ETIREMENT SYSTEM
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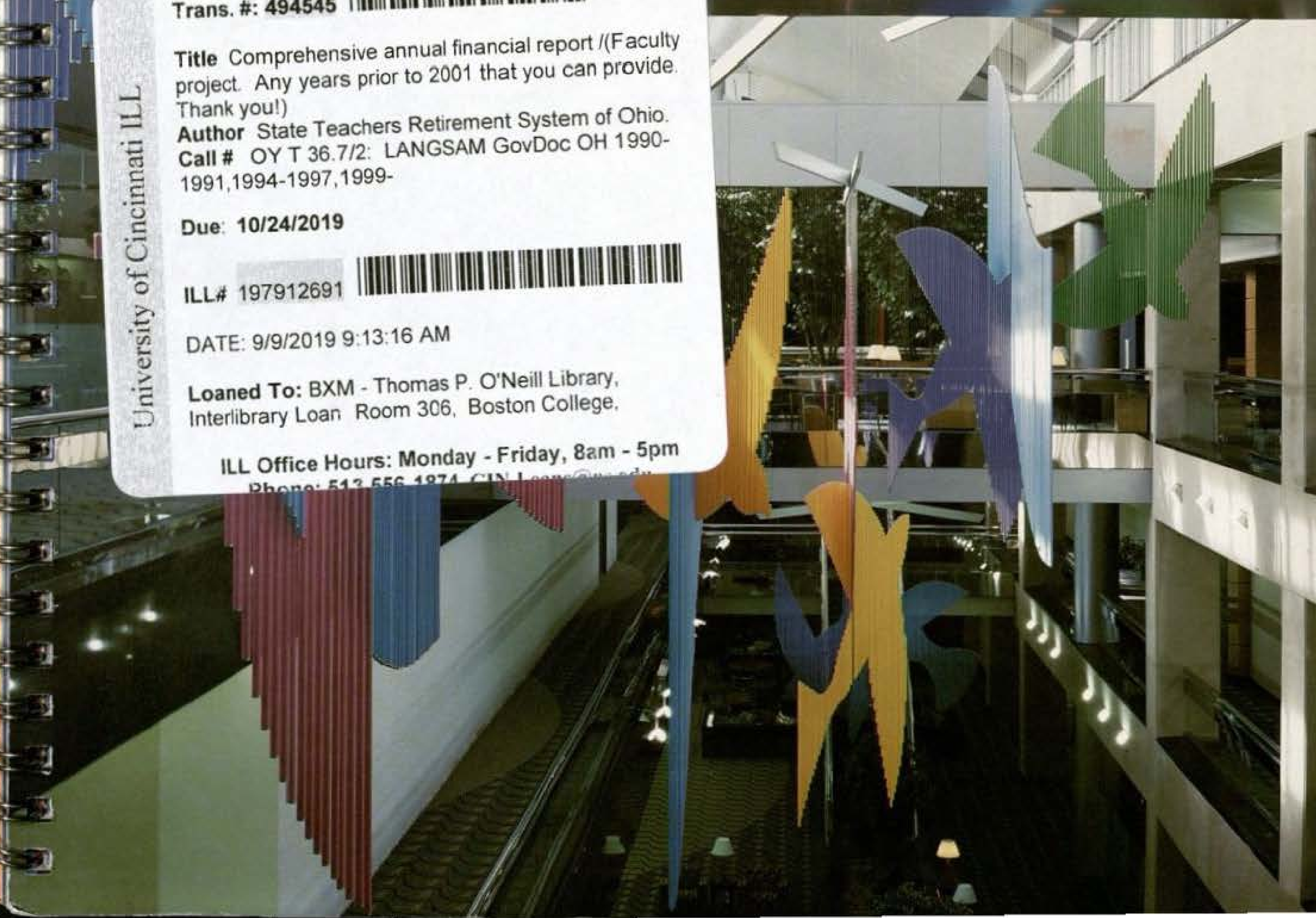
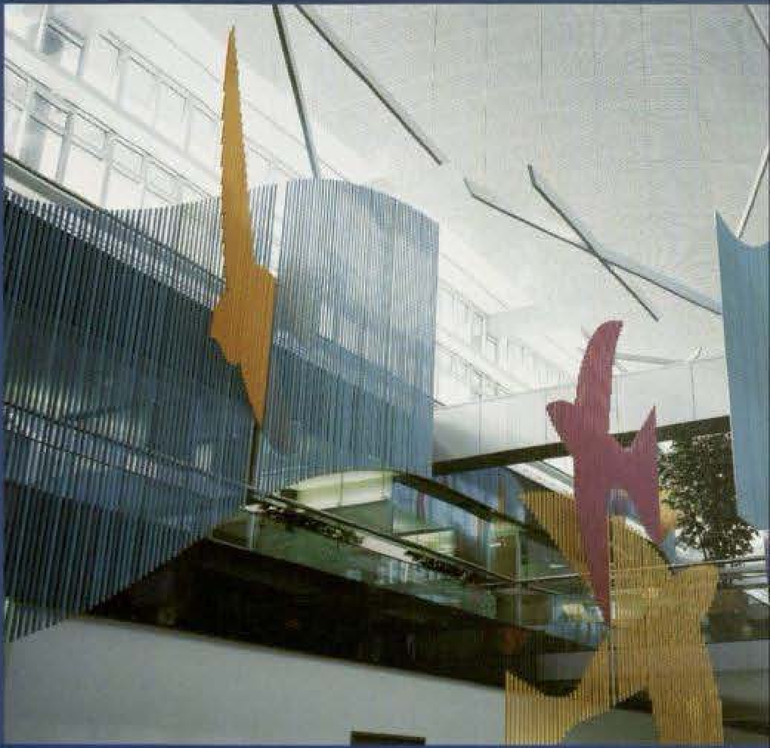
Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2000



Within the atrium of STRS Ohio's new building addition hangs a magnificent sculpture — portions of which are pictured throughout this report. Its title, "A Whole Morning World," is taken from the Eudora Welty book, *The Optimist's Daughter*, which contains the following passage: "All they could see was sky, water, birds, light, and confluence. It was the whole morning world."

Larry Kirkland, the sculpture's artist, explains the title of the piece by saying, ". . . it seems to fit this sculpture of multicolored birds flying through waves of blue. It also seems to fit the purpose of STRS Ohio — to provide the teachers of Ohio with a safe financial future for their retirement."



State Teachers Retirement System of Ohio
Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2000

Prepared through the joint efforts of the STRS Ohio staff

Copies of this report are available from:
State Teachers Retirement System of Ohio
275 E. Broad St.
Columbus, Ohio 43215-3771
614-227-4090

Certificate of Achievement for Excellence in Financial Reporting

Presented to

The State Teachers Retirement System of Ohio

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1999

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

Anne Spray Kinney
President

Jeffrey L. Esser
Executive Director

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State Teachers Retirement System of Ohio
2000 Comprehensive Annual Financial Report

A review of the 1999-2000 fiscal year

Professional Consultants: **Independent Public Accountants**, KPMG LLP; **Investment Consultants**, Frank Russell Company Consulting, Tacoma, Wash. & Wellington Management Company, Boston, Mass.; **Actuarial Consultants**, Buck Consultants, Chicago, Ill.

1999–2000 State Teachers Retirement Board

Richard Moore

Representing Betty D. Montgomery, Attorney General. Ex officio member of the board since elected to office in 1995.

Hazel A. Sidaway

Teacher member since 1986. Canton City Schools, Stark County

Robert P. Shreve

Retired teacher member since 1997. Delaware County

Eugene E. Norris
Chair

Teacher member since 1996. South-Western City Schools, Franklin County

Gloria L. Gaylord

Representing James M. Petro, Auditor of State. Ex officio member of the board since elected to office in 1995.

While more than 600 STRS Ohio associates handle the day-to-day operations of the retirement system, it is the Retirement Board that provides the direction, fiduciary oversight and policies that have enabled STRS Ohio to fulfill its mission of assuring financial security for Ohio's educators. Membership on the board includes six elected members — five active teachers and one retired teacher — who devote thousands of volunteer hours every year in service to STRS Ohio. These six educators are joined at the board table by three ex officio voting members: the auditor of state, the attorney general and the superintendent of public instruction.

Jack H. Chapman
Vice Chair

Teacher member since 1990. Reynoldsburg City Schools, Franklin

Deborah Scott

Teacher member since 1994. Finneytown Local Schools, Hamilton County

William A. Dorsey

Teacher member since 1990. Painesville City Local Schools, Lake County

Alice Gibson

Representing Susan Tave Zelman, Superintendent of Public Instruction. Ex officio member of the board since appointed to office in 1999.

Herbert L. Dyer

Executive Director, State Teachers Retirement System of Ohio

ior Staff Members

Shown here are the members of senior staff for 1999-2000. Pictured from left to right in the front are: Adrian R. Mullins, director of Information Technology Services; Rebecca J. Stephenson, executive assistant; Herbert L. Dyer, executive director; Sandra L. Knoesel, deputy executive director — Member Benefits; and Joan M. Williams, director of Human Resource Services. Pictured from left to right in the rear are: Cynthia E. Hvizdos, general counsel; Damon Asbury, deputy executive director designee — Administration; James W. Miller, director of Governmental Relations; Stephen A. Mitchell, deputy executive director — Investments; Laura R. Ecklar, director of Communication Services; Robert A. Slater, deputy executive director — Finance and chief financial officer; and G. Robert Bowers, deputy executive director — Administration.

STATE TEACHERS RETIREMENT SYSTEM OF OHIO

275 East Broad Street
Columbus, OH 43215-3771
614-227-4090
www.strsoh.org

Nov. 30, 2000

Members of the State Teachers Retirement Board:

We are pleased to present the *Comprehensive Annual Financial Report* of the State Teachers Retirement System of Ohio for the fiscal year ended June 30, 2000. This report is intended to provide readers with financial, investment, actuarial and statistical information in a single publication. STRS Ohio management is responsible for the accuracy of the data and for the completeness and fairness of the presentation.

STRS Ohio was created by legislative act on May 8, 1919, as an alternative to separate, often unstable local school district retirement plans. STRS Ohio is a cost-sharing, multiple-employer plan providing service retirement, disability, survivor and health care benefits to teachers and faculty members of public boards of education, state-supported colleges and universities, and the state of Ohio and its political subdivisions.

The *Comprehensive Annual Financial Report* is divided into five sections: (1) the Introductory Section includes this letter of transmittal and information about the administrative organization of STRS Ohio; (2) the Financial Section contains the general purpose financial statements and footnotes along with the report of the independent auditors; (3) the Investment Section includes a summary of investment assets and the Retirement Board's Objective and Policy Statement; (4) the Actuarial Section includes results of the annual actuarial valuation and the certification letter of Buck Consultants; and (5) the Statistical Section includes historical data showing the progress of the system.

Major Initiatives

Major benefit legislation was signed into law in April 2000. Substitute Senate Bill 190 provides significant benefit improvements for both active and retired members. Additionally, the law requires STRS Ohio to begin offering an optional defined-contribution plan.

Specifically, the legislation increased the benefit formula for active teachers from 2.1% to 2.2% for all service up to 30 years. The benefit formula is increased even more for educators with longer careers. For members with 35 years or more of earned Ohio service, the benefit formula increases to 2.5% for the first 30 years and continues to be incremented by .1% starting at 2.5% for the 31st year, 2.6% for the 32nd year, 2.7% for the 33rd year, etc., up to a maximum of 100% of the final average salary.

Sub. S.B. 190 also included benefit increases for retirees. First, benefits were recalculated using a 2.1% formula for members who retired before July 1, 1989. Further, benefits were increased to a minimum of 85% of the purchasing power of the original benefit based on changes in the Consumer Price Index.

Finally, members with less than five years service and new teachers will be able to participate in a defined-contribution plan instead of the existing defined-benefit plan. Work is now under way to introduce this plan in 2001.

One of the biggest challenges facing STRS Ohio is providing affordable health care benefits for retirees while experiencing significant increases in costs. For example, net health care expenses rose 13% for the year ended June 2000.

To slow the increases in health care costs, STRS Ohio has implemented additional cost-saving measures. The Retirement Board approved a two-year contract with Optum NurseLine to provide nurse counseling, self-care guides and a referral service for community resources. Optum NurseLine provides cost-effective preventive measures for retirees.

In addition, changes were made to the prescription drug plan to help reduce costs. These changes will be effective January 2001 and include an annual deductible, increased copayments, new drug formulary, retail pharmacy fill limits for maintenance medications, and a reduction in the maximum days supply for prescriptions filled through mail order.

To stay responsive to the needs of our members, changes were made to the long-term care plan currently administered by Aetna Life Insurance Co. Changes include increasing the daily benefit amount; providing lifetime benefit maximum options of three, five or seven years; eliminating the five years of service required for enrollment; and allowing family members to enroll, regardless of whether the STRS Ohio member is enrolled.

In March 2000, the Retirement Board adopted a revised asset allocation policy for investments. The revised allocations are 45% for U.S. equities, 20% for international equities, 23% for fixed-income investments, 9% for real estate holdings, 2% for alternative investments and 1% for liquidity reserves. Included in the fixed-income allocation are a 1% allocation for emerging market debt and a 1% allocation for high-yield debt.

For additional information on these and other 1999-2000 highlights, refer to the Year in Review on Pages 10 through 13.

Investments

Total investments grew to $57.5 billion (excluding collateral on loaned securities) as of June 30, 2000, an 8.9% increase over 1999. For calendar year 1999, investments provided a 18.87% rate of return. STRS Ohio's annualized rate of return over the last three years was 16.10% and 16.25% for the last five years. Similar benchmark returns over the same one-, three- and five-year periods were 17.63%, 16.51% and 17.51%, respectively.

Additions to Plan Net Assets

Member and employer contributions, as well as income from investments, provide the reserves needed to finance retirement benefits. Total contributions and net investment income totaled $7.46 billion. Member and employer contributions increased by 5.4% and 4.7%, respectively. Covered payroll grew by 5.4%, which includes salaries paid to participants in alternative retirement plans (ARPs). ARP participants are not members of STRS Ohio; however, their employers are required to contribute 5.76% of salaries to STRS Ohio to help pay for unfunded liabilities.

Additions to Plan Net Assets (in thousands)

	2000
Net Investment Income	$ 5,504,137
Contributions:	
Member	$ 755,146
Employer	$ 1,086,125
Other	$ 110,565
Total Contributions	$ 1,951,836
Total Additions to Plan Net Assets	$ 7,455,973

Deductions from Plan Net Assets

The principal purpose for STRS Ohio is to provide retirement, survivor and disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments as designated by the plan, refund of contributions to terminated members, and the administrative costs of operating STRS Ohio. Benefit, withdrawal and administrative costs totaled $2.8 billion in fiscal 2000, a 14.3% increase over 1999. The benefit improvements mentioned earlier accounted for 4.2% of the total deductions from plan net assets.

Deductions from Plan Net Assets (in thousands)

	2000
Benefits	$ 2,634,484
Withdrawals	$ 105,759
Administrative Expenses	$ 57,817
Total Deductions from Net Assets	$ 2,798,060

Funding

Contribution rates are actuarially determined to provide a level basis of funding using the entry age normal cost method, and an actuarial valuation is performed annually by Buck Consultants, Chicago, Ill. The July 1, 2000, valuation shows that the amortization period for the unfunded accrued liability increased to 23.1 years from 16.3 years, and the ratio of assets to total accrued liabilities improved to 92% from 89%. The increase in the amortization period is due to a greater allocation from employer contributions to fund health care benefits. As a result, a lesser portion of employer contributions is available to pay off the unfunded liability. A detailed discussion of funding is provided in the Actuarial Section of this report beginning on Page 53.

Certificate of Achievement and Other Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to STRS Ohio for its *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 1999. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report that conforms to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for one year. STRS Ohio has received a Certificate of Achievement for the last 10 years. We believe our current report continues to conform to the Certificate of Achievement program requirements and are submitting it to the GFOA.

Acknowledgments

The preparation of this report is possible only through the combined efforts of the STRS Ohio staff. It is intended to provide complete and reliable information as a basis for making management decisions, complying with legal provisions and determining responsible stewardship of the assets contributed by members and their employers.

Respectfully submitted,

Herbert L. Dyer

Herbert L. Dyer
Executive Director

Robert A. Slater

Robert A. Slater, CPA
Deputy Executive Director
Chief Financial Officer

Year in Review

July 1,1999, through June 30, 2000

Benefit Enhancement Legislation Impact Is Far Reaching

In May 1999, the State Teachers Retirement Board approved a plan to pursue benefit improvement legislation that would increase retirement benefits for active teachers and many benefit recipients. The result was Substitute Senate Bill 190, which was signed into law on April 12, 2000, and went into effect on July 12, 2000. Recognized as one of the most significant benefit improvement packages in STRS Ohio's history, the legislation:

- Increased the benefit formula for active teachers;
- Recalculated the base benefit for age and service retirees who retired before July 1, 1989; and
- Provided a one-time increase to benefit recipients who needed a raise in their benefit to restore it to a level equal to at least 85% of their benefit's original purchasing power.

More than 56,000 individuals saw an increase in their benefit, beginning Aug. 1, 2000, as a result of the legislation.

Sub. S.B. 190 also enables STRS Ohio to establish a defined-contribution plan option for new members and provide current members with less than five years of service credit a one-time option to move to a defined-contribution plan from the current defined-benefit plan. Work is now under way to introduce that plan in 2001.

STRS Ohio Marks Its 80th Anniversary

The year 2000 marked the 80th anniversary of STRS Ohio. An International Symposium brought representatives from pension systems throughout the United States, as well as Canada, the Netherlands and Australia, to STRS Ohio to share "best practices" in administering services and benefits.

Discovery Park was also completed and dedicated as the first park developed specifically to honor educators in Ohio's public schools, colleges and universities. Gifts totaling more than $515,000 were donated to support the creation of the park and the bronze "Journey to Learning" sculpture that sits at its Broad Street entrance.

It was also the year that the building addition to STRS Ohio headquarters in downtown Columbus was completed. With these additional offices, meeting spaces and a parking garage, STRS Ohio can better serve its growing membership in the years ahead, as well as manage its growth in assets.

Retirement Board Approves Supplemental Benefit

For the 20th consecutive year, STRS Ohio was able to provide a supplemental benefit payment in December to more than 90,400 individuals. A total of $48.5 million of investment earnings was used to pay a "13th check" to benefit recipients who had received a benefit payment for the 12 consecutive months before Jan. 1, 2000. The "unit value" of the payment was $14 for each year of service and each year monthly benefits have been received. For example, a retiree with 30 years of service and nine years on retirement received $546.

The legislature has given the Retirement Board authority to grant this supplemental payment if investment earnings in the previous fiscal year exceed funding requirements. Successful investment practices based on solid, prudent board policies have produced supplemental benefit payments since 1980.

COLA Helps Protect Benefits' Value

A cost-of-living increase, up to 3%, is automatically granted each year to benefit recipients. Ohio law allows STRS Ohio to pay a COLA (cost-of-living adjustment) up to 3% based on the increase in the Consumer Price Index (CPI) over the previous calendar year. The COLA is calculated on the retiree's original benefit and is paid on the anniversary date of retirement. Based on a 1.3% change in the CPI for 1998, STRS Ohio paid $31,017,318 in added benefits for the 1999-2000 COLA.

In March, the Retirement Board approved the following COLA increases for the 2000-2001 fiscal year, based on a 2.2% increase in the CPI for 1999: Members who retired before July 1, 1990, will receive a 3% increase; for individuals who retired between July 1, 1990, through June 30, 2000, the COLA will be 2.2%.

Reduction in Reemployment Restrictions Benefits Retirees

Legislation passed by the Ohio General Assembly in June 2000 eliminated many of the restrictions on reemployment for public retirees, including STRS Ohio members.

- Beginning Sept. 14, 2000, the "18-month/85-day" provision was eliminated. This provision had limited retirees to 85 days of temporary work per fiscal year during the first 18 months on retirement.
- The so-called "blackout period" — the period in which reemployment in a public position is completely restricted — remains at two months after retirement. This restriction is now the same for all five public systems.
- Members who contribute to Ohio public retirement systems from more than one job have a new option: at retirement, they may continue working in one or more of the lower-paying jobs. Contributions from all jobs up to the retirement date are used to calculate the retirement benefit. Contributions from the continuing job (after retirement from the higher-paying job) fund a reemployed money-purchase annuity account.

Norris Wins Board Election

Eugene E. Norris was reelected as an active teacher member in the annual State Teachers Retirement Board election. Norris, who ran unopposed, began his new four-year term in September 2000.

Health Care Initiatives Improve Services, Reduce Costs

To keep the benefits of STRS Ohio's long-term care insurance plan responsive to members' needs, the Retirement Board approved several enhancements to the plan, which is administered by Aetna Life Insurance Co. Changes included increasing the daily benefit amount; providing lifetime benefit maximum options of three, five or seven years; eliminating the five years of STRS Ohio service required for enrollment; and allowing family members to enroll, regardless of whether the STRS Ohio member is enrolled. Ohio law allows STRS Ohio to offer long-term care coverage, as long as 100% of the cost of the premiums is paid by the individuals participating.

The Retirement Board also approved a two-year contract with Optum NurseLine to provide nurse counseling services to benefit recipients enrolled in STRS Ohio-sponsored indemnity and preferred provider organization (PPO) health plans. In addition to receiving bimonthly newsletters and a self-care home reference guidebook, benefit recipients have access to Optum's registered nurses 24 hours a day through NurseLine. Optum also provides online services and an Information and Referral Service that includes an extensive database of 71,000 community resources nationwide.

Two-year contracts with the current providers of optional dental and vision insurance plans for STRS Ohio benefit recipients were renewed through Dec. 31, 2002. Vision Service Plan continues to provide eye care coverage while MetLife provides dental coverage.

Cost-saving measures for health plans and prescription drug plans were implemented to help manage the double-digit increases in costs and escalating usage by an increasing number of retirees. Changes to the STRS Ohio Prescription Drug Program included adding an annual deductible, increasing copayments, adopting a new drug formulary, implementing a retail pharmacy fill limit for "maintenance" medications, and reducing the days supply for prescriptions received through the mail-service program. The successful implementation of these changes, which go into effect Jan. 1, 2001, should result in more than $13.5 million in savings.

The Retirement Board also approved the implementation of a hospital precertification procedure for Aetna Medicare Part B-only members that will result in an estimated savings of $2.5 million.

Finally, the lifetime benefit per enrollee was raised to $2.5 million from the current level of $1.25 million for individuals enrolled in the PPO and indemnity plans. A $300 annual allowance for a wig or toupee (when clinically appropriate) was also approved. These changes also go into effect on Jan. 1, 2001.

Interest Rates for Purchased Service Increase

Based on a recommendation from Buck Consultants, the retirement system's actuary, the Retirement Board acted in October 1999 to maintain a 5% rate for interest calculations in money-purchase accumulations and member withdrawals. This is consistent with market rates on other fixed-income investments with similar risks. However, due to actuarial requirements, the interest rate for purchases of service credit increased to 7.75% from 7.5%, effective July 1, 2000.

Board Adjusts Asset Allocation

In March 2000, the Retirement Board adopted a revised asset allocation for STRS Ohio investments. The allocations pertain to the average long-term weightings at market of the different asset classes in which STRS Ohio invests. Alternative investments increased to 2% from 1%, while U.S. equities remained at 45%. Overall, international equities remained at 20%, but emerging markets decreased to 5% from 6%, while developed markets, represented by the EAFE Index, increased to 15% from 14%.

The overall fixed-income allocation remained unchanged, but some shifting occurred within the categories making up this asset class. Emerging market debt and high-yield debt will each eventually comprise 1% of the allocation; the weighting for investment-grade fixed income was lowered to 21% from 23%. Liquidity reserves was reduced to 1% from 2%. Real estate remained at 9%.

Purchasing Service Credit Made Easier for Members

Purchasing service credit may increase the amount of a member's retirement income or enable a member to retire earlier. To help make this process even easier for STRS Ohio members, two new initiatives were implemented.

The *Annual Statement of Account* mailed to STRS Ohio members in October 1999 included a new feature. For the first time, any service credit in STRS Ohio that had been certified as eligible for the member to buy was listed. In addition, payroll deduction procedures for all types of purchasable service were implemented.

Workflow and Imaging Project Enhances Delivery of Benefits to Active and Retired Members

With an increasing number of member retirements to process and records to store, implementing more efficient and secure techniques for handling this volume of data has become one of the priorities of STRS Ohio. Through the use of imaging technology, STRS Ohio has begun creating digital records of every member file – a record that several STRS Ohio associates can then access simultaneously at their desks with merely a click of their computer mouse. This multiyear workflow and imaging project will increase efficiency and reduce turnaround time for the processing of retirement payments and other STRS Ohio benefits. In addition, records will be stored in a safer, more secure environment.

Members' Suggestions Improve STRS Ohio Brochures

STRS Ohio's retirement counseling brochure series was revised to reflect input from members who participated in a research study. Survey results indicated that members were very satisfied with the brochure series as a whole, but noted several changes that could be made to increase comprehension and improve readability. In addition to content changes, the size of the brochures was increased slightly to allow for a larger type size and the inclusion of STRS Ohio's toll-free number and Web site address to each page.

Web Site Enhancements Offer Personalized Information

Adding to the "personalized" features of the STRS Ohio Web site, a "Health Care Wizard" was one of the newest additions to the site. Members nearing retirement, as well as benefit recipients, can learn what health care plans are available to them and the current monthly premiums, based on personal information they provide. An additional enhancement to the Web site allowed benefit recipients to access the information that has appeared on their checks or direct-deposit stubs, such as deductions for taxes and health care.

The Personal Account Information section of the Web site continued to be well received by the membership. More than 18,000 members and benefit recipients have requested passwords that enable them to access their account information online.

New Program Joins Workshop Roster

The newest addition to STRS Ohio's workshop and seminar roster is designed specifically for new members. "Helping Your Future Grow" helps these members understand the comprehensive benefits offered by STRS Ohio throughout their careers and in retirement. A review of tax-deferred savings plans is also included.

System Receives Reporting and Public Relations Awards

For the 10th consecutive year, STRS Ohio was presented a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association.

STRS Ohio also received seven awards – five PRISM Awards (best of category) and two runner-up Awards of Excellence – from the Central Ohio Chapter of the Public Relations Society of America (PRSA). In addition, PRSA awarded its highest national honor, a Silver Anvil award, to STRS Ohio for the communications campaign it developed in conjunction with Edward Howard Co. when faced with competition from for-profit retirement plan alternatives for higher education members.

Associates Give Generously to the Community

With a goal of $85,000, STRS Ohio associates exceeded expectations during the 1999 United Way campaign by raising more than $94,000. A new contribution record was also set for Operation Feed. Cash contributions totaled $5,210, while food donations weighed 90 pounds. Another highlight of the year was the "Toys for Tots" campaign that helped needy central Ohio families.

Financial

Independent Auditors' Report

Two Nationwide Plaza
Columbus, OH 43215

Telephone 614 249 2300
FAX 614 249 2348

To the Retirement Board
The State Teachers Retirement System of Ohio:

We have audited the accompanying combining statements of plan net assets of the State Teachers Retirement System of Ohio (the System) as of June 30, 2000 and 1999, and the related combining statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the System as of June 30, 2000 and 1999, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 22, 2000, on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The schedules of funding progress and employer contributions on page 27 are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. We have applied to the schedules of funding progress and employer contributions certain limited procedures prescribed by professional standards, which consisted principally of inquiries of management regarding the methods of measurement and presentation of schedules.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information included on pages 28 and 29 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the System's management. Such additional information has been subjected to the auditing procedures applied in our audits of the basic financial statements for the years ended June 30, 2000 and 1999, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

November 22, 2000

KPMG LLP

Combining Statements of Plan Net Assets (in thousands)

	June 30, 2000			June 30,1999		
	Pensions	Postemployment Health Care	Totals	Pensions	Postemployment Health Care	Totals
Assets:						
Cash and short-term investments	$ 714,385	$ 45,415	$ 759,800	$ 1,814,049	$ 101,656	$ 1,915,705
Receivables:						
Accrued interest and dividends	176,530	11,222	187,752	165,155	9,255	174,410
Employer contributions	179,557	11,415	190,972	168,736	9,456	178,192
Retirement incentive	29,876		29,876	38,867		38,867
Member contributions	148,830		148,830	135,426		135,426
Securities sold	243,360	15,471	258,831	169,899	9,521	179,420
Miscellaneous receivables	3,481		3,481	3,446		3,446
Total receivables	781,634	38,108	819,742	681,529	28,232	709,761
Investments, at fair value:						
Fixed income	11,984,781	761,904	12,746,685	12,144,588	680,564	12,825,152
Common and preferred stock	25,111,718	1,596,417	26,708,135	21,710,886	1,216,645	22,927,531
International	10,069,930	640,171	10,710,101	9,590,600	537,442	10,128,042
Real estate	5,503,754	349,888	5,853,642	4,484,015	251,277	4,735,292
Alternative investments	702,843	44,682	747,525	269,161	15,084	284,245
Total investments	53,373,026	3,393,062	56,766,088	48,199,250	2,701,012	50,900,262
Collateral on loaned securities	3,289,356	209,113	3,498,469	3,520,529	197,285	3,717,814
Fixed assets, at cost, net of accumulated depreciation of $38,610 and $32,510, respectively	118,287		118,287	79,364		79,364
Total assets	$ 58,276,688	3,685,698	61,962,386	54,294,721	3,028,185	57,322,906
Liabilities						
Securities purchased	264,538	16,817	281,355	178,306	9,992	188,298
Accrued expenses and other liabilities	20,535	1,305	21,840	17,696	992	18,688
Pension benefits payable	101,896		101,896			
Medical benefits payable		39,357	39,357		36,550	36,550
Obligations under securities lending program	3,289,356	209,113	3,498,469	3,520,529	197,285	3,717,814
Total liabilities	$ 3,676,325	266,592	3,942,917	3,716,531	244,819	3,961,350
Net assets held in trust for pension and postemployment health care benefits:						
(A schedule of funding progress is presented on Page 27.)	$ 54,600,363	$ 3,419,106	$58,019,469	$ 50,578,190	$ 2,783,366	$ 53,361,556

See accompanying Notes to Financial Statements.

STRS OHIO

Combining Statements of Changes in Plan Net Assets (in thousands)

	Year Ending June 30, 2000			Year Ending June 30, 1999		
	Pensions	Postemployment Health Care	Totals	Pensions	Postemployment Health Care	Totals
Additions:						
Contributions:						
Member	$ 755,146		$ 755,146	$ 716,551		$ 716,551
Employer	470,473	$ 615,652	1,086,125	450,479	$ 587,062	1,037,541
Retirement incentive	42,189		42,189	39,338		39,338
State of Ohio appropriations	1,514		1,514	1,780		1,780
Benefit recipient health care premiums		60,375	60,375		47,819	47,819
Other retirement systems	6,476		6,476	7,738		7,738
Additional death benefits (net)	11		11	158		158
Total contributions	1,275,809	676,027	1,951,836	1,216,044	634,881	1,850,925
Investment income:						
From investing activities						
Net appreciation in fair value of investments	3,770,584	222,348	3,992,932	4,366,770	223,729	4,590,499
Interest	716,174	42,232	758,406	630,194	32,288	662,482
Dividends	384,106	22,650	406,756	427,540	21,905	449,445
Real estate income	333,561	19,670	353,231	293,213	15,022	308,235
	5,204,425	306,900	5,511,325	5,717,717	292,944	6,010,661
Less investment expenses	(18,934)	(1,117)	(20,051)	(15,719)	(805)	(16,524)
Net income from investing activities	5,185,491	305,783	5,491,274	5,701,998	292,139	5,994,137
From securities lending activities						
Securities lending income	185,052	10,912	195,964	156,612	8,024	164,636
Securities lending expenses	(172,905)	(10,196)	(183,101)	(147,613)	(7,563)	(155,176)
Net income from securities lending activities	12,147	716	12,863	8,999	461	9,460
Net investment income	5,197,638	306,499	5,504,137	5,710,997	292,600	6,003,597
Total additions	6,473,447	982,526	7,455,973	6,927,041	927,481	7,854,522
Deductions:						
Benefits:						
Service retirement	2,019,521		2,019,521	1,764,172		1,764,172
Disability retirement	152,365		152,365	139,296		139,296
Survivor benefits	62,346		62,346	52,863		52,863
Supplemental benefit	48,493		48,493	46,448		46,448
Health care		343,512	343,512		297,748	297,748
Other retirement systems	8,247		8,247	6,922		6,922
Total benefit payments	2,290,972	343,512	2,634,484	2,009,701	297,748	2,307,449
Refunds to members who have withdrawn	105,759		105,759	91,037		91,037
Administrative expenses	54,543	3,274	57,817	46,596	2,371	48,967
Total deductions	2,451,274	346,786	2,798,060	2,147,334	300,119	2,447,453
Net increase	4,022,173	635,740	4,657,913	4,779,707	627,362	5,407,069
Net assets held in trust for pension and postemployment health care benefits						
Beginning of year	50,578,190	2,783,366	53,361,556	45,798,483	2,156,004	47,954,487
End of year	$ 54,600,363	$ 3,419,106	$58,019,469	$ 50,578,190	$ 2,783,366	$ 53,361,556

See accompanying Notes to Financial Statements.

Notes to Financial Statements

Years ended June 30, 2000 and 1999

1. Summary of Significant Accounting Policies

The financial statements of the State Teachers Retirement System of Ohio (STRS Ohio) presented herein have been prepared on the accrual basis of accounting following the accounting policies set forth below.

a. **Organization** — STRS Ohio is a cost-sharing, multiple-employer plan that was created by Chapter 3307 of the Ohio Revised Code (Revised Code) and is administered by a board comprised of five active members, one retired teacher and three voting ex officio members.

The accompanying financial statements comply with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, *Financial Reporting Entity*. This statement requires that financial statements of the reporting entity include all of the organizations, activities, functions and component units for which the reporting entity is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board and either (1) the reporting entity's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the reporting entity. STRS Ohio does not have financial accountability over any entities.

b. **Investment Accounting** — Purchases and sales of investments are recorded as of their trade date. Dividend income is recognized on the ex-date. Interest and rental income is recognized as the income is earned.

STRS Ohio has no individual investment that exceeds 5% of net assets available for benefits.

c. **Contributions and Benefits** — Employer and member contributions are recorded in the period the related member salaries are earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

d. **Fixed Assets** — Fixed assets are recorded at historical cost. Depreciation is provided on a straight-line basis over estimated useful lives of five to 10 years for equipment and 40 years for building and building improvements.

e. **Method Used to Value Investments** — Investments are reported at fair value. Short-term investments are reported at amortized cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at the then current exchange rates. Mortgages are valued based on their coupon rate relative to the coupon rate for similar mortgages. The fair value of real estate investments is based on independent appraisals and internal valuations. The fair value of alternative investments is determined by the partnership based on the valuation methodology outlined in the partnership agreement.

f. **Federal Income Tax Status** — STRS Ohio qualifies under Section 401(a) of the Internal Revenue Code and is exempt from federal income taxes.

g. **Reclassifications** — Certain 1999 balances have been reclassified to conform to the current-year presentation.

2. Description of the STRS Ohio Plan

Plan Membership — STRS Ohio is a statewide retirement plan for certified teachers and other faculty members employed in the public schools of Ohio (the state) or any school, college, university, institution or other agency controlled, managed and supported, in whole or part, by the state or any political subdivision thereof.

See charts on Page 20 for participating employers and member and retiree data.

Plan Benefits — Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60, (ii) 25 years of service credit and attained age 55, or (iii) 30 years of service credit regardless of age.

The maximum annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is determined by multiplying final average salary by 2.1% for the first 30 years of credited service. Each year over 30 years is incremented by .1%, starting at 2.5% for the 31st year of Ohio service up to a maximum allowance of 100% of final average salary. Members retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts.

Effective July 1999, enacted legislation provided an adjustment for retirees whose benefits have not kept pace with the rate of inflation.

This legislation also changed the formula for calculating the formula benefit. The formula benefit increased to 2.2% per year for all years of credited service up to 30 years. Each year over 30 years is incremented by .1%, starting at 2.5% for the 31st year of Ohio service. Upon reaching 35 years of Ohio service, the first 31 years of Ohio contributing service is multiplied by 2.5%, and each year over 31 years is incremented by .1%, starting at 2.6% for the 32nd year.

Although the legislation was enacted in July 2000, the benefit increases were retroactive to July 1999. A pension benefit payable has been reported in the statement of plan net assets to properly accrue for the retroactive application of the legislation.

Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from contributed employer funds. This total is then divided by an actuarially determined annuity factor to compute the maximum annual retirement allowance.

Since the plan is tax-qualified, benefits are subject to limits established by Section 415 of the Internal Revenue Code.

After retirement, benefits are increased annually by the greater of the amount of the change in the Consumer Price Index (CPI) or the cumulative CPI increase since retirement, less previous cost-of-living increases, up to a maximum of 3% of the original base amount.

A retiree of STRS Ohio or other Ohio public retirement systems is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Death, Survivor and Disability Benefits — A member with five or more years of credited service who becomes disabled (illness or injury preventing individual's ability to teach) is entitled to a disability benefit. Additionally, monthly benefits are paid to eligible survivors of members who die prior to retirement. A

Participating Employers at June 30, 2000 and 1999

	2000	1999
City school districts	192	192
Local school districts	371	371
County educational service centers	60	63
Exempted village school districts	49	49
Joint vocational schools	49	49
Universities and colleges	37	37
County boards of mental retardation and developmental disabilities	82	82
Community schools	51	16
State of Ohio	1	1
Total	**892**	**860**

Member and Retiree Data at June 30, 2000 and 1999

	2000	1999
Current active members	174,072	170,854
Inactive members eligible for refunds only	102,935	101,707
Terminated members entitled to receive a benefit in the future	17,428	17,408
Retirees and beneficiaries currently receiving a benefit	99,011	95,796
Reemployed retirees	13,081	12,590
Total Plan Membership	**406,527**	**398,355**

death benefit of $1,000 is payable to the beneficiary of each deceased retired member. Additional death benefit coverage up to $2,000 can be purchased. Various other benefits are available to members' beneficiaries.

Health Care Benefits After Retirement — The plan provides comprehensive health care benefits to retirees and their dependents.

Coverage includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Pursuant to the Revised Code, the State Teachers Retirement Board, (the Retirement Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by the plan. Most benefit recipients pay a portion of the heath care cost in the form of a monthly premium.

Under Ohio law, medical costs paid from the funds of the plan are included in the employer contribution rate, currently 14% of compensation. For the fiscal year ended June 30, 2000, 8.0% of covered payroll was allocated to the Health Care Reserve Fund. Beginning July 1, 2000, 4.5% of covered payroll will be allocated to the Health Care Reserve Fund.

Supplemental Benefits — In December of each year, if the Retirement Board determines that sufficient funds are available, a lump-sum supplemental benefit payment is made to eligible benefit recipients. The payment is based on the individual's years of service and date of the original benefit. The amount of the payment may vary and is not guaranteed from year to year.

Refunds — Upon termination of employment, a member may withdraw accumulated contributions made to STRS Ohio. Withdrawal cancels the individual's rights and benefits in STRS Ohio. Refunds of member contributions may include interest and 50% matching payments.

Alternative Retirement Plan — Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer.

Full-time faculty with less than five years of service credit had a one-time option to select an ARP instead of STRS Ohio. Employees hired after the ARP is established have 90 days from their hire date to select a retirement plan.

For employees who elect an ARP, employers are required to remit 5.76% and 6% employer contributions on compensation paid for the years ended June 30, 2000, and June 30, 1999, respectively. The employer contribution rate is based on independent actuarial studies. As of June 30, 2000 and 1999, the ARP participant payroll totaled $149,376,000 and $105,938,000, respectively, and there were 3,337 and 2,390 participants, respectively.

3. Contribution Requirements and Reserves

Employer and member contribution rates are established by the Retirement Board and limited by Chapter 3307 of the Revised Code to 14% and 10%, respectively, of covered payroll. The employer and member contribution rates for the years ended June 30, 2000 and 1999, were 14% and 9.3%, respectively. Eight percent of the 14% employer rate was allocated for post-employment health care for the fiscal year ended June 30, 2000, and June 30, 1999. Beginning July 1, 2000, 4.5% of covered payroll will be allocated to the Health Care Reserve Fund.

Various funds are established under the Revised Code to account for contributions, reserves, income and administrative expenses.

- The Teachers' Savings Fund (TSF) is used to accumulate member contributions in trust.
- The Employers' Trust Fund (ETF) is used to accumulate employer contributions in trust. The ETF includes assets allocated to the Health Care Reserve Fund from which payments for comprehensive health care benefits are made.
- The Annuity and Pension Reserve Fund (APRF) is the fund from which all annuities and pension payments to retired members are made. Reserves are transferred to this fund from the TSF and ETF at the time of retirement.
- The Survivors' Benefit Fund is the fund from which all survivor benefit payments are made for which reserves have been transferred from the Teachers' Savings Fund and the Employers' Trust Fund.
- The Guarantee Fund is used to accumulate income derived from gifts, bequests and investments for the year.
- The Expense Fund is the fund from which all expenses for the administration and management of STRS Ohio are paid each year.

Fund Balances (in thousands)	2000	1999
Teachers' Savings Fund	$ 7,174,675	$ 6,867,910
Employers' Trust Fund	23,532,839	21,341,020
Annuity and Pension Reserve Fund	26,648,931	24,558,652
Survivors' Benefit Fund	663,024	593,974
Total	**$ 58,019,469**	**$ 53,361,556**

After interest is allocated to the various funds, the Guarantee Fund and the Expense Fund are closed into the Employers' Trust Fund at year-end. At June 30, 2000 and 1999, net assets available for benefits were included in the various funds as shown in the table above.

4. Commitments and Contingencies

STRS Ohio has made commitments to fund various real estate investments totaling approximately $770,982,226 as of June 30, 2000, and $537,428,000 as of June 30, 1999. The commitments for the year ended June 30, 2000, have expected funding dates from July 2000 to August 2003.

STRS Ohio has made commitments to fund various alternative investments totaling approximately $1,071,792,000 and $808,734,000 as of June 30, 2000 and 1999, respectively. The average expected funding dates range from July 2000 to June 2006.

In October 2000, the board passed a resolution that provides a lump-sum supplemental benefit payment to be paid to eligible retirees in December 2000. Estimated payments to be made are $51 million.

STRS Ohio is a party in various lawsuits. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material adverse effect on the net assets available for benefits.

5. Cash and Investments

GASB Statement No. 3 — Statement No. 3 of the Governmental Accounting Standards Board requires governmental entities to categorize investments as an indication of the level of risk at fiscal year-end. Category 1 includes investments that are insured or registered or for which the securities are held by STRS Ohio or its agent in the name of STRS Ohio. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the name of STRS Ohio. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty in STRS Ohio's name or held by the counterparty's trust department or agent but not in STRS Ohio's name.

All investments subject to categorization at June 30, 2000 and 1999, meet the criteria of Category 1. Investments are held in the name of STRS Ohio or its nominee by the treasurer of the state of Ohio as custodian. Real estate investments and securities on loan are investments that, by their nature, are not required to be categorized.

At June 30, 2000 and 1999, the carrying amount of STRS Ohio cash deposits were $(1,816,000) and $2,522,000 and the bank cash balances were $10,757,000 and $9,948,000, respectively. Of the bank balances, $100,000 was insured by the Federal Deposit Insurance Corporation. The remaining bank balance was covered by collateral held in the name of STRS Ohio's pledging financial institution, as required by state statute (Category 3).

Investment Authority — The investment authority of the Retirement Board is governed by Section 3307.15 of the Revised Code that also requires the Retirement Board to publish its investment policies annually and make copies available to interested parties. This section requires that investments be made with care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. It further provides that the Retirement Board may invest in bonds, notes, certificates of indebtedness, mortgage notes, real estate, stocks and debentures with certain restrictions as to the nature and quality of the investment and composition of the investment portfolio.

Investments held at fair market value by STRS Ohio at June 30, 2000 and 1999, are summarized in the chart on Page 23.

Fair Market Valuation — Stocks traded on a national securities exchange are valued at the closing price on the last business day of the fiscal year; stocks traded over the counter are valued at the closing price, as reflected by NASDAQ, on the last business day of the fiscal year; international investments are valued by the subcustodian using relevant market prices and exchange rates; U.S. government and governmental agency securities, bonds, certain guaranteed mortgages, and short-term corporate and government notes are valued based on information from an independent service organization for institutional investors; guaranteed mortgages are valued based on their coupon rate relative to the coupon rate for similar mortgages on the last business day of the fiscal year; short-term cash equivalent investments are stated at amortized cost which approximates market value; real estate is valued based on appraisals performed by independent appraisers or, for properties not appraised, at the present value of the projected future net income stream. All real estate investments have independent appraisals at the minimum of every three years. The fair value of alternative investments is determined by the partnership based on the valuation methodology outlined in the partnership agreement.

Securities Lending — STRS Ohio participates in a domestic and international securities lending program whereby securities are loaned to investment brokers/dealers (borrower). Securities loaned are collateralized by the borrower at 102% of the domestic loaned securities' market value and 105% of the international loaned securities' market value.

STRS Ohio lends domestic equities, international equities, U.S. Treasuries, agencies and corporate bonds. The

Investments Held at Fair Market Value by STRS Ohio at June 30, 2000 and 1999

(summarized and in thousands)

Category	June 30, 2000	June 30, 1999
Short-term:		
Commercial paper	$ 735,186	$ 1,894,283
Government notes	10,000	10,000
Short-term investment funds	14,614	8,900
Total short-term	759,800	1,913,183
Fixed income:		
Guaranteed mortgages	4,078,061	3,785,429
U.S. government/agencies:		
Not on securities loan	1,798,761	1,984,159
On securities loan	2,260,891	2,611,819
Corporate bonds:		
Not on securities loan	4,331,807	4,197,701
On securities loan	59,646	61,644
Canadian bonds	116,559	183,826
Supernationals	100,667	0
Municipal bonds	293	574
Total fixed income	12,746,685	12,825,152
Common and preferred stock:		
Not on securities loan	26,054,617	22,571,107
On securities loan	653,518	356,424
Total common and preferred stock	26,708,135	22,927,531
International (See Note 6)		
Not on securities loan	10,256,266	9,517,499
On securities loan	453,835	610,543
Total international	10,710,101	10,128,042
Real estate (See Note 7)		
East region	1,118,422	977,006
Midwest region	1,006,963	725,095
South region	931,457	775,566
West region	1,407,536	1,252,380
REITs	492,718	429,565
Other	896,546	575,680
Total real estate	5,853,642	4,735,292
Alternative investments	747,525	284,245
Collateral on loaned securities	3,498,469	3,717,814
Total investments and collateral on loaned securities	$ 61,024,357	$ 56,531,259

collateral received is cash, U.S. Treasuries or related agency securities. STRS Ohio cannot sell or pledge collateral received. If a borrower defaults, then the collateral can be liquidated.

A custodial agent bank administers the program and STRS Ohio receives a fee from the borrower for the use of loaned securities. Cash collateral from securities lending is invested in repurchase agreements, commercial paper and U.S. corporate obligations. The credit quality of the invested cash collateral is the same as the credit quality on STRS Ohio direct holdings. There are slight mismatches of less than 30 days between the duration of the cash invested and the length of time the securities are on loan. STRS Ohio has minimized its exposure to credit risk due to borrower default by having the custodial agent bank determine daily that the required collateral meets the specified collateral requirements. There are no restrictions on the amount of securities that can be loaned. The fair market value of the loaned securities was \$3,427,890,000 and \$3,640,430,000 as of June 30, 2000 and 1999, respectively. The fair market value of the associated collateral received as of June 30, 2000 and 1999, was \$3,498,469,000 and \$3,717,814,000, respectively.

6. International Investments

Externally Managed — STRS Ohio has investments in international equity securities through the use of external money managers. It is the intent of STRS Ohio and the money managers to be fully invested; however, cash and short-term fixed-income investments are held temporarily. The portfolios are managed in accordance with various mandates based on Morgan Stanley Capital International's (MSCI) indexes. Investments are held in both international developed and emerging markets.

Internally Managed:

Country Funds — STRS Ohio actively invests in developed and emerging markets through traded country funds. Each country fund consists of individual equity securities pooled together in an attempt to match or exceed the local country's index.

Europe, Australia and Far East (EAFE) Index Fund — To increase diversification in international developed markets, STRS Ohio invests in an EAFE Index Fund. The EAFE Index Fund purchases foreign equities, futures and other traded investments to replicate the makeup of the EAFE benchmark.

Emerging Markets Free (EMF) Index Fund — STRS Ohio invests in an EMF Index Fund to increase diversification in emerging market countries. The fund invests in foreign equities, swaps and other traded investments to imitate the EMF Index.

EAFE Equity Swaps — Four international equity swap agreements were contracted during fiscal 2000 with maturity dates in fiscal 2001. In exchange for a negotiated LIBOR (London Interbank Offered Rate), STRS Ohio will receive dividends on a quarterly basis. At maturity, STRS Ohio will receive or pay the difference in the change in the various market indices included in the swap agreement. Fixed-income securities with an initial notional amount of \$1,450,090,000 have been set aside at the Bank of New York as security.

EMF Equity Swaps — Six international equity swap agreements were contracted during fiscal 1999 and matured by September 1999. No new EMF Equity Swaps were contracted beyond September 1999. These are similar to the EAFE Equity Swaps, except that at maturity, STRS Ohio received or paid the difference in the EMF index.

The fair values of international investments held at June 30, 2000 and 1999, are shown in the chart on Page 25.

7. Real Estate Investments

General — STRS Ohio properties are geographically distributed throughout the United States. Real estate investments include retail single-tenant stores and malls, single and multitenant office properties, and warehouses, apartments, REITs and other.

REITs — Real estate investment trusts (REITs) are real estate company stocks with a high dividend-income component. REITs divide the ownership of the real estate company and its properties among all the shareholders. REITs are required to distribute 95% of the company's taxable income to their shareholders. Distributions are taxable to shareholders rather than the real estate company. STRS Ohio is exempt from federal and state income taxes.

Other — Other real estate investments include farmland, timberland and opportunity funds, that are externally managed, and private REITs. Farmland investments generate income primarily as a result of harvest proceeds. Income is generated from the sale of timber on timberland investments. Opportunity funds generate income as a result of operations and property sales, which are distributed to the investors. Finally, private REITs are privately traded real estate company stocks with a dividend-income component, similar to the public REIT investments discussed above.

8. Derivatives

Equity Swap Agreements — As discussed in Note 6, STRS Ohio has entered into international equity swap agreements. No funds are required as collateral by either party; however, STRS Ohio has purchased fixed-income securities equivalent to the initial exposure, which are located in a subcustodial account at the Bank of New York. The initial notional amount of the fixed-income securities is $1,450,090,000. The market risk of the swap is the same as if STRS Ohio owned the underlying stocks that comprise the indexes. The net interest revenues and expenses resulting from these agreements have been recorded in the financial statements. See Note 6 for the related equity swap market values as of June 30, 2000 and 1999. Equity swaps were also used in the EMF Index Fund during 2000 and 1999. Of the total EMF holdings, $12.6 million and $7 million were invested in swap agreements at June 30, 2000 and 1999, respectively.

Forward Contracts — Forward contracts in various currencies were used to transact and hedge direct foreign equity investments that STRS Ohio maintains through the use of outside managers. Additionally, forward contracts were used to hedge currency exposure as a result of the EAFE Equity Swap agreements. STRS Ohio is obligated to deliver the foreign currency at a certain dollar price sometime in the future. To fulfill this obligation at maturity, STRS Ohio must obtain the currency in the open market. Before the contract matures, STRS Ohio can enter into an offsetting forward contract that nets out the original contract. These events expose STRS Ohio to currency market risk, which can fluctuate. The external money managers hedged $1.95 and $1.56 billion of currency exposure in various currencies with varying maturities as of June 30, 2000 and 1999, respectively. At June 30, 2000, STRS Ohio hedged $0, $1,388 and $57 million of currency exposure on the EAFE Equity Swaps, EAFE Index Fund and the Country Funds, respectively. At June 30, 1999, STRS Ohio hedged $16, $752 and $43 million of currency exposure on the EAFE Equity Swaps, EAFE Index Fund and the Country Funds, respectively.

Futures — STRS Ohio had investments in S&P 500 index futures during the year. Index futures are designed to offer lower-cost and more efficient alternatives to buying individual stocks. The market and credit risk of the futures were the same as if STRS Ohio had owned the underlying stocks that comprise the index. From July 1999 to June 2000, S&P futures ranged from $3.6 million to $459 million. From August 1998 to September 1998, S&P futures ranged from $49.7 million to $228 million. Additionally, futures were used in the EAFE Index Fund. Of the total EAFE Index Fund holdings, $34.7 and $3.7 million was invested in futures at June 30, 2000 and 1999, respectively. External money managers also used futures. Approximately $49.9 and $180.3 million of external money managers' holdings were invested in futures at June 30, 2000 and 1999, respectively.

Options — STRS Ohio writes option contracts on existing stock positions to enhance the return on the stock portfolio. In

Fair Values of International Investments Held at June 30, 2000 and 1999 (in thousands)

	June 30, 2000	June 30, 1999
Externally managed		
International stocks	$ 6,880,342	$ 6,821,456
International fixed income	137,587	80,659
International currency and liquidity reserves	242,263	217,870
Forward contracts	(24,890)	24,109
Total externally managed	7,235,302	7,144,094
Internally managed		
Country Funds	515,172	345,542
EAFE Index Fund	2,583,604	1,554,555
EMF Index Fund	342,276	873,118
EAFE Equity Swaps	33,747	145,626
EMF Equity Swaps		65,107
Total internally managed	3,474,799	2,983,948
Total international	$ 10,710,101	$ 10,128,042

exchange for a premium, STRS Ohio gives the option buyer the right to buy or sell the underlying stock. Options are also purchased to "cover" existing written open option positions.

9. State Appropriations

From time to time, the legislature of the state has increased benefit payments to retirees. In certain instances, concurrent with the passage of such legislation, a provision for payment of these benefits through future state appropriations has been made.

STRS Ohio received approximately \$1,514,000 and \$1,780,000 from the state for increased benefits paid for the years ended June 30, 2000 and 1999, respectively. Funding for these increased benefits is on a pay-as-you-go basis by the state.

10. Pension Plan

Substantially all STRS Ohio employees are required to participate in a contributory retirement plan administered by the Public Employees Retirement System of Ohio (PERS). PERS is a cost-sharing multiple-employer public employee retirement system.

Eligible employees are entitled to a retirement benefit, payable monthly for life, equal to 2.1% of their final average salary for each year of credited service up to 30 years and 2.5% for each year of service over 30 years. Final average salary is the employee's average salary over the highest three years of earnings. Benefits fully vest on reaching five years of service. Vested employees may retire at any age with 30 years of credited service, at age 55 with a minimum of 25 years of accredited service, and at age 60 with a minimum of five years of service. Employees retiring with less than 30 years of service and under age 65 receive reduced retirement benefits. Benefits are established by state statute.

Employees covered by PERS are required by Ohio statute to contribute 8.5% of their salary to the plan. STRS Ohio is required by the same statute to contribute 13.55% of covered payroll; 9.35% is the portion used to fund pension obligations, with the remainder used to fund the health care program for retirees. The required employer contributions for the current year and the two preceding years are shown in the chart on this page.

Historical trend information showing the progress of PERS in accumulating sufficient assets to pay benefits when due is presented in the PERS *Comprehensive Annual Financial Report*. PERS issued a publicly available financial report for the plans. The report may be obtained by writing to PERS, 277 E. Town St., Columbus, Ohio 43215-4642.

PERS 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. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post-employment health care. The Revised Code provides statutory authority for employer contributions. The 1999 employer contribution rate for local government employees was 13.55% of covered payroll; 4.20% was the portion that was used to fund health care for the year.

PERS expenditures for OPEB during 1999 were \$523,599,000. The number of benefit recipients eligible for OPEB at Dec. 31, 1999, was 118,062.

11. Required Supplemental Schedules and Additional Information

The schedule of funding progress, the schedule of employer contributions and the notes to the trend data are required supplemental schedules. These schedules are presented on Page 27 and are designed to provide information about STRS Ohio's progress in accumulating sufficient assets to pay benefits when due. The schedule of administrative expenses and the schedule of investment expenses are included as additional information. These schedules are presented on Pages 28 and 29.

STRS Ohio Required Employer Contributions to PERS

Year Ended June 30	Annual Required Contributions	Percentage Contributed
2000	\$ 4,151,000	100%
1999	\$ 3,472,000	100%
1998	\$ 3,090,000	100%

Required Schedule of Employer Contributions For the Years Ending June 30, 1995–2000
(in thousands)

Year Ended June 30	Annual Required Contributions*	Percentage Contributed
2000	**$ 470,343**	**100%**
1999	446,655	100%
1998	746,773	100%
1997	816,696	100%
1996	786,437	100%
1995	759,246	100%

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

Required Schedule of Funding Progress For the Years Ending June 30, 1995–2000
(dollar amounts in thousands)

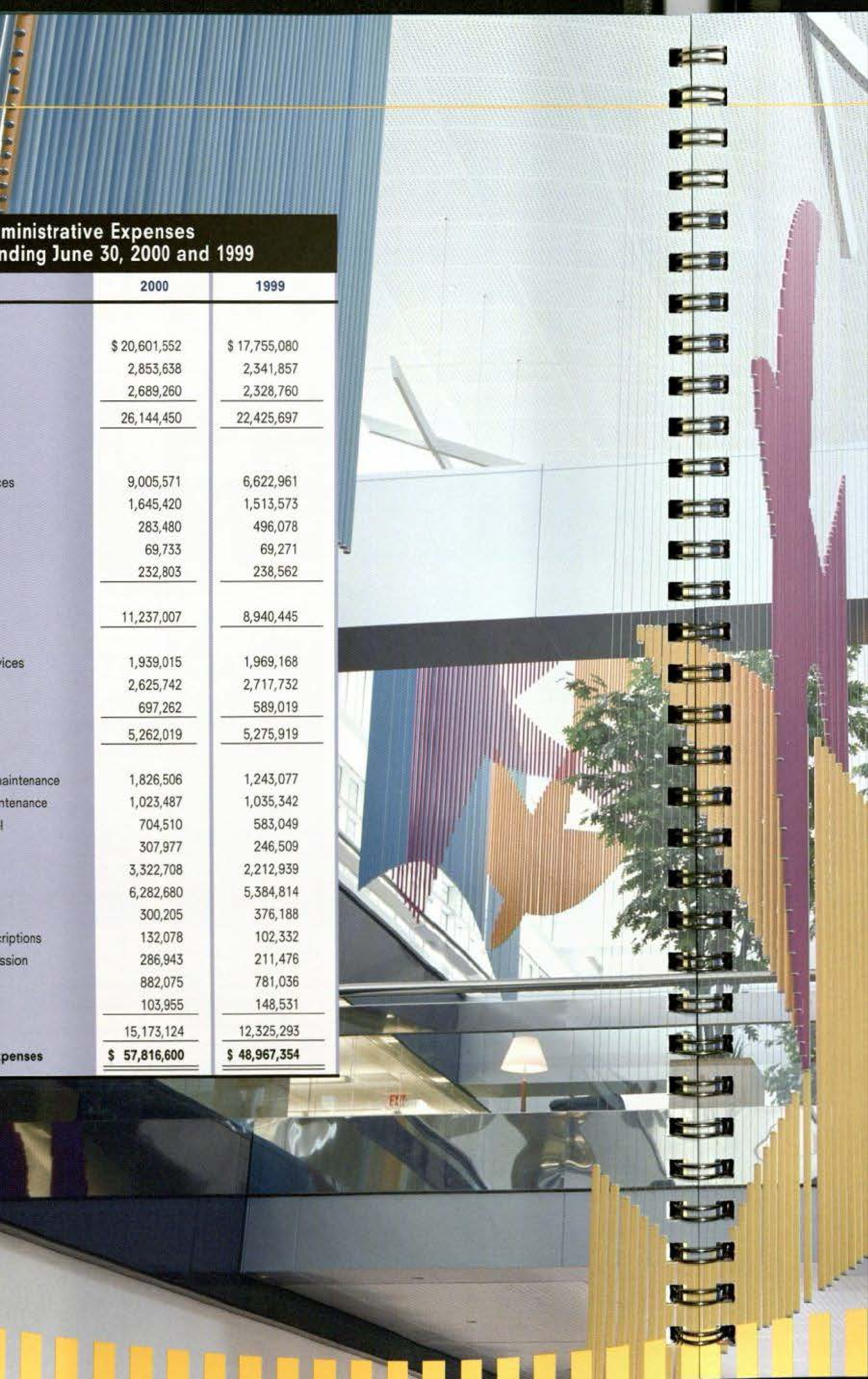
Valuation Year	Actuarial Accrued Liability (AAL)*	Valuation Assets*	Unfunded Actuarial Accrued Liability (UAAL)*	Ratio of assets to AAL	Covered payroll**	UAA %
2000	**$ 55,774,052**	**$ 51,293,815**	**$ 4,480,237**	**92.0%**	**$ 7,845,021**	
1999	51,979,974	46,341,436	5,638,538	89.2%	7,444,2	
1998	48,972,084	41,709,903	7,262,181	85.2%	7,1	
1997	44,704,237	36,883,739	7,820,498	82.5%		
1996	41,128,062	32,930,801	8,197,261	80.1%		
1995	38,483,947	29,913,449	8,570,498	77.7%		

* The amounts reported in this schedule do not include assets or liabilities for postemployment he
** Covered payroll includes salaries for alternative retirement plan participants. For 2000 and 1999, te totaled $149,376 and $105,938, respectively.

Notes to the Trend Data

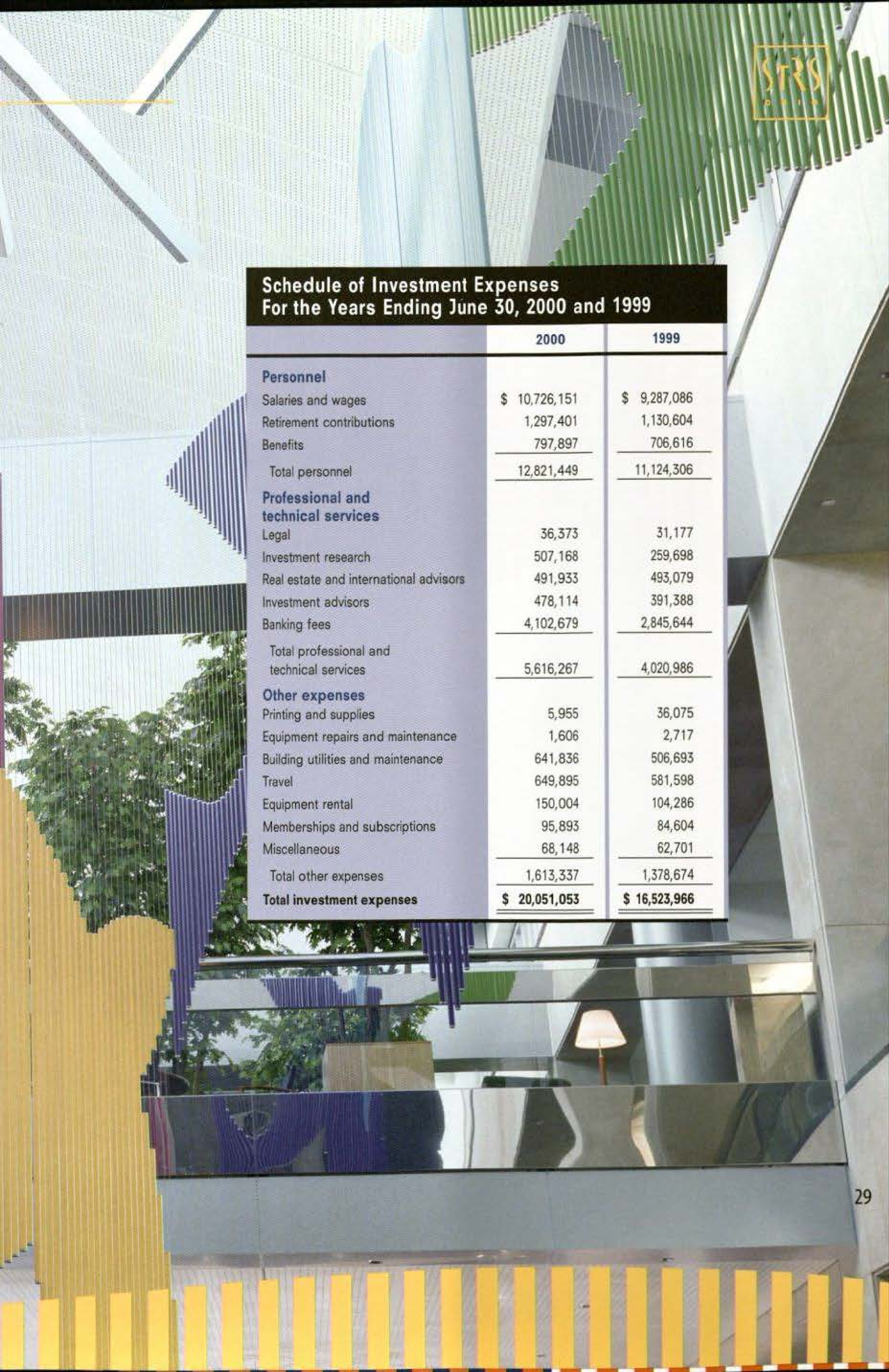
Valuation date	July 1, 2000	July 1, 1999
Actuarial cost method	Entry age	Entry age
Amortization method	Level percent closed	Level percent closed
Remaining amortization period	23.1 years	16.3 years
Asset valuation method	4-year smoothed market with 91%/109% corridor	4-year smoothed market with 91%/109% corridor
Actuarial assumptions:		
Investment rate of return	7.75%	7.50%
Projected salary increases	9.25% at age 20 to 3.25% at age 65	9.25% at age 20 to 3.25% at age 65
Inflation assumption	3.50%	3.50%
Cost-of-living adjustments	3% simple	3% simple

The information presented in the required supplemental schedules was determined as part of the actuarial valuations at the dates indicated. The information in the table is from the latest actuarial valuations.



...ministrative Expenses
...nding June 30, 2000 and 1999

	2000	1999
	$ 20,601,552	$ 17,755,080
	2,853,638	2,341,857
	2,689,260	2,328,760
	26,144,450	22,425,697
...ces	9,005,571	6,622,961
	1,645,420	1,513,573
	283,480	496,078
	69,733	69,271
	232,803	238,562
	11,237,007	8,940,445
...vices	1,939,015	1,969,168
	2,625,742	2,717,732
	697,262	589,019
	5,262,019	5,275,919
...aintenance	1,826,506	1,243,077
...ntenance	1,023,487	1,035,342
...l	704,510	583,049
	307,977	246,509
	3,322,708	2,212,939
	6,282,680	5,384,814
	300,205	376,188
...criptions	132,078	102,332
...ssion	286,943	211,476
	882,075	781,036
	103,955	148,531
	15,173,124	12,325,293
...penses	**$ 57,816,600**	**$ 48,967,354**



Schedule of Investment Expenses
For the Years Ending June 30, 2000 and 1999

	2000	1999
Personnel		
Salaries and wages	$ 10,726,151	$ 9,287,086
Retirement contributions	1,297,401	1,130,604
Benefits	797,897	706,616
Total personnel	12,821,449	11,124,306
Professional and technical services		
Legal	36,373	31,177
Investment research	507,168	259,698
Real estate and international advisors	491,933	493,079
Investment advisors	478,114	391,388
Banking fees	4,102,679	2,845,644
Total professional and technical services	5,616,267	4,020,986
Other expenses		
Printing and supplies	5,955	36,075
Equipment repairs and maintenance	1,606	2,717
Building utilities and maintenance	641,836	506,693
Travel	649,895	581,598
Equipment rental	150,004	104,286
Memberships and subscriptions	95,893	84,604
Miscellaneous	68,148	62,701
Total other expenses	1,613,337	1,378,674
Total investment expenses	**$ 20,051,053**	**$ 16,523,966**

Investment Review

For Fiscal Year July 1, 1999, through June 30, 2000
Prepared by STRS Ohio Investments' associates

Economic growth remains strong, while inflation moves higher

Strong economic activity throughout fiscal year 2000 helped push real gross domestic product (GDP) up 6.1% — the highest year-over-year growth rate in 16 years. Robust consumer spending, resulting from solid income growth amid an extremely tight labor market, led the way. However, an important contribution to GDP growth also came from business fixed investment — particularly investment in capital equipment. Meanwhile, the trade of goods and services continued to be a drag on GDP growth.

Real personal spending grew 5.4% during fiscal 2000, exceeding both the 5.1% growth rate of fiscal 1999 and the consensus view of 3.5% long-term sustainable growth. Nonresidential investment also exceeded the 8.9% growth rate of 1999 by posting an increase of 14.1% in fiscal 2000. The large jump was mainly due to the continuation of robust growth in equipment and software investment. Coming off two consecutive years of 24% advances, computer and related equipment investment rose 27% in fiscal 2000.

Residential investment slowed from its solid pace of recent years while interest rates generally increased throughout the fiscal year. For the year, residential investment was up 0.5%, well below the 8.3% pace posted in fiscal 1999. Real net exports again pulled down economic growth; this time taking nearly a percentage point off of total growth. Exports posted a solid 10.2% increase due to the reemergence of the global economy after the 1998 Asian financial crisis. However, strong domestic demand in the United States kept imports growing at an even faster 14.5% pace. Finally, federal, state and local government expenditures grew by 4.2%, outpacing the 2.2% increase of fiscal 1999.

Consumer prices moved higher during fiscal 2000 due to a surge in energy costs. The total consumer price index increased by 3.3%, up from 2.1% the prior year. Energy costs in the consumer price index rose nearly 17% during the fiscal year. Excluding energy prices, inflation indicators showed a much more modest gain in fiscal 2000. That measure of consumer prices rose just 2.4% during the fiscal year — up marginally from 2.1% in fiscal 1999. Other inflation indicators, like the GDP price index that grew 2.1% after a 1.5% advance in the prior fiscal year, also increased only modestly throughout the fiscal year.

In response to robust growth and budding inflation pressures, the Federal Reserve raised short-term interest rates a number of times during the fiscal year to slow the domestic economy. The federal funds rate began fiscal 2000 at 5% (having been raised from 4.75% on June 30, 1999) and finished the year at 6.5%. Meanwhile, the 10-year Treasury bond began the fiscal year around 6%, rose to 6.75% by January 2000 and then gradually eased back down toward 6% by the end of the fiscal year. Mortgage rates behaved much like the Treasury bond during the fiscal year, except that the 30-year mortgage rate finished about half a percentage point higher.

Fixed-income investments were positioned for the decline in interest rates

Long-term interest rates began fiscal 2000 at 5.97%. Economic growth had been strong, inflation was low and the stock market was at new highs. To slow economic growth and avoid excessive inflation, the Federal Reserve raised short-term interest rates 1.75% over a 12-month period. As it was aggressively raising short-term rates to slow demand, the bond market responded and long-term interest rates steadily increased. By the end of the first six months of the fiscal year, long-term interest rates had risen to 6.5%. Early in the second half of the fiscal year, the Treasury made the surprising announcement it would buy back debt totaling $30 billion for calendar year 2000. The bond market responded favorably to the news and long-term interest rates began to fall. By the end of the fiscal year, long-term interest rates had fallen to 5.9%.

At the start of the fiscal year, STRS Ohio's fixed-income portfolio duration was longer than the market. Duration is a measure of interest rate risk, with the market's duration represented as 100%. The fixed-income portfolio began the fiscal year at a relative duration of 117%, positioned to benefit from an expected fall in interest rates. As interest rates continued to rise early in the fiscal year, the portfolio's duration was increased to 119%. This further positioned the portfolio for an opportunity to earn higher returns relative to the benchmark should interest rates fall (and bond prices rise). In the second half of the fiscal year, as the Federal Reserve continued its inflation vigilance and the Treasury Department announced debt buybacks, long-term rates did fall and bond prices rose. The subsequent decline in long-term interest rates allowed STRS Ohio to lower the fixed-income portfolio's duration. The portfolio ended the fiscal year with a relative duration of 105%.

Performance measurement follows industry convention of reporting on a calendar-year basis. The Lehman Brothers Aggregate Bond Index closely resembles the universe of investments for the STRS Ohio fixed-income portfolio and is used as a benchmark for relative performance. Rising interest rates caused bond prices to decline, which generated negative returns for calendar year 1999. The benchmark returned -0.82% versus STRS Ohio's fixed-income portfolio return of -1.35%. The primary reason for the underperformance relative to the benchmark came in the early positioning of the portfolio for a decline in interest rates. That event did not take place until late in the calendar year. A more complete report of STRS Ohio performance appears on Page 48. The net result of trading during the fiscal year decreased the duration of the portfolio while maintaining an average quality level of AA+. The share of the total fund allocated to this asset class was reduced to 20% at market from 21% the previous fiscal year. Portfolio turnover was moderate and a function of relative value changes in the securities comprising the portfolio.

Stock market remains in narrow trading range

The first three months of the fiscal year were a repeat of last year's beginning with the bull market in stocks running out of steam. The S&P 500 began just under 1400 and, after a brief summer rally, drifted lower until a dramatic three-day sell-off in mid-October. On Oct. 15, the market bottomed with the index closing just under 1250. Just like the year before, however, the Federal Reserve helped reinvigorate the bull market. Acting to prevent any disruptions from the Y2K scare, the Federal Reserve provided reassurances that it would stand ready to help should the U.S. economy begin to flounder. With strong company earnings reports, a robust economy with relatively low inflation and a central bank attentive to any potential downturn, the S&P 500 soared — closing the year at a new high of 1469 as it gained nearly 18% in 10 weeks.

After the millennium celebrations ended and no major computer problems developed, greed turned to fear once more as the large growth stocks that had led the fourth quarter surge began to slide. The overall market began a slow decline with value stocks having a brief moment in the sun after languishing in the dark for more than five years. The rotation was short-lived, however, as the market soared over 10% in the third week of March. That set the high-water mark for the year as stocks settled into a trading range that lasted the remainder of the fiscal year.

STRS Ohio performance reports follow the industry convention of reporting on a calendar-year basis. During calendar year 1999, STRS Ohio equities returned 17.74% while the S&P 1500 returned 20.26%. Domestic equities accounted for $26.7 billion, or 46.4% of total STRS Ohio assets at the end of fiscal 2000. The top 20 STRS Ohio common stock holdings are shown in the schedule of largest investment holdings starting on Page 50. Equity investment results are on Page 48.

Huge gains were found in the international equity markets

During fiscal 2000, equity markets remained strong across the world. The developed markets, represented by the Morgan Stanley Capital International (MSCI) Europe, Australia, Far East (EAFE) Index (50% hedged), rose 19.4% — outpacing the U.S. market by a wide margin. The strength was widespread with the Scandinavian markets and Japan producing exceptional results. Only the United Kingdom and several smaller markets recorded negative returns for the fiscal year.

Emerging markets also produced respectable returns for the year. The emerging markets, represented by the MSCI Emerging Markets Free (EMF) Index, rose 9.5%. Weakness in much of Asia was offset by strength in the Mediterranean markets and Russia. Latin America was also a contributor with a 14% return for the region.

STRS Ohio performance reports follow the industry convention of reporting on a calendar-year basis. The STRS Ohio international hybrid index, consisting of 70% of the MSCI EAFE Index (50% hedged) and 30% of the MSCI EMF Index, rose an outstanding 49.39%. The hybrid benchmark in calendar 1999 returned 41.6%. The STRS Ohio international portfolio also exceeded the benchmark for the two-year, three-year and since inception time periods through calendar 1999. Performance results of the international equities portfolio are on Page 48.

The international portfolio was valued at $12.2 billion at the end of fiscal 2000, which represented 21.2% of total STRS Ohio assets. Developed market investments totaled $8.7 billion, or 15.1% of total assets, and emerging market investments were $3.5 billion, or 6.1% of total assets. External managers were responsible for managing 60% of the international portfolio and the remaining 40% was internally managed.

Real estate returns continue to exceed benchmark

The real estate market turned out another year of solid performance. The supply and demand fundamentals of the physical space market continue to be in a state of overall equilibrium. There are pockets of slight imbalances, but the markets that are still supply-constrained outnumber those that may have excess supply. New construction is being kept in check by more stringent lending requirements that will help to continue this state of equilibrium.

The capital market for real estate was more stable in calendar year 1999 than in 1998. Both public debt and equity rebounded, but the public equity market was still in negative territory for 1999. Improved performance is anticipated in 2000 as public real estate companies continue to show steady gains. New capital continues to flow to the private sector which, when coupled with a slower economy, will result in more moderate returns in this sector. STRS Ohio's outlook continues to be favorable for the asset class while recognizing returns will be trending lower.

STRS Ohio's returns exceeded the composite benchmark for calendar year 1999. STRS Ohio's portfolio returned 11.72% as compared to the benchmark of 9.53%. During the year, the portfolio increased 18%. This growth is attributable to significant new investments and strong appreciation in the existing base of assets. The real estate portfolio represented 10.2% of total assets, leaving it over the midpoint of the target range for the asset class.

Target asset allocations changed

During the fiscal year, an STRS Ohio asset allocation study recommended changes to the investment portfolio. Generally, these changes will take effect during fiscal 2001. A quick summary of those changes, approved by the State Teachers Retirement Board, is listed below (also see accompanying chart on Page 34):

- The emerging market exposure of the fund was changed from 6% to 5% because the 6% previously invested in emerging market equities was substantially higher than the neutral weight of emerging markets in the broad market.
- The allocation to alternative investments was increased from 1% to 2%.
- The benchmark for fixed income was changed from the Lehman Brothers Aggregate Bond Index to the Lehman Brothers U.S. Dollar-Denominated Universal Index. This was done to diversify the fixed-income portfolio into additional fixed-income markets, such as high-quality sovereign bonds, high-yield bonds and emerging market bonds.
- The allocation target for liquidity reserves was reduced from 2% to 1% because of the potential opportunity cost of keeping assets in highly liquid assets.

Total fund return exceeds benchmark

During calendar year 1999, the STRS Ohio fund returned 18.87%. (STRS Ohio performance is more appropriately calculated on a calendar-year basis for adequate comparisons with other performance publications.) The hybrid index of industry benchmarks rose 17.63% during 1999. The STRS Ohio fund's rate of return for the five-year period ending Dec. 31, 1999, was 16.25%, more than double the 8% absolute long-term return goal but below the relative hybrid index of industry benchmarks, which rose by 17.51%. Over the past three calendar years, the STRS Ohio fund returned 16.1%, while the hybrid index of industry benchmarks rose 16.51%.

The relative performance of most STRS Ohio asset categories compared to their benchmarks continued to fare well. Over the past three years, the STRS Ohio domestic equities portfolio grew 22.89% versus the

Investments

S&P 1500's 26.41% average annualized gain. The international portfolio outperformed its hybrid MSCI EAFE/EMF benchmark for a sixth straight year. The STRS Ohio international portfolio returned an annualized 11.29% through the past five calendar years, while the benchmark grew 9%. Fixed-income investments continue to exceed the Lehman Aggregate Bond Index over the five-year and three-year periods. During the past five years, fixed-income investments have returned 8.24% while the benchmark rose 7.73%. Over the past three years, fixed-income investments grew 5.94% versus the benchmark's 5.73%. The return from real estate investments outpaced its benchmark over the past five years by 70 basis points, growing at an annualized 11.51% versus the benchmark increase of 10.81%. Over the past three years, real estate investments grew at an annualized 13.28%, while the benchmark advanced 11.69%.

The total return on STRS Ohio investment assets over the preceding five-year period exceeded the rate of inflation, as measured by the GDP deflator, by 14.55 percentage points. Over the three-year period, the return on STRS Ohio investment assets has exceeded the inflation rate by 14.6 percentage points.

Recommended Changes to Investment Portfolio Resulting from STRS Ohio Asset Allocation Study

	Previous Policy	Revised Policy
Liquidity Reserves	2%	1%
Fixed Income	23%	23%
Real Estate	9%	9%
U.S. Stocks	45%	45%
International Stock	20%	20%
Developed	14%	15%
Emerging	6%	5%
Alternative Investments	1%	2%
Total	100%	100%

Investment Objective and Policy

Effective May 19, 2000

General Policy Statement

Introduction

The State Teachers Retirement System of Ohio is governed by a board of nine members with broad statutory powers. The investment function is vested in the board as set forth in Section 3307.15 of the Ohio Revised Code. Section 3307.15 of the Ohio Revised Code requires the board to "... adopt in regular meeting, policies, objectives or criteria for the operation of the investment program ..." These policies, objectives and criteria are adopted under this authority.

It is the intent of the board to give consideration to investments that enhance the general welfare of Ohio provided such investments offer quality return and safety comparable to other investments currently available to the board. The board also will give consideration to investments that involve minority-owned and minority-controlled firms and firms owned or controlled by women.

Sections 3307.04 and 3307.15 of the Ohio Revised Code empower the board to authorize its administrative officers and committees to act for it in accord with its policies. In addition to the investment function, Section 3307.15 of the Ohio Revised Code also sets forth the fiduciary responsibility of the board and other fiduciaries in discharging their duties with respect to the fund. Section 3307.01 (K) of the Ohio Revised Code defines a fiduciary, and Sections 3307.151, 3307.181, 3307.15 and 3307.18 of the Ohio Revised Code list specific items a fiduciary shall and shall not do. This Investment Objective and Policy incorporates and is subject to all of the above-mentioned sections of the Ohio Revised Code.

Staff and Board

Participation in the affairs of any public body demands high personal integrity and conduct. This is especially true when funds of others are involved. Members of the board and staff must discharge their responsibilities without prejudice or favor, avoiding at all times any conduct that could create or appear to create a conflict of interest.

Staff members shall carry out the duties and responsibilities delegated by the board in the best interest of members of the system and in accordance with the code of ethics of the Association for Investment Management and Research. No staff member shall engage in any activity in his or her official position or in a personal investment program that will in any way create a conflict of interest.

Organization

Investment Committee

An Investment Committee is established and consists of all nine members of the board. The Investment Committee is empowered to advise the board in all investment matters.

Investment Advisors/Consultants

The board shall employ competent, well-qualified organizations to assist in carrying out its fiduciary responsibility. Duties of the investment advisors/consultants shall include but not be limited to:

1. Recommending long-term investment objectives and review of these objectives at least annually.
2. Monitoring performance of the investment program.
3. Availability to counsel with in-house staff, executive director, or members of the board.
4. Participation in bimonthly meetings of the Investment Committee.
5. Review and advise on detailed investment criteria for all investments.
6. Review of Annual Investment Plan.
7. Performance of such other duties as may be provided by contract.

Executive Director

Subject to this Investment Objective and Policy, the executive director is authorized by the board under Sections 3307.04 and 3307.15 to act for and on behalf of the board and the system in all purchases, sales or other investment transactions. Investment transactions since the last report will be reviewed by the Investment Committee at each meeting and upon such review shall be deemed accepted, ratified and adopted by the board. The Investment Committee may act at the time of such review to direct the subsequent sale or disposal of any investment.

Deputy Executive Director — Investments

The deputy executive director — Investments shall have the following responsibilities:

1. Supervise activities of the in-house staff.
2. In cooperation with the investment advisor and the executive director, formulate an Annual Investment Plan.
3. Make recommendations to the executive director and board concerning periodic modification of the Annual Investment Plan.
4. Assure that the portfolios comply with established parameters and risk levels.
5. Supervise execution of orders to buy and sell securities (including options) seeking always to maintain reasonable costs for such services.
6. Report in required detail to the executive director and the Investment Committee and/or the board on all activities of the investment staff.

Objectives, Guidelines and Policies: Total Fund

Objectives

In many if not most instances, payments from the pension fund are the major sources of income to retirees and a principal protection against the contingencies of death and disability for active workers. Therefore, the basic policy of the board is preservation of the capital investment and realization of sufficient return to secure and facilitate payment of the statutory benefit requirements of the system to its participants and beneficiaries. In this connection, it is recognized that the fund will achieve some protection against erosion of principal value through inflation if the actuarially assumed interest rate is achieved.

Maximization of return, from both current income and capital appreciation consistent with the overall risk parameters described below, is an important objective. With the insight gained from careful studies of the benefits of diversification and asset return potential, the board sets a total return objective of 8% per annum. This is a long-term objective, and this total return expectation assumes a modest rate of inflation. The objective should be pursued consistent with prudent management.

The board anticipates that contributions to the pension fund and income from existing assets will exceed disbursements for the foreseeable future. Therefore, there is no special need for liquidity in the portfolio, other than that deemed necessary to accomplish investment objectives and strategies.

Given the expected contribution income, forecast of benefit obligations and acceptable actuarial asset value smoothing techniques, the risk level of the pension fund, meaning the tolerance for fluctuations in market value

Asset Class	Asset Mix General Policy Ranges at Market	Average Long-Term Weightings at Market
Liquidity Reserves	0 - 4%	1%
Fixed Income	13 - 28%	23%
Domestic Equities	43 - 50%	45%
International	15 - 25%	20%
Real Estate	6 - 12%	9%
Alternative Investments	1 - 3%	2%
		100%

Asset Class	Total Return Objective	Benchmarks
Liquidity Reserves	4 - 5%	90-Day Treasury Bills
Fixed Income	6 - 7%	Lehman Universal Bond Index (effective 10/01/00)
Domestic Equities	8 - 10%	S&P 1500
International	8 - 10%	75% EAFE*/25% EMF (effective 10/01/00)
Real Estate	8 - 9%	NCREIF Adjusted
Alternative Investments	14 - 16%	Absolute Return

* 50% hedged

of the total investment fund, can match that of the global stock market. This should protect the beneficiaries from any undue risk while capturing the desired return potential from the preferred asset mix.

The asset mix policy ranges and the average long-term weights for the major asset classes are listed on Page 36. The investment staff has the authority to operate within the policy ranges for each asset class. The average long-term weights were derived from the 2000 Asset Allocation Report, discussions with the board's consultants, and staff input and are based on each asset's long-term (five- to 10-year) expected rate of return and volatility.

It is expected that in each year's Annual Investment Plan, the board will adopt a current strategy which may deviate from the average long-term weights shown on Page 36 based upon short- and intermediate-term expected returns of each asset.

Objectives, Guidelines and Policies: Fixed Income

Objectives

It is the board's policy to invest in fixed-income investments to diversify the investment portfolio. A total return objective of 6-7% per year over a five-year period is expected on these assets. Total returns in excess of the Lehman Brothers Universal Bond Index is the fixed income relative objective.

Restrictions

It is the board's policy to maintain a normal invested position of 23% of total fund assets with a range of 13-28%. External management of fixed-income assets may be utilized. The staff will select and the board, through its consultant, will monitor performance of all outside money management firms used for fixed-income investments. Internally managed fixed-income assets will be U.S. dollar-denominated debt obligations. For externally managed portfolios, non-U.S. dollar-denominated debt securities may be purchased and currencies will be hedged at the discretion of the manager. The portfolio will seek diversification by market sector, quality and issuer. Emerging market and high-yield debt each will be within 60% and 140% of the Lehman Brothers Universal Bond Index weights. The maximum investment in the securities of any one issuer shall not exceed 3% of the fixed-income portfolio at the time of purchase with the exception of U.S. Government and related agency securities. The portfolio will have a duration level between 80% and 120% of the index. Portfolio turnover will be moderate and a function of relative value changes of the securities comprising the portfolio. Directly negotiated private placements by staff are prohibited investments.

Derivatives may be used in management of both the internal and external fixed-income portfolios as long as the underlying security is suitable for the portfolios. The use of leverage to enhance portfolio returns is prohibited. A mortgage that has an expected negative duration is also prohibited. Derivatives may be used to adjust the exposure to interest rates, individual securities or to various market sectors in the portfolio. All strategies must be of a hedging or positioning nature rather than speculative. Underlying exposure of derivatives for internally managed fixed-income investments will not exceed 5% of total fund assets.

Objectives, Guidelines and Policies: Liquidity Reserves

Objectives

It is the board's policy to hold liquidity reserves to fund the normal business needs of STRS Ohio. The portfolio seeks to preserve principal value and maintain a high degree of liquidity. The return objective of the portfolio is to exceed the return of a 90-day U.S. Treasury bill.

Restrictions

It is the board's policy to maintain a normal invested position of 1% of total fund assets with a range of 0-4%. Liquidity reserves will be a portfolio of high quality short-term securities generally of A1/P1 quality. To preserve the principal value of the portfolio, interest rate risk will be low. The portfolio will consist of large marketable issuers in the short-term markets to provide the necessary liquidity.

Objectives, Guidelines and Policies: Domestic Equities

Objectives

For the domestic equity sector of the portfolio, a total return objective of 8-10%, averaged over a period of five years, is desired. Should the investment advisor believe attainment of this objective at any time is not possible without undue risk, it is the advisor's responsibility to recommend to the board a revised figure. The equity portfolio should reduce nonmarket risk by being diversified.

Restrictions

It is the board's policy to maintain an investment in domestic equities in the range of 43-50% of assets. The amount invested at any time is determined by the long-term objectives established by the board in conjunction with the investment advisor/consultant and by the Annual Investment Plan and its periodic modifications.

No more than 6% of assets of the system invested in the equity sector may be invested in equities of any one corporation. The board shall not generally take a position constituting more than 5% of the outstanding equity of a corporation (except investments approved under the "Alternative Investments" section).

All American depository receipts and foreign stocks listed on a domestic stock exchange are eligible for purchase under this section.

Derivatives may be used in management of the equity portfolio. The use of leverage to enhance a derivative's effect is prohibited. Derivatives are typically, but not exclusively, options, futures and options on futures for market indices such as the S&P 500, S&P 400, S&P 100 and the S&P 600 index. Options on individual stocks, stock baskets and unleveraged equity linked notes are further examples. Strategies permitted must be of a hedging or positioning nature rather than speculative. Underlying exposure of equity derivatives cannot exceed 10% of total STRS Ohio assets.

Quality Standards and Portfolio Construction

Domestic equity portfolios are normally invested in securities selected from a universe of more than 6,000 publicly traded issues. The investment style of individual portfolios follows STRS Ohio guidelines, as described in the Annual Investment Plan, and are monitored based on appropriate portfolio characteristics and risk levels. Stocks are selected for each portfolio based on a set of criteria appropriate for each style. The board's investment advisor/consultant must review each equity portfolio to measure the degree of compliance with STRS Ohio established parameters and risk levels. The investment advisor/consultant must report the results to the board at least annually.

Portfolio Allocation

The allocations across the various domestic stock portfolios will be tied to the weights of the respective sectors in the S&P 1500 for the following sectors: growth versus value, and large, mid and small capitalization.

Since these sector weights shift over time, the portfolio rebalancing will be a dynamic and ongoing process. At least quarterly, allocations will be reviewed and adjusted so that no sector is less than 75% nor more than 125% of the respective index weight.

External Managers

The staff will select and the board, through its consultant, will monitor the performance of all external money managers used to provide supplemental active management.

Objectives, Guidelines and Policies: International

Objectives

It is the board's policy to invest in international investments in order to diversify the investment portfolio. A total return objective of 8-10% per year over a five-year period is expected on these assets. The primary emphasis will be on international equity securities, but some international debt instruments may also be included.

Restrictions

It is the board's policy to maintain an exposure in international investments in the range of 15-25%. The staff will select and the board, through its consultant, will monitor performance of all outside money management firms used for international investments. Internal management of international assets will also be utilized. International assets will be a diversified portfolio including both developed and emerging countries. The targeted normal weighting of international investments will be comprised of 15% developed countries and 5% emerging countries. The staff may deviate from this weighting by plus or minus 2% on the emerging market weighting and plus or minus 3% on the developed market weighting. The neutral position for currencies will be 50% hedged for the developed markets. Currencies will be hedged at the discretion of the manager. The internally managed portfolio will generally hedge currencies in excess of the 50% neutral position only in cases of extreme under- or overvaluation.

Derivatives may be used in management of both the internal and external international portfolios as long as the underlying security is suitable for the portfolios. The use of leverage to enhance a derivative's effect is prohibited. Derivatives may be used to adjust the exposure to countries or markets, to individual securities or to currencies in the portfolios. All strategies must be of a hedging or positioning nature rather than speculative. Underlying exposure of derivatives for international investments will not exceed 10% of total STRS Ohio assets.

Objectives, Guidelines and Policies: Alternative Investments

Objectives

The chief objective of the alternative investment program is to provide an attractive risk-adjusted rate of return to benefit the STRS Ohio membership. Most alternative investment options inherently possess a long-term investment horizon, illiquidity and a high standard deviation (volatility in the timing of returns). For these reasons, expected financial returns exceed those of other asset classes. Alternative asset returns are expected to be approximately 15% annualized over the life of the asset pool.

Restrictions

Total value of alternative assets invested will not normally exceed 3% of total assets. Timber and farmland, often classified as alternative assets, are considered by the board as real estate for this policy statement and are managed under the real estate section of this statement.

Potential alternative investments will be analyzed for possible STRS Ohio investment. In addition to meeting the legal requirements, underwriting criteria include: experienced general partners, solid track record and appropriate partnership terms. The Annual Investment Plan will set forth strategies, desirable types and specific current goals for alternative assets.

The executive director shall report any investment under consideration pursuant to this section to the Investment Committee prior to making any legally binding commitment to such investment.

The deputy executive director — Investments will inform the board of an individual to serve on a company board and to face election by shareholders of that company. If the named individual is an STRS Ohio associate, that individual must sign a letter of agreement with the State Teachers Retirement Board indicating that, should the staff member terminate employment at STRS Ohio, resignation from any and all company board seats would occur if the State Teachers Retirement Board so directs. The STRS Ohio associate can be reimbursed for actual expenses incurred in serving on a board of directors, but no director's fees will be accepted.

Objectives, Guidelines and Policies: Real Estate

Objectives

It is the board's policy to invest in real estate in order to diversify and reduce the volatility of the overall investment portfolio. Consequently, real estate investments will be acquired to provide a return commensurate with investment risk. Income yields shall be a key objective of the portfolio with long-term appreciation also a factor in real estate selection. A total return objective of 8-9% per year over a five-year period is expected for the portfolio.

Guidelines

It is the board's policy to maintain an investment in real estate in the range of 6-12% of total assets, diversified within the following guidelines:

1. **Property Type:** High-quality investments that will provide both investment security and equity growth potential. Five such types are:
   a. Office buildings
   b. Retail properties
   c. Distribution centers, warehouses and industrial parks
   d. Multifamily housing
   e. Specialty

   Specialty types include, but are not limited to, timberland, farmland, senior living and hotels. The value for any one property type shall generally not exceed 50% of real estate assets. However, the specialty type shall not exceed 25% of real estate assets.

2. **Geographical Concentration:** The maximum value for any one of the four regions as defined by the National Council of Real Estate Investment Fiduciaries (NCREIF) will generally be 50% of real estate assets. Investments in international real estate will be limited to 10% of real estate assets. When properties located within Ohio offer quality, return and safety comparable to properties outside Ohio, the Ohio investment will be given preference.

3. **Investment Structure:** Equity-oriented ownership structures will be used such as direct ownership, participating or convertible mortgages, joint ventures, externally managed accounts, real estate securities and derivatives. Real estate securities will be limited to 25% of real estate assets. Derivatives may be used in the management of the real estate portfolio. All strategies must be of a hedging or positioning nature

rather than speculative. Underlying exposure of real estate derivatives must not exceed 1% of total STRS Ohio assets. The staff will search for innovative structures for new real estate investments to enhance STRS Ohio's total investment strength. To manage the overall volatility of the real estate portfolio, the amount of leverage on the portfolio will generally be limited to 35% of real estate assets.

4. **Investment Size Guidelines:** The minimum size for individual real estate properties will be generally: $10 million for properties within Ohio and $15 million for properties outside Ohio. Exceptions to this guideline are appropriate in areas where STRS Ohio has an existing concentration of real estate assets or is actively building a concentration. The maximum investment amount for an individual property will be limited to approximately 1% of total STRS Ohio assets.

5. **Investment Style:** The real estate portfolio will contain individual real estate investments along the risk/return continuum. However, the portfolio will generally limit "non-core" (i.e., relative higher risk) real estate investments to 30% of total real estate assets.

Procedures

Due Diligence

The real estate investment management process will be subject to a number of procedures to safeguard STRS Ohio assets. New investments will have the following documentation:

1. A building and systems evaluation by a qualified engineering firm in the case of an existing building.
2. A review of plans, specifications and construction progress by a qualified architectural firm in the case of developmental properties.
3. An environmental review by a qualified consultant in accordance with the Environmental Policy described below.
4. A financial analysis including, but not limited to, holding period, internal rate of return, initial yield and sensitivity to critical assumptions.
5. Legal review and approval of appropriate documents.

Environmental Policy

Real estate investments will be subject to the requirements of an Environmental Policy, addressing hazardous materials, wetlands, endangered species and other environmental issues affecting real property. The policy shall be reviewed by the board's real estate consultant for comparability to other institutional investor practices. The policy will ensure that STRS Ohio will be prudent and diligent in its evaluation of potential real estate investments having environmental issues. STRS Ohio will not make any real estate investment having

Objectives, Guidelines and Policies: Alternative Investments

Objectives

The chief objective of the alternative investment program is to provide an attractive risk-adjusted rate of return to benefit the STRS Ohio membership. Most alternative investment options inherently possess a long-term investment horizon, illiquidity and a high standard deviation (volatility in the timing of returns). For these reasons, expected financial returns exceed those of other asset classes. Alternative asset returns are expected to be approximately 15% annualized over the life of the asset pool.

Restrictions

Total value of alternative assets invested will not normally exceed 3% of total assets. Timber and farmland, often classified as alternative assets, are considered by the board as real estate for this policy statement and are managed under the real estate section of this statement.

Potential alternative investments will be analyzed for possible STRS Ohio investment. In addition to meeting the legal requirements, underwriting criteria include: experienced general partners, solid track record and appropriate partnership terms. The Annual Investment Plan will set forth strategies, desirable types and specific current goals for alternative assets.

The executive director shall report any investment under consideration pursuant to this section to the Investment Committee prior to making any legally binding commitment to such investment.

The deputy executive director — Investments will inform the board of an individual to serve on a company board and to face election by shareholders of that company. If the named individual is an STRS Ohio associate, that individual must sign a letter of agreement with the State Teachers Retirement Board indicating that, should the staff member terminate employment at STRS Ohio, resignation from any and all company board seats would occur if the State Teachers Retirement Board so directs. The STRS Ohio associate can be reimbursed for actual expenses incurred in serving on a board of directors, but no director's fees will be accepted.

Objectives, Guidelines and Policies: Real Estate

Objectives

It is the board's policy to invest in real estate in order to diversify and reduce the volatility of the overall investment portfolio. Consequently, real estate investments will be acquired to provide a return commensurate with investment risk. Income yields shall be a key objective of the portfolio with long-term appreciation also a factor in real estate selection. A total return objective of 8-9% per year over a five-year period is expected for the portfolio.

Guidelines

It is the board's policy to maintain an investment in real estate in the range of 6-12% of total assets, diversified within the following guidelines:

1. **Property Type:** High-quality investments that will provide both investment security and equity growth potential. Five such types are:
   a. Office buildings
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   d. Multifamily housing
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Specialty types include, but are not limited to, timberland, farmland, senior living and hotels. The value for any one property type shall generally not exceed 50% of real estate assets. However, the specialty type shall not exceed 25% of real estate assets.

2. **Geographical Concentration:** The maximum value for any one of the four regions as defined by the National Council of Real Estate Investment Fiduciaries (NCREIF) will generally be 50% of real estate assets. Investments in international real estate will be limited to 10% of real estate assets. When properties located within Ohio offer quality, return and safety comparable to properties outside Ohio, the Ohio investment will be given preference.

3. **Investment Structure:** Equity-oriented ownership structures will be used such as direct ownership, participating or convertible mortgages, joint ventures, externally managed accounts, real estate securities and derivatives. Real estate securities will be limited to 25% of real estate assets. Derivatives may be used in the management of the real estate portfolio. All strategies must be of a hedging or positioning nature

environmental issues that in all reasonable likelihood, would subject STRS Ohio to a material liability or would have a materially adverse impact on the value of the real estate investment that has not been taken into account in the underwriting decision, including without limitation, a prudent plan for diligently handling such environmental issues.

Valuations

A combination of internal valuations and external appraisals will be used on a rotating basis for valuing the internally managed assets (except the sale-leaseback portfolio will be valued on an internal basis only). Each property will be valued annually, with an independent external appraisal no less than every third year. Additionally, a sample of internally valued properties will have external appraisals each year to validate the internal results. At acquisition, each property will have an external appraisal, although carried at the purchase price for the first year. Externally managed investments are valued and reported to STRS Ohio by the external manager. The methodology used for internal valuations shall be reviewed by the board's real estate consultant.

Performance

Real estate investment performance will be reported to the board on a quarterly basis. The real estate portfolio shall have as its benchmark, a composite index consisting of 75% of the NCREIF Property Index, 10% of the NCREIF Timberland Index, 5% of the NCREIF Farmland Index and 10% of the NAREIT Equity Index.

Board Consultant

The role of the real estate consultant is specifically outlined in the contract scope of services. The scope of services includes, but is not limited to, the following:

1. Report to the board on a semiannual basis regarding the investment performance of the system's real estate portfolio.
2. Review and comment on the real estate strategy as presented in the Annual Investment Plan and any revisions to the plan recommended during the year. Review and comment on the five-year real estate strategy prepared by staff.
3. Review triennially, the general internal management of real estate and its efficiency, with the objective of completing an overall operational audit.
4. Review certain predefined property-specific transactions.

Real Estate Investment Committee (REIC)

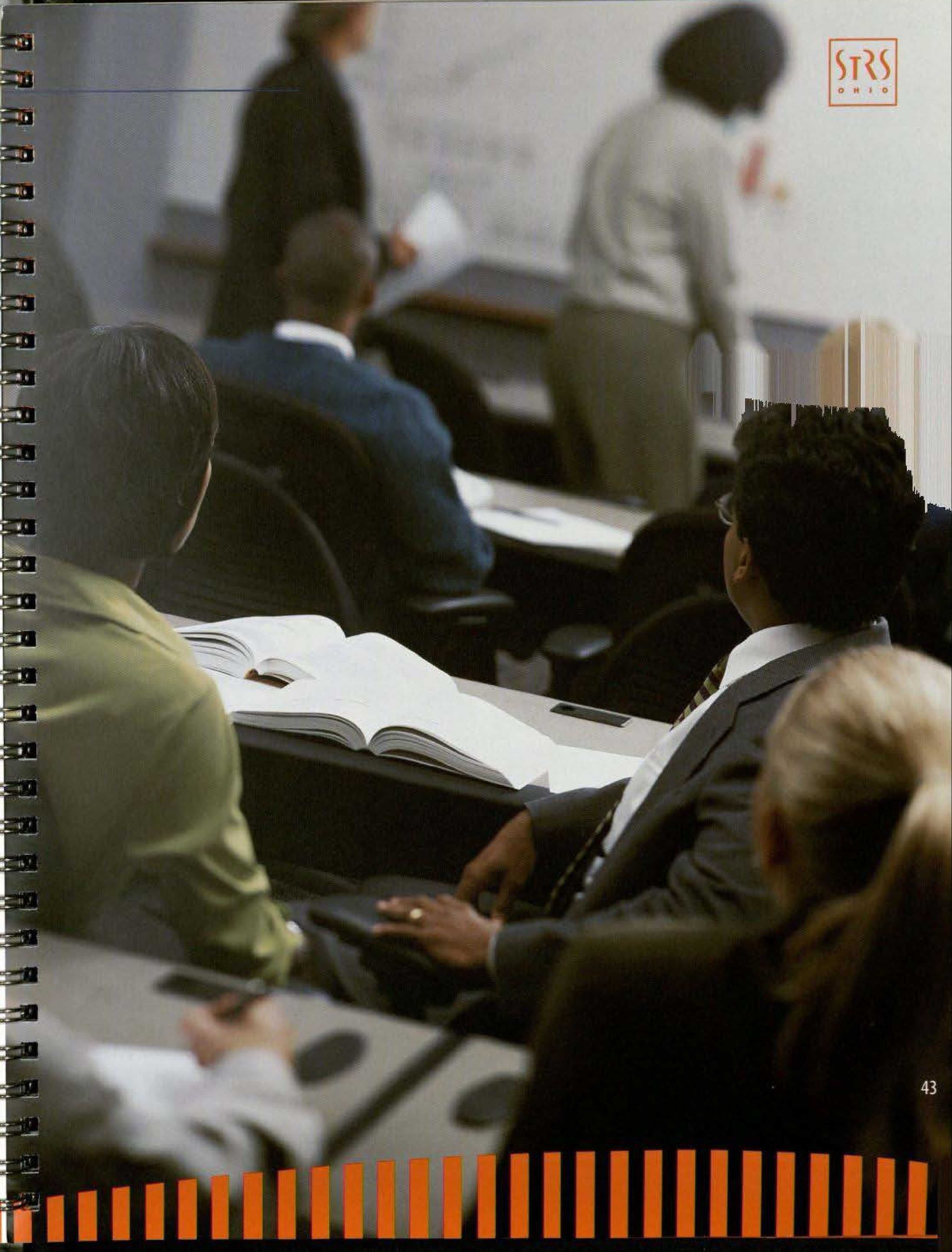
A committee composed of a combination of internal staff and external industry professionals will review proposed transactions for recommendation to the deputy executive director — Investments and the executive director. Transactions to be reviewed by the REIC include new acquisitions, dispositions and significant modifications in existing deal structures. The following transactions will not be subject to REIC review for recommendation to the executive director:

1. Ancillary purchases, sales, exchanges and capitalized expenditures which are valued at less than 20% of the total property value;
2. Public real estate securities subject to the allocation limit in the "investment structure" guideline;
3. Actions allowed under existing investment documents (e.g., conversion options, loan prepayments, buy-sell agreements, etc.);
4. Sales of individual sale-leaseback properties;
5. Temporary mortgage restructurings, which limit the restructuring to no more than four years and revert back to original terms;
6. Settlement of actual or potential real estate litigation;
7. Investment in international real estate funds and securities subject to the allocation limit in the "geographical concentration" guideline; and
8. Investment in externally managed accounts such as timber, agriculture and "opportunity" funds.

Board Review

The board adopts policy and monitors performance with the assistance of the real estate consultant. These responsibilities include review of the:

1. Investment Objective and Policy;
2. Long-term real estate strategy;
3. Annual Investment Plan;
4. Individual transactions outside policy and/or strategy;
5. Monthly Investment Activity Reports; and
6. Semiannual performance reports from the consultant.



Objectives, Guidelines and Policies: Procedures

Long-Term Objectives

The investment advisor shall recommend long-term objectives for the total plan and for each segment of the portfolio. These long-term objectives, many of which are incorporated into this policy, shall be reviewed by the Investment Committee and/or the board at least annually. The objectives for staff-managed domestic portfolios of financial assets shall incorporate statements of investment criteria for both publicly traded bonds and stocks, as recommended by the investment advisor/consultant and approved by the board.

Annual Investment Plan

By January of each calendar year, or at such other time as the board may designate, an Annual Investment Plan shall be proposed to the Investment Committee. This proposed plan shall be based upon recommendations of the Investment Department and the investment consultants, with approval of the executive director. The Annual Investment Plan shall be based upon:

1. The long-term objectives and normal asset weights set by the board.
2. General economic outlook for the short and long term.
3. Expected relative outlook for asset types.
4. Short- and long-term interest rates.
5. Such other factors as seem indicated.

The Annual Investment Plan will serve as a guide for the investment staff in its day-to-day operation. Any changes proposed to the plan are to be presented to and accepted by the board before adoption.

The plan as modified will become the operational plan for the investment staff until subsequent modification.

Reporting

The Investment Committee shall be furnished with the following:

Monthly

1. Monthly Activity Report that includes:
   a. Domestic Equities
      (1) Summary of the equity markets
      (2) Domestic equity performance comparisons
      (3) Top 20 holdings
      (4) Portfolio diversification — past, present and planned
      (5) Status of special projects
   b. International
   c. Fixed Income
      (1) Summary of fixed-income markets
      (2) Summary of trading markets
   d. Real Estate
   e. Cash Flow
   f. Performance
2. Portfolio Summary, classified by asset type, at market and as percentages of the total.
3. Investment purchases and sales since the last report.

Bimonthly

Appropriate commentary and reports on the progress with the Annual Investment Plan.

Semiannually

All exposure in derivatives for all asset classes.

Proxy Voting

The State Teachers Retirement Board believes that common stock proxies are valuable and should be voted in the best interest of the members and retirees. To this end, the Retirement Board shall maintain stock proxy voting policies and the staff and all outside managers will use them as guides in meeting the fiduciary responsibility of the State Teachers Retirement Board in voting common stock proxies. Common stock proxies may be executed by the executive director, the deputy executive director — Administration, the deputy executive director — Investments or outside money managers.

Ohio Investments

It is the policy of the board to give consideration to investments that enhance the general welfare of the state and its citizens, provided the funds are invested solely in the interest of participants and beneficiaries. This goal will be pursued to the greatest extent possible within the limits of fiduciary responsibility. Preference will be given to Ohio investments offering competitive returns at risk levels comparable to similar investments currently available to the board.

To meet this objective an Ohio Investment Plan, incorporating all provisions of the STRS Ohio Investment Objective and Policy Statement, shall be maintained and implemented by the investment staff. This plan shall set forth procedures to assure that a special effort will be made by the investment staff to examine and evaluate all legal investment opportunities in the state and, where policy objectives are met, to acquire such investments.

Broker-Dealers

Purchases and sales of publicly traded securities shall be executed with broker-dealers from a list reviewed by the Investment Committee. The list shall be limited, as practicable, to 65 firms plus those in the Ohio and emerging firms sublist. Selection shall be based on an evaluation by the investment staff as to financial soundness, underwriting capabilities, research services, execution capabilities and other factors required by the staff to fulfill its assigned investment responsibilities. Specific transactions will be directed to the broker on that list most capable of providing brokerage services necessary to obtain both the best available price and the most favorable execution.

The board shall give equal consideration to minority-owned and controlled firms and to firms owned and controlled by women. The board shall be proactive in its intent to include: firms that have an operating office located in Ohio; minority-owned and controlled firms; and firms owned and controlled by women.

Each firm listed shall file with the State Teachers Retirement Board on an annual basis such evidence of financial responsibility as required by the board. This information shall include, but not be limited to, an audited financial statement.

When stocks are purchased during an underwriting, allocations may be made to dealers not on the approved list provided the managing underwriter is so listed. Bond purchases may be made either at underwriting or in the secondary market from any firm holding membership in the National Association of Securities Dealers.

When entering into real estate transactions, the board shall give equal consideration to Ohio firms providing associated professional services, minority-owned and controlled firms, and firms owned and controlled by women.

Securities Lending

The board may operate a securities lending program to enhance the income of the fund. The program must be operated by a bank trustee under the custodial supervision of the Treasurer of State and each security lent must be fully collateralized. Results of the program must be reported to the board annually.

Measurement

The primary goal of the fund shall be to achieve the absolute return targets described in the "Total Fund" section of this policy. However, a secondary measurement objective of the board is to relate the fund's performance to various indices. The relative measurement of the total fund shall be made against a hybrid index consisting of weightings from liquidity reserves, equity, fixed income, real estate and international indices.

Relative measurement of performance shall be made on a quarterly and annual basis. The primary time period for such comparisons shall be three years, although one-, five- and 10-year comparisons shall also be examined.

The benchmark against which investment return of the publicly-traded bond sector will be measured is the Lehman Universal Bond Index and the GDP Deflator. The primary time period for such comparisons shall be three years, although one-, five- and 10-year comparisons shall also be examined.

The domestic equity portfolio shall be compared against the Standard & Poor's 1500 Average and the Capital Resource Advisors State Plan Median Fund. The board's objective is to match or exceed performance of the yardsticks, subject to the volatility level expressed in the "Total Fund" section of this policy. The primary time period for such comparisons shall be three years, although one-, five- and 10-year comparisons shall also be examined.

The real estate portfolio shall have as its benchmark a composite index consisting of 75% of the NCREIF Property Index, 10% of the NCREIF Timberland Index, 5% of the NCREIF Farmland Index and 10% of the NAREIT Equity Index. The primary time period for such comparisons shall be three years, although one-, five- and 10-year comparisons shall also be examined.

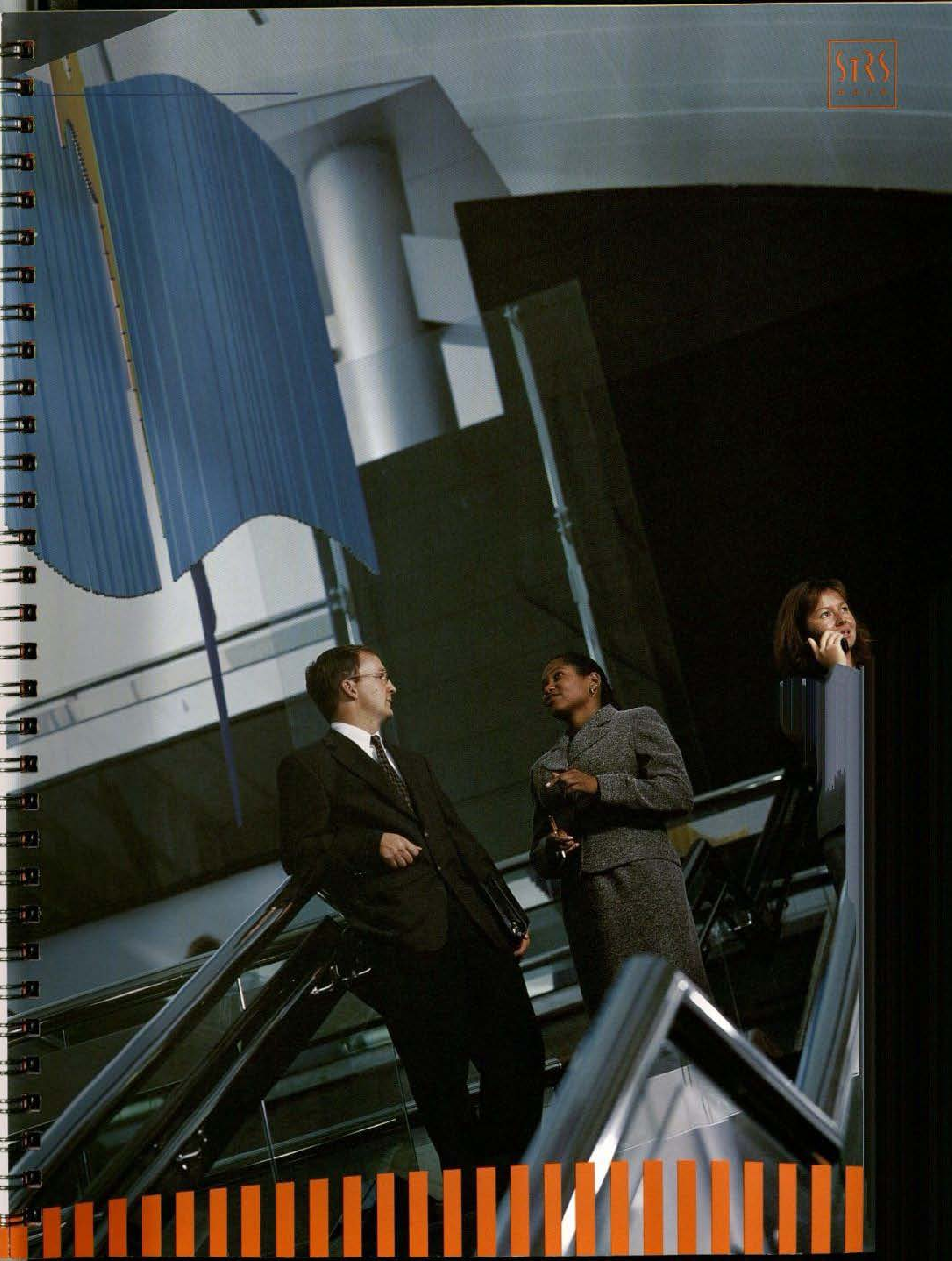
The international equity portfolio shall have as its benchmark a composite index, consisting of 75% of the Morgan Stanley Capital International Europe, Australia, Far East Index (EAFE) 50% hedged and 25% of the Morgan Stanley Emerging Markets Free Index. The board's objective is to match or exceed performance of this composite index. The primary time period for such comparisons shall be three years, although one-, five- and 10-year comparisons shall also be examined.

In addition, the board and its investment advisors/consultants will maintain a performance monitoring system for individual asset categories and total fund.

Security Valuation

Valuation of investments shall be the total of:

1. The primary closing price on the principal registered stock exchange for all common and preferred stocks so listed.
2. The last sale as reflected by NASDAQ for common and preferred stocks not listed on a registered stock exchange.
3. The current value as determined by a qualified independent service for all bonds, notes and certificates of indebtedness.
4. Amortized cost for commercial paper, certificates of deposit, repurchase agreements and other short-term investments with a maturity of 270 or fewer days.
5. Real estate valued through a combination of independent appraisals and in-house valuations. Methodology underlying internal valuations will be reviewed by the real estate consultant. REIT shares are valued at primary closing prices on the principal registered stock exchange.
6. The most recent valuation for venture capital and alternative investments.
7. International investments valued by the subcustodian using relevant closing market prices and exchange rates.



Investments

Investment Performance (Total returns, annualized)

1-Year Returns (1999)

Asset Category	STRS Ohio Return	Index Name	Index Return
Domestic Stocks	17.74%	Standard & Poor's 1500	20.26%
		Capital Resource Advisors*	19.52%
International	49.39%	EAFE/Emerging Composite	41.63%
Fixed Income	(1.35%)	Lehman Aggregate	(.82%)
Real Estate	11.72%	Real Estate Composite**	9.53%
Total Fund	**18.87%**	S&P/Lehman/RE/International	17.63%
		Inflation (GDP Deflator)	1.49%

3-Year Returns (1997-1999)

Asset Category	STRS Ohio Return	Index Name	Index Return
Domestic Stocks	22.89%	Standard & Poor's 1500	26.41%
		Capital Resource Advisors*	23.60%
International	14.13%	EAFE/Emerging Composite	10.63%
Fixed Income	5.94%	Lehman Aggregate	5.73%
Real Estate	13.28%	Real Estate Composite**	11.69%
Total Fund	**16.10%**	S&P/Lehman/RE/International	16.51%
		Inflation (GDP Deflator)	1.50%

5-Year Returns (1995-1999)

Asset Category	STRS Ohio Return	Index Name	Index Return
Domestic Stocks	23.08%	Standard & Poor's 1500	27.54%
		Capital Resource Advisors*	25.32%
International	11.29%	EAFE/Emerging Composite	9.00%
Fixed Income	8.24%	Lehman Aggregate	7.73%
Real Estate	11.51%	Real Estate Composite**	10.81%
Total Fund	**16.25%**	S&P/Lehman/RE/International	17.51%
		Inflation (GDP Deflator)	1.70%

STRS Ohio Long-Term Policy Objective (5 Years)

Equities: 8%–10% | Fixed Income: 6%–7% | Real Estate: 8%–9% | Total Fund: 8%

Investment performance is calculated using a time-weighted rate of return.

*** Capital Resource Advisors State Plan Median Fund (formerly SEI Public Median) consists of 28 funds with a median size of $12 billion. The State Plan Median Fund has an average commitment to stocks of 54%.**

**** The Real Estate Composite benchmarks are calculated using the STRS Ohio Composite Index for all periods beginning on or after Jan. 1, 1996, and using only the NCREIF Property Index for all periods before Jan. 1, 1996.**

STRS OHIO

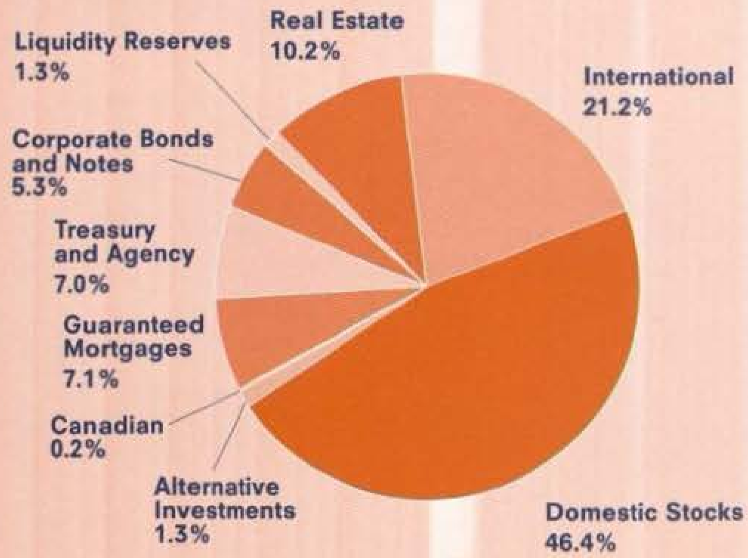
Summary of Investment Assets
As of June 30, 2000 and 1999 (dollar amounts in thousands)

	June 30, 2000 Fair Market Value	%	June 30, 1999 Fair Market Value	%
Short-Term				
Commercial paper	$ 730,163	1.3%	$ 1,847,479	3.5%
Government notes	10,000	0.0%	10,000	0.0%
Corporate notes	—	0.0%	—	0.0%
Short-term investment funds	4,000	0.0%	8,900	0.0%
Total short-term	744,163	1.3%	1,866,379	3.5%
Fixed Income				
Guaranteed mortgages	4,078,061	7.1%	3,785,429	7.2%
U.S. government and governmental agencies	4,059,652	7.0%	4,535,979	8.6%
Corporate bonds	3,046,803	5.3%	2,700,180	5.1%
Canadian bonds	116,559	0.2%	183,826	0.4%
Municipal bonds	293	0.0%	574	0.0%
Total fixed income	11,301,368	19.6%	11,205,988	21.3%
Common and Preferred Stock	26,708,135	46.4%	22,927,531	43.4%
Real Estate				
East region	1,118,422	1.9%	977,006	1.8%
Midwest region	1,006,963	1.8%	725,095	1.4%
South region	931,457	1.6%	775,566	1.5%
West region	1,407,536	2.4%	1,252,380	2.4%
REITs	492,718	0.9%	429,565	0.8%
Other	896,546	1.6%	575,680	1.1%
Total real estate	5,853,642	10.2%	4,735,292	9.0%
Alternative Investments	747,525	1.3%	284,245	0.5%
International	12,171,055	21.2%	11,794,010	22.3%
Total Investments	**$ 57,525,888**	**100.0%**	**$ 52,813,445**	**100.0%**

For purposes of this schedule, certain U.S.-based short-term and fixed-income securities have been classified as international investments in order to approximate the investment exposure of international equity swaps.

Investments

Investment Distribution by Market Value — as of June 30, 2000



Ohio Investment Profile* as of June 30, 2000 (in thousands)

Liquidity Reserves	$ 14,975
Fixed Income	107,064
Common Stock	656,807
Alternative Investments	140,187
Real Estate	644,980
Total Ohio-Headquartered Investments	$ 1,564,013

* STRS Ohio continues to engage in quality Ohio investments. As of June 30, 2000, STRS Ohio investments in companies with headquarters in Ohio are valued at more than $1.5 billion.

Schedule of Largest Investment Holdings*

As of June 30, 2000

Common Stocks — Top 20 Holdings

	Shares	Market Value
General Electric Co.	19,214,721	$1,018,380,213
Intel Corp.	6,514,486	$ 870,905,347
Cisco Systems	13,552,258	$ 861,415,399
Microsoft Corp.	10,295,079	$ 823,606,320
Pfizer Inc.	12,494,442	$ 599,733,252
Exxon Mobil Corporation	6,793,312	$ 533,274,992
Wal Mart Stores Inc.	8,569,760	$ 493,832,420
Oracle Systems Corp.	5,532,892	$ 465,108,734
Citigroup Inc.	6,759,177	$ 407,240,414
Nortel Networks Corp. Holding Co.	5,809,526	$ 396,500,150
International Business Machines Corp.	3,446,959	$ 377,657,445
Lucent Technologies	6,226,944	$ 368,946,432
American International Group	2,959,008	$ 347,683,440
Merck & Co., Inc.	4,389,341	$ 336,333,254
EMC Corp.	4,291,084	$ 330,145,275
SBC Communications Inc.	6,747,409	$ 291,825,439
Sun Microsystems Inc.	3,134,901	$ 285,080,060
Coca-Cola Co.	4,796,830	$ 275,517,923
Verizon Communications	5,387,222	$ 273,738,223
Royal Dutch Petroleum	4,360,726	$ 268,457,194

* A complete list of investment holdings is available from STRS Ohio.

Schedule of Largest Investment Holdings (continued)

International Investments — Top 20 Holdings

	Shares	Market Value
Nokia (Finland)	2,618,165	$ 134,158,680
Total Fina (France)	775,796	$ 119,444,768
AXA (France)	638,117	$ 100,938,841
Royal Dutch Petroleum (Netherlands)	1,610,786	$ 100,529,353
Siemens Ag (Germany)	565,507	$ 85,387,166
Samsung Electronics GDR (South Korea)	435,138	$ 85,287,048
Samsung Electronics (South Korea)	257,440	$ 85,205,274
ST Microelectronics (France)	1,263,788	$ 79,963,578
Telefonos Mexico (Mexico)	1,365,300	$ 77,992,762
Philips Electronics (Netherlands)	1,612,560	$ 76,368,962
ASM Lithography (Netherlands)	1,731,670	$ 74,738,552
Allianz Ag (Germany)	195,869	$ 71,354,827
ING Group (Netherlands)	1,020,671	$ 69,277,640
Takeda Chemical (Japan)	1,047,000	$ 68,889,393
Alcatel (France)	1,040,860	$ 68,552,471
Ericsson (Sweden)	3,392,500	$ 67,850,000
Tokyo Electronics (Japan)	481,000	$ 66,024,957
Aventis Sa (France)	812,954	$ 59,582,335
Japan Telecom (Japan)	1,356	$ 58,967,669
Novartis Ag (Switzerland)	34,519	$ 54,870,261

Fixed Income — Top 20 Holdings

	Par Value	Market Value
U.S. Treasury, 8.75%, due 08/15/2020, AAA+	$ 246,660,000	$ 316,664,575
U.S. Treasury, 8.75%, due 05/15/2017, AAA+	$ 242,320,000	$ 304,833,714
U.S. Treasury, 8.88%, due 02/15/2019, AAA+	$ 214,800,000	$ 276,114,660
U.S. Treasury, 6.88%, due 05/15/2006, AAA+	$ 201,920,000	$ 207,771,642
U.S. Treasury, 7.25%, due 08/15/2022, AAA+	$ 148,955,000	$ 167,267,528
U.S. Treasury, 6.13%, due 08/15/2007, AAA+	$ 156,450,000	$ 155,433,075
U.S. Treasury, 10.38%, due 11/15/2009, AAA+	$ 111,230,000	$ 127,327,206
U.S. Treasury, 5.75%, due 08/15/2003, AAA+	$ 126,800,000	$ 124,730,624
U.S. Treasury, 8.00%, due 11/15/2021, AAA+	$ 96,700,000	$ 116,697,560
U.S. Treasury, 6.25%, due 02/15/2003, AAA+	$ 98,000,000	$ 97,667,780
U.S. Treasury, 5.88%, due 10/31/2001, AAA+	$ 95,310,000	$ 94,560,863
U.S. Treasury, 12.00%, due 08/15/2013, AAA+	$ 70,000,000	$ 94,489,500
U.S. Treasury, 7.50%, due 11/15/2016, AAA+	$ 82,444,000	$ 92,960,557
U.S. Treasury, 5.63%, due 09/30/2001, AAA+	$ 91,500,000	$ 90,534,675
FNMA Benchmark, 5.25%, due 01/15/2009, AAA+	$ 99,300,000	$ 87,416,769
FNMA Benchmark, 5.13%, due 02/13/2004, AAA+	$ 90,800,000	$ 85,320,220
U.S. Treasury, 6.50%, due 08/31/2001, AAA+	$ 82,520,000	$ 82,517,524
FNMA Benchmark, 5.75%, due 06/15/2005, AAA+	$ 86,300,000	$ 81,781,332
U.S. Treasury, 7.25%, due 05/15/2004, AAA+	$ 73,800,000	$ 76,110,678
U.S. Treasury, 6.63%, due 04/30/2002, AAA+	$ 66,750,000	$ 66,956,925

BUCK CONSULTANTS
One North Franklin, Suite 3500
Chicago, Illinois 60606

November 7, 2000

The Retirement Board
State Teachers Retirement System of Ohio
275 East Broad Street
Columbus, Ohio 43215

Ladies and Gentlemen:

This report presents the results of the annual actuarial valuation of the assets and liabilities of the State Teachers Retirement System of Ohio (STRS Ohio) as of July 1, 2000, prepared in accordance with Section 3307.20 of Chapter 3307 of the Ohio Revised Code. The valuation takes into account all of the promised benefits to which members are entitled, including pension and survivor benefits.

The valuation was based on the actuarial assumptions and methods as adopted by the Board of Trustees, including a valuation interest rate of 7 3/4% per annum compounded annually. The interest rate assumption has changed from the prior valuation interest rate of 7 1/2% per annum compounded annually. The other assumptions and methods are unchanged from the prior valuation.

The actuarial assumptions and methods comply with the parameters set forth in Governmental Accounting Standards No. 25.

Assets and Membership Data

The individual data for members of the System as of the valuation date were reported to the actuary by STRS Ohio. While we did not verify the data at their source, we did perform tests for internal consistency and reasonableness. The amount of assets in the trust fund taken into account in the valuation was based on statements prepared for us by STRS Ohio.

Funding Adequacy

Historically, of the total contribution rate of 23.3% from employers and members, 2% was allocated to the health care fund with 21.3% remaining for pension and survivor benefits. For fiscal 1998 through 2000, additional employer contributions were allocated toward health care. The health care contribution for fiscal 1998 was 3.5%. The health care contributions for fiscal 1999 and fiscal 2000 were 8%. For fiscal 2001 and after, the Board has permanently increased the allocation toward health care to 4.5%, leaving 18.8% for pension and survivor benefits. The valuation indicates that a contribution rate of 18.8% is sufficient to provide for the payment of the promised pension and survivor benefits, with a 23.1 year funding period to amortize the unfunded accrued liability. The funding period was increased 6.8 years from last year's funding period (i.e., increased from 16.3 years to 23.1 years). The funding period increased because the increased contribution allocation toward health care resulted in a decrease in the contribution allocation toward the unfunded accrued liability.

The valuation indicates that for the fiscal year ending June 30, 2000, the actuarial experience of STRS Ohio was favorable and generated net actuarial gains of $2,108 million. The benefit improvements and interest rate change reduced the gain by $935 million. The Board elected to use $50.8 million of the actuarial gain to fund the supplemental benefit payments to retirees to be made during December 2000. The Board elected to use the remainder of the gain to reduce the unfunded accrued liability.

Financial Results and Membership Data

Detailed summaries of the financial results of the valuation and membership data used in preparing the valuation are shown in the valuation report. Supporting schedules included in the Actuarial and Statistical Section of STRS Ohio Comprehensive Annual Financial Report were prepared by the actuary. The trend data schedules included in the Financial Section of STRS Ohio Comprehensive Annual Financial Report were prepared by the actuary.

The valuations were completed by qualified actuaries in accordance with accepted actuarial procedures as prescribed by the Actuarial Standards Board. The qualified actuaries are members of the American Academy of Actuaries and are experienced in performing actuarial valuations of public employee retirement systems. To the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and practice.

Respectfully submitted,

Kim M. Nicholl

Kim M. Nicholl, F.S.A.
Consulting Actuary

Statement of Actuarial Assumptions and Methods

The assumptions below have been adopted by the State Teachers Retirement Board after consulting with the actuary.

Financing Objective: To establish contributions as a level percentage of active member payroll which, when invested, will be sufficient to provide specified benefits to STRS Ohio members and retirees.

Interest Rate: 7.75% per annum, compounded annually. (Adopted 2000)

Death After Retirement: According to the 1983 Group Annuity Mortality Table (Projection 1994 –Scale H), with one-year setback in age for males and one-year set forward in age for females. Special mortality tables are used for the period after disability retirement. (Adopted 1998)

Future Expenses: The assumed interest rate is net of the anticipated future administrative expenses of the fund.

Actuarial Cost Method: Projected benefit method with level percentage entry age normal cost and open-end unfunded accrued liability. Gains and losses are reflected in the accrued liability.

Asset Valuation Method: A four-year moving market average value of assets that spreads the difference between the actual investment income and the expected income (based on the valuation interest rate) over a period of four years. The actuarial value shall not be less than 91% or more than 109% of market value. (Adopted 1997)

Payroll Growth: 4.5% per annum compounded annually. Included in the total payroll growth assumption is a 3.50% increase as a result of inflation. (Adopted 1998)

Separations From Active Service: Representative values of the assumed rates of separation and annual rates of salary increase are shown in the table below. (Adopted 1993)

Replacement of Retiring Members: The majority of members who retire do so effective July 1. These members are replaced by new members who are hired after July 1. As a result, new members are not reported on the census data. To compensate for this, assumed payroll for these new members is equal to the difference between actual total system payroll for the fiscal year just ended and reported payroll for members reported on the valuation date.

Census and Assets: The valuation was based on members of the system as of July 1, 2000, and does not take into account future members. All census and asset data was supplied by the system.

Superannuation

Age	Withdrawal	Death	Disability	30 Years Service Retirement	25-29 Years Service Retirement	Under 25 Years Service Retirement	Salary Increase*
MEN							
20	.0900	.0003	—	—	—	—	.0925
30	.0400	.0005	.0004	—	—	—	.0725
40	.0175	.0008	.0018	.2800	—	—	.0525
50	.0085	.0023	.0049	.2800	—	—	.0405
55	.0085	.0039	.0062	.3100	.0600	—	.0375
60	.0085	.0061	—	.3600	.0600	.1300	.0350
65	.0085	.0094	—	.5200	.1800	.2200	.0325
70	—	.0168	—	.4200	.2500	.2000	.0325
WOMEN							
20	.0450	.0002	—	—	—	—	.0925
30	.0480	.0003	.0005	—	—	—	.0725
40	.0165	.0005	.0018	.2700	—	—	.0525
50	.0125	.0012	.0036	.2700	—	—	.0405
55	.0125	.0019	.0058	.2900	.1000	—	.0375
60	.0125	.0032	—	.4000	.1600	.2200	.0350
65	.0125	.0053	—	.4900	.3100	.2100	.0325
70	—	.0090	—	.5000	.3500	.2000	.0325

* Includes an inflation adjustment of 3.50%.

Benefit Recipients Added to and Removed From the Rolls, 1996–2000

Fiscal Year Ended	Beginning	Additions	Deletions	Ending
2000	**95,796**	**6,536**	**3,321**	**99,011**
1999	91,999	6,922	3,125	95,796
1998	88,718	6,329	3,048	91,999
1997	86,132	5,777	3,191	88,718
1996*	83,136	6,188	3,192	86,132

* Data not available for fiscal years before 1996.

Schedule of Valuation Data — Active Members 1991–2000

Valuation Date	Number	Annualized Salaries (in thousands)	Annual Average Pay	% Increase in Average Pay
2000	**174,072**	**$ 7,386,122**	**$ 42,431**	**3%**
1999	170,854	7,040,902	41,210	3%
1998	170,126	6,834,060	40,171	3%
1997	168,943	6,564,294	38,855	3%
1996	166,927	6,307,142	37,784	3%
1995	166,623	6,110,218	36,670	3%
1994	167,770	5,986,084	35,680	3%
1993	165,711	5,742,577	34,654	2%
1992	162,898	5,509,947	33,825	3%
1991	160,012	5,237,832	32,734	4%

Schedule of Valuation Data — Retirees/Beneficiaries 1991–2000

Valuation Date	Number	Annual Allowances (in thousands)	% Increase in Annual Allowances	Average Annual Allowances
2000	**99,011**	**$ 2,391,680**	**14%**	**$ 24,156**
1999	95,796	2,103,139	9%	21,954
1998	91,999	1,929,988	12%	20,978
1997	88,718	1,722,037	9%	19,410
1996	86,132	1,579,771	10%	18,341
1995	83,136	1,434,032	17%	17,249
1994	77,405	1,230,671	10%	15,899
1993	74,230	1,120,770	9%	15,099
1992	72,599	1,029,952	10%	14,187
1991	70,583	938,137	10%	13,291

Solvency Test, 1991–2000 (dollar amounts in thousands)

Valuation Date	Accrued Liability for: (1) Active Member Contributions*	(2) Retirees and Beneficiaries*	(3) Active Members (Employer-Financed Portion)*	Valuation Assets*	Portion of Accrued Liabilities Covered by Valuation Assets (1)	(2)	(3)
2000	**$ 7,174,675**	**$ 27,604,436**	**$ 24,414,047**	**$ 54,712,921**	**100%**	**100%**	**82%**
1999	6,867,910	25,152,626	22,742,804	49,124,802	100%	100%	75%
1998	6,569,783	22,994,697	21,563,608	43,865,907	100%	100%	66%
1997	6,222,725	20,249,628	20,091,418	38,743,272	100%	100%	61%
1996	5,862,250	18,420,595	18,484,067	34,569,651	100%	100%	56%
1995	5,533,684	16,745,090	17,708,401	31,416,677	100%	100%	52%
1994	5,158,561	14,025,124	17,688,124	28,543,410	100%	100%	53%
1993	4,798,350	12,869,723	16,820,904	26,259,447	100%	100%	51%
1992	4,434,876	11,506,994	14,858,368	22,536,343	100%	100%	44%
1991	4,076,990	10,440,584	13,591,787	20,094,849	100%	100%	41%

* **The amounts reported include funds set aside to pay postemployment health care benefits.**

Analysis of Financial Experience

Gains and Losses in Accrued Liabilities Resulting From Differences Between Assumed Experience and Actual Experience (dollar amounts in thousands)

Type of Activity:	Gain (or loss) for year ended June 30: 2000	1999	1998	1997	1996
Investment income. If there is greater investment income than assumed, there is a gain. If less, there is a loss.	$ 2,656,964	$ 2,432,975	$ 2,505,273	$ 2,486,916	$ 758,473
Payroll growth. If more contributions from payroll growth are received than expected, there is a gain. If less, there is a loss.	138,966	0	0	(108,545)	(160,110)
Salary increases. If there are smaller salary increases than assumed, there is a gain. If greater increases, there is a loss.	(472,983)	(368,504)	(266,140)	(275,172)	(126,389)
Retirement and other separation experience. If members retire from service at an older age or with a lower final average salary than assumed, there is a gain. If separation claims are less than expected, there is a gain.	(64,386)	35,715	(109,263)	(272,366)	(51,317)
Death after retirement. If retirees live shorter than expected, there is a gain. If retirees live longer than assumed, there is a loss.	(150,951)	120,664	(204,876)	(48,397)	95,252
Gain (or loss) during year from financial experience	2,107,610	2,220,850	1,924,994	1,782,436	515,909
Nonrecurring items adjustment for plan amendments	0	0	(220,259)	(671,174)	0
Composite gain (or loss) during the year	$ 2,107,610	$ 2,220,850	$ 1,704,735	$ 1,111,262	$ 515,909

Summary of Benefit and Contribution Provisions

Eligibility for Membership

Immediate upon commencement of employment.

Service Retirement

Eligibility

Any age with 30 years of service, age 55 with 25 years of service, or age 60 with five years of service. Members retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts.

Amounts

Annual amount equal to the greater of (a) 2.2% of final average salary for the three highest paid years, multiplied by years of total Ohio service credit, or 2.5% of final average salary for the three highest paid years if the member has 35 or more years of contributing service credit, multiplied by years of total service credit — except that for years of Ohio contributing service credit in excess of 30 the following formula percentage will apply:

Year	Percentage
31	2.5%
32	2.6%
33	2.7%
34	2.8%
35	2.9%
36	3.0%
37	3.1%
38	3.2%
39	3.3%

or (b) $86 multiplied by years of service credit, and adjusted by the following percentage:

Attained Age	Years of Ohio or Service Credit	Percentage of Base Amount
58	25	75%
59	26	80%
60	27	85%
61		88%
	28	90%
62		91%
63		94%
	29	95%
64		97%
65	30 or more	100%

Annual salary is subject to a limit of $200,000 as adjusted under Section 401(a)(17).

Maximum benefit — The lesser of: (a)100% of average annual salary for the three highest paid years, or (b) the limit as established by Section 415 of the Internal Revenue Code.

Minimum benefit — The sum of the annuity provided by: (a) the member's contribution with interest, (b) a pension equal to the annuity, and (c) an additional pension of $40 multiplied by the number of years of prior and military service.

Disability Retirement

Eligibility

Membership before July 30,1992, and election of this benefit, completion of five or more years of service, under age 60 and permanently incapacitated for the performance of duty.

Amount

(1) Annuity with a reserve equal to the member's accumulated contributions, plus

(2) The difference between (1) (noted above) and the greater of 2% of the average salary during the three highest paid years or $86 times total service plus years and months from date of disability to age 60. Maximum allowance is 75% of final average salary. Minimum allowance is 30% of final average salary.

Disability Allowance

Eligibility

Membership after July 29,1992, or membership before July 30,1992, and election of this benefit, completion of five or more years of service and permanently incapacitated for the performance of duty.

Amount

The amount is 2.2% of the average salary during the three highest paid years times total service. Maximum allowance is 60% of final average salary. Minimum allowance is 45% of final average salary. The disability allowance payment terminates at age 65 (or later if payment begins after age 60). After termination of the disability allowance, the member may apply for service retirement.

Death After Retirement

Lump-sum payment of $1,000 upon death after service or disability retirement.

Survivor's Benefit

Eligibility

Upon death after at least 1-1/2 years of credit for Ohio service with at least 1/4 year of such service in the 2-1/2 years preceding death or upon death of a disability retiree.

Amount

If member is eligible for retirement, spouse or other sole dependent beneficiary may elect to receive Option 1 benefits in lieu of return of contributions. If member was not eligible for retirement, certain designated beneficiaries may elect to receive the following benefits in lieu of return of contributions:

Number of Qualified Dependents	% of Average Annual Salary for Three Highest Paid Years	Minimum Annual Benefit
1	25%	$ 1,152
2	40%	2,232
3	50%	2,832
4	55%	2,832
5 or more	60%	2,832

A minimum benefit of a percentage of final average salary based on years of credited service ranging from 29% with 20 years of service to 60% with 29 years of service.

Qualified beneficiaries are spouse, dependent children and/or dependent parents over age 65.

Lump-Sum Withdrawal Option

In lieu of any other pension or survivor benefits, a member who leaves the system can receive his or her member contributions with interest in a lump sum according to the following schedule:

Credited Service	Lump-Sum Amount
Less than three years	Member contributions with 4% interest
Three or more years but less than five years	Member contributions with 5% interest
Five or more years	150% of member contributions with 5% interest

The board has the authority to modify the interest credited to member contributions.

Summary of Benefit and Contribution Provisions (continued)

Optional Forms of Benefit

Option 1 — 100% joint and survivorship. Reduced retirement allowance payable to the member and continuing for life to the member's sole beneficiary (named at retirement) after the member's death.

Option 2 — A joint and survivorship annuity payable during the lifetime of the member, with the member's sole beneficiary (named at retirement) to receive some other portion of the member's annuity after the member's death.

Option 3 — The member's reduced retirement allowance provided under Option 1 or Option 2 paid for life to the member's sole beneficiary (named at retirement) after the member's death. In the event of the death of the sole beneficiary or termination of marriage between the retiree and the sole beneficiary, the retiree may elect to return to a single lifetime benefit equivalent, available for an actuarially computed charge as determined by the Retirement Board. In the case of termination of marriage, the election may be made with the written consent of the beneficiary or by court order.

Option 4 — A life annuity payable during the lifetime of the member with a guarantee that, upon the member's death before the expiration of a certain period, the benefit will continue for the remainder of such period to the beneficiary. Joint beneficiaries may receive the present value of any remaining payments in a lump-sum settlement. If all beneficiaries die before the expiration of the certain period, the present value of all remaining payments is paid to the estate of the beneficiary last receiving benefits.

Option 5 — A plan of payment established by the Retirement Board combining any of the features of Options 1, 2 and 4.

Refund of Contributions

A member 's contributions with interest are refunded upon termination of employment where no other benefit is payable. Upon death after retirement or upon death of a survivor in receipt of benefits, the member's accumulated contributions with interest, less payments made, are returned to the designated beneficiary.

Cost-of-Living Benefits

The basic benefit is increased by the increase in the Consumer Price Index each year, but not to exceed 3% of the original base benefit.

Health Care

Retirees, their spouse and dependents are eligible for a comprehensive medical expense health care plan as may be offered by the Retirement Board and which is subject to changes in terms and conditions from time to time.

Contribution

By members: 9.30% of salary effective July 1, 1994.

By employers: 14% of salaries of their employees who are members.

Expenses by Type
Years Ending June 30, 1991–2000 (in thousands)

Fiscal Year	Benefits	Refunds	Administration	Total
2000	**$ 2,634,484**	**$ 105,759**	**$ 57,817**	**$ 2,798,060**
1999	2,307,449	91,037	48,967	2,447,453
1998	2,088,869	87,705	42,489	2,219,063
1997	1,880,129	32,313	42,884	1,955,326
1996	1,718,861	24,118	37,747	1,780,726
1995	1,563,757	21,233	38,926	1,623,916
1994	1,438,446	18,235	38,770	1,495,451
1993	1,347,827	16,386	35,870	1,400,083
1992	1,237,969	17,488	28,956*	1,284,413
1991	1,141,729	18,088	29,486	1,189,303

*** Effective July 1, 1991, investment administrative expenses are deducted from investment income.**

Revenues by Source
Years Ending June 30, 1991–2000 (in thousands)

Fiscal Year	Member Contributions	Employer Contributions	Net Investment Income	Health Care Premium	State Appropriations	Other	Total
2000	**$ 755,146**	**$ 1,128,314**	**$ 5,504,137**	**$ 60,375**	**$ 1,514**	**$ 6,487**	**$ 7,455,973**
1999	716,551	1,076,879	6,003,597	47,819	1,780	7,896	7,854,522
1998	697,404	1,036,223	6,039,679	39,682	2,067	4,994	7,820,049
1997	679,499	1,005,354	6,143,363**	38,347	2,377	6,281	7,875,221
1996	635,716	1,002,441	3,664,683	37,224	2,698	6,782	5,349,544
1995	624,812	956,284	2,340,907	36,842	3,035	6,008	3,967,888
1994	589,186	902,299	2,231,241	34,603	3,396	4,805	3,765,530
1993	564,005	869,862	2,394,523	24,184	3,755	5,180	3,861,509
1992	548,841	862,655	2,294,646*	11,126	4,099	4,540	3,725,907
1991	511,269	793,132	1,719,115	9,852	4,490	3,841	3,041,699

*** Effective July 1, 1991, investment administrative expenses are deducted from investment income.**

**** Effective July 1, 1996, net investment income includes the net appreciation in fair value of investments.**

Number of Benefit Recipients by Type, 1991–2000

As of July 1	Service Retirement	Disability Retirement	Beneficiaries Receiving Optional Allowances	Survivor Benefits	Total
2000	**81,111**	**6,367**	**6,152**	**5,381**	**99,011**
1999	78,341	6,259	5,948	5,248	95,796
1998	75,482	6,157	5,675	4,685	91,999
1997	72,601	6,000	5,486	4,631	88,718
1996	70,448	5,923	5,206	4,555	86,132
1995	67,989	5,711	4,941	4,495	83,136
1994	63,182	5,217	4,739	4,267	77,405
1993	61,515	5,020	4,478	3,217	74,230
1992	59,994	4,830	4,274	3,501	72,599
1991	58,436	4,643	4,001	3,503	70,583

Average Monthly Allowances by Type, 1991–2000

As of July 1	Service Retirement	Disability Retirement	Beneficiaries Receiving Optional Allowances	Survivor Benefits	Average
2000	**$ 2,124**	**$ 2,101**	**$ 1,340**	**$ 1,003**	**$ 2,013**
1999	1,938	1,961	1,086	894	1,830
1998	1,844	1,887	1,031	893	1,748
1997	1,705	1,764	974	822	1,618
1996	1,608	1,688	931	779	1,528
1995	1,510	1,603	886	732	1,437
1994	1,388	1,504	843	707	1,325
1993	1,304	1,433	803	748	1,258
1992	1,227	1,359	770	682	1,182
1991	1,147	1,288	740	637	1,108

Benefit Expenses by Type, 1991–2000 (in thousands)

Fiscal Year Ended	Service Retirement	Disability Retirement	Survivor Benefits	Supplemental Benefit	Health Care*	Other	Total
2000	**$ 2,019,521**	**$ 152,365**	**$ 62,346**	**$ 48,493**	**$ 343,512**	**$ 8,247**	**$ 2,634,484**
1999	1,764,172	139,296	52,863	46,448	297,748	6,922	2,307,449
1998	1,601,143	130,429	47,920	44,876	258,906	5,595	2,088,869
1997	1,440,163	118,893	43,539	43,278	230,424	3,832	1,880,129
1996	1,307,482	109,250	40,283	41,750	176,773	6,099	1,681,637
1995	1,185,066	100,805	37,756	34,567	165,767	2,954	1,526,915
1994	1,083,335	92,091	35,198	33,586	157,276	2,357	1,403,843
1993	985,024	83,888	32,804	32,489	187,318	2,120	1,323,643
1992	897,259	76,378	30,726	28,815	189,784	3,881	1,226,843
1991	822,842	70,150	28,851	38,110	170,583	1,342	1,131,878

* Health care premiums prior to fiscal 1997 were netted against health care expenses. Starting in fiscal 1997, health care premiums are reflected as revenue.

Selected Funding Information, 1991–2000 (dollars in thousands)

As of July 1	Contribution Rate Member	Contribution Rate Employer	Interest Assumption	Payroll Growth Assumption	Unfunded Accrued Liability*	Funding Period
2000	**9.30%**	**14.00%**	**7.75%**	**4.500%**	**$ 4,480,237**	**23.1 Yrs.**
1999	9.30%	14.00%	7.50%	4.500%	5,638,538	16.3 Yrs.
1998	9.30%	14.00%	7.50%	4.500%	7,262,181	24.2 Yrs.
1997	9.30%	14.00%	7.50%	4.500%	7,820,498	26.9 Yrs.
1996	9.30%	14.00%	7.50%	4.500%	8,197,261	28.4 Yrs.
1995	9.30%	14.00%	7.50%	5.000%	8,570,498	29.3 Yrs.
1994	9.30%	14.00%	7.50%	5.000%	8,328,399	30.5 Yrs.
1993	9.25%	14.00%	7.50%	5.000%	8,229,529	31.5 Yrs.
1992	9.25%	14.00%	7.75%	5.875%	8,263,895	32.5 Yrs.
1991	9.25%	14.00%	7.75%	5.875%	8,014,512	33.5 Yrs.

* Excluding health care

Number of Reporting Employers by Type, 1991–2000

Fiscal Year Ended	City School Districts	Local School Districts	County Educational Service Centers	Exempted Village Districts	Vocational & Technical Schools	Colleges & Universities	County MR/DD Boards	Community Schools*	State of Ohio	Total
2000	**192**	**371**	**60**	**49**	**49**	**37**	**82**	**51**	**1**	**892**
1999	192	371	63	49	49	37	82	16	1	860
1998	192	372	65	49	49	37	82	*	1	847
1997	192	371	73	49	49	37	82	*	1	854
1996	192	371	80	49	49	37	82	*	1	861
1995	192	371	80	49	49	37	82	*	1	861
1994	192	371	81	49	49	37	82	*	1	862
1993	192	372	81	49	51	35	82	*	1	863
1992	193	370	85	49	51	35	88	*	1	872
1991	193	371	85	49	49	37	88	*	1	873

* Community Schools were added as reporting employers in fiscal year 1999.