
25	48
26	51
27	54
28	57
29 or more	60

COST-OF-LIVING ADJUSTMENT

One year after an effective benefit date, a benefit recipient is entitled to a three percent (3%) cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

HEALTH CARE

Currently, SERS offers medical and prescription health care coverage to qualifying benefit recipients. To the extent that resources permit, SERS intends to continue offering access to health care coverage. However, the retirement system reserves the right to change or discontinue any plan or program at any time.

Currently an **age and service retiree** qualifies for health care coverage if the retiree has 10 years of qualified years of service credit at retirement. Qualifying service credit does not include:

- Military other than free or interrupted military service credit
- Other government and school service credit
- Exempted service credit
- Service credit purchased by an employer under an Early Retirement Incentive plan (ERI)

A beneficiary of a deceased age-and-service retiree who receives a monthly benefit qualifies for health care coverage if the retiree had qualified for such coverage.

Disability benefit recipients qualify for the SERS health care coverage upon receipt of a disability benefit.

Survivor benefit recipients qualify for health care coverage upon receipt of a survivor benefit.

Long Term Care Insurance

SERS' health care coverage for benefit recipients is limited to hospitalization and skilled treatment in a convalescent facility. It does not cover custodial care.

Members, and benefit recipients, may purchase a separate long-term care (LTC) insurance policy, which can pay a specified amount per day for custodial care to assist with the activities of daily living such as eating, walking, getting in and out of bed, dressing, and toileting.

This optional policy is available through the Prudential Insurance Company of America. SERS does not administer or subsidize the cost of this insurance.

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