State Teachers Retirement System of Ohio

Comprehensive Annual Financial Report 2005

Fiscal Year Ended June 30, 2005

State Teachers Retirement System of Ohio
275 E. Broad St., Columbus, OH 43215-3771
614.227.4090 • www.strsoh.org

Comprehensive Annual Financial Report 2005

Fiscal Year Ended June 30, 2005

Prepared through the joint efforts of the STRS Ohio staff

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, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

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

Nancy L. Zielke

President

Jeffrey R. Esser

Executive Director

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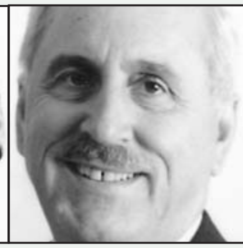
Professional Consultants: Independent Public Accountants, KPMG LLP; Investment Consultants, Russell Investment Group, Tacoma, Wash.; and Actuarial Consultants, Buck Consultants, Chicago, Ill. See Page 51 for a list of external domestic equity, international and fixed-income managers.

Joseph Endry, *Chair*
Retired teacher member since 2001.
Franklin County

Deborah Scott, *Vice Chair*
Contributing member since 1994.
Finneytown Local Schools, Hamilton County



Michael N. Billirakis
Contributing member since 2000.
Perry Local Schools, Lake County

Robert B. Brown
Contributing member since 2003.
The Ohio State University

Stephen A. Buser
Appointed by the Treasurer of State in 2004.

Judith D. Fisher
Appointed by the Governor of Ohio in 2004.

2004–2005 State Teachers Retirement Board

Guiding the members of the Retirement Board is their collective belief that Ohio's public educators deserve comprehensive benefits and quality service from their retirement system during their careers and in retirement. The Retirement Board provides the direction, fiduciary oversight and policies that enable STRS Ohio to fulfill its mission of assuring financial security for Ohio's educators.

During the 2004–2005 fiscal year, the Retirement Board was composed of 11 members as follows: five elected contributing members; two elected retired members; an investment expert appointed by the governor; an investment expert appointed jointly by

STRS Ohio Senior Staff Members

Damon F. Asbury, executive director
Sandra L. Knoesel, deputy executive director — Member Benefits
Stephen A. Mitchell, deputy executive director — Investments
Robert A. Slater, deputy executive director — Finance and chief financial officer
Terri Bierdeman, director of Governmental Relations
Eileen F. Boles, executive assistant
Laura R. Ecklar, director of Communication Services
Andy Marfurt, director of Human Resource Services
William Neville, general counsel
Dave Tackett, manager, Internal Audit
Greg Taylor, director of Information Technology Services

John Lazares
Contributing member since 2004.
Warren County Educational Service Center, Warren County

Geoffrey G. Meyers
Appointed jointly by the Speaker of the House of Representatives and the Senate President in 2004.

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

Constance K. Ramser
Contributing member since 2004.
Jackson Local Schools, Stark County

W. David Speas
Retired teacher member since 2004.
Clark County

Damon F. Asbury
Executive Director, State Teachers Retirement System of Ohio

the speaker of the Ohio House of Representatives and the Ohio Senate president; an investment expert designated by the treasurer of state; and the superintendent of public instruction or her designated investment expert. These individuals devoted hundreds of volunteer hours in service to STRS Ohio.

In May 2005, Jeff Chapman and Dennis Leone were elected to four-year terms as retired teacher members and Mary Ann Quilter Flannagan was elected to a four-year term as a contributing member on the board for terms beginning Sept. 1, 2005, and ending Aug. 31, 2009.

STRS OHIO

State Teachers Retirement System of Ohio

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

Dec. 12, 2005

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, 2005. This report is intended to provide financial, investment, actuarial and statistical information in a single publication. STRS Ohio management is responsible for the accuracy of the data, as well as 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 and survivor 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. Optional health care coverage also is available to eligible benefit recipients and their eligible dependents.

The *Comprehensive Annual Financial Report* is divided into five sections:

(1) an Introductory Section, including this letter of transmittal and information about the administrative organization of STRS Ohio;

(2) a Financial Section containing financial statements, Management's Discussion and Analysis, footnotes and the independent auditors' report;

(3) an Investment Section, including a summary of investment assets and the Retirement Board's Statement of Investment Objectives and Policy and Statement of Fund Governance;

(4) an Actuarial Section, including results of the annual actuarial valuation and the certification letter from Buck Consultants; and

(5) a Statistical Section, including historical data showing the progress of the system.

Major Initiatives

Adequate funding for post-employment health care is a continuing issue facing STRS Ohio. STRS Ohio and a group of education-related organizations known as the Health Care Advocates for STRS are conducting a Health Care Member Education and Engagement Campaign. The purpose of the campaign is to inform our membership about the economic realities of health care costs and to gauge support for contribution rate increases. Increases in either member or employer contribution rates would require state legislation.

An Asset/Liability Study was completed in 2005. The study was conducted to determine whether expected returns from a change in asset allocation policy could significantly improve the system's funded status. The results of the study showed that no reasonable changes from the current asset allocation would materially improve expected investment returns through fiscal 2014. At the recommendation of staff and its investment consultant, the State Teachers Retirement Board decided to make slight shifts from domestic equities and fixed income to international equities, real estate and alternative investments, beginning in calendar year 2006.

Additionally, initial planning for replacement of the system's pension management computer system began in fiscal 2005. It is also expected that an ongoing independent fiduciary audit will be completed in fiscal 2006.

Investments

Total investments increased to $59.6 billion (including short-term investments) as of June 30, 2005. The Investment Review starting on Page 33 discusses the investment environment during fiscal 2005. The allocation of investment assets is designed to provide high long-term yields while minimizing risk. A summary of the asset allocation at fiscal year-end can be found on Page 48.

For the fiscal year ended June 30, 2005, investments provided a 12.25% return. STRS Ohio's annualized rate of return over the last three years was 10.57% and 3.07% for the last five years. Similar benchmark returns over the same one-, three- and five-year periods were 11.43%, 9.79% and 2.81%, respectively.

2005 Additions to Plan Net Assets

Member and employer contributions, as well as income from investments, provide funds for pension and health care benefits. Employer contributions include amounts paid by employers of participants in alternative retirement plans (ARPs). ARP participants are not members of STRS Ohio; however, their employers are required to contribute 3.5% of salaries to STRS Ohio to help pay for unfunded liabilities. Total additions to plan net assets were $9.0 billion in fiscal 2005, a decrease of $1.6 billion from the previous year due to lower investment returns and lower-than-expected growth in covered payroll. Health care premiums paid by participating benefit recipients during fiscal 2005 increased by $32 million due to plan changes.

Additions to Plan Net Assets
(dollar amounts in thousands)

	2005
Net Investment Income	$ $6,476,822
Contributions:	
Member	$ 997,867
Employer	$ 1,341,653
Health Care Premiums	$ 188,835
Other	$ 20,488
Total Contributions	$ 2,548,843
Total Additions to Plan Net Assets	**$ 9,025,665**

2005 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. Benefit payments, including refunds to terminated members, totaled more than $3.9 billion. Administrative expenses decreased almost $3.7 million from 2004.

Deductions From Plan Net Assets
(dollar amounts in thousands)

	2005
Benefits	$ 3,827,220
Withdrawals	$ 114,551
Administrative Expenses	$ 63,705
Total Deductions From Net Assets	**$ 4,005,476**

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, 2005, valuation shows that the amortization period for the unfunded accrued liability increased to 55.5 years from 42.2 years, and the ratio of assets to total accrued liabilities decreased to 72.8% from 74.8%.

Generally accepted accounting principles require pension plans to report the annual required contributions at the amount necessary to have a maximum amortization period of 40 years for disclosure purposes. Consequently, the amortization period shown on Page 30 is 40 years for financial reporting purposes.

A detailed discussion of funding is provided in the Actuarial Section of this report beginning on Page 52.

Internal Controls

STRS Ohio management is responsible for and has implemented internal controls designed to provide reasonable assurances for the safeguarding of assets and the reliability of financial records. We believe that the internal controls currently in place adequately meet the purpose for which they were intended.

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, 2004. 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 15 years. We believe the current report continues to meet the Certificate of Achievement program requirements and will be submitted to the GFOA.

In addition, STRS Ohio received the Public Pension Coordinating Council's Public Pension Standards Award for 2005 in recognition of meeting professional standards for pension plan design and administration.

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,

Damon F. Asbury
Executive Director

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

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

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

Independent Auditors' Report

The Retirement Board
The State Teachers Retirement System of Ohio

and

The Honorable Betty Montgomery
Auditor of State:

We have audited the accompanying statements of plan net assets of the State Teachers Retirement System of Ohio (the System) as of June 30, 2005 and 2004, and the related 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2005 and 2004, 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 December 2, 2005, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 9 through 15 and the schedules of funding progress and employer contributions on page 30 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial information included on pages 31 and 32 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements for the years ended June 30, 2005 and 2004, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introduction section on pages 1 through 7, the investments section on pages 33 through 51, the actuarial section on pages 52 through 60, and the statistical section on pages 61 through 63 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

Columbus, Ohio
December 2, 2005

Management's Discussion and Analysis

Management is pleased to provide this overview and analysis of the financial activities of the State Teachers Retirement System of Ohio (STRS Ohio) for the years ended June 30, 2005 and 2004. This information is intended to supplement the financial statements, which begin on Page 17 of this report. We encourage readers to consider additional information and data in STRS Ohio's 2005 *Comprehensive Annual Financial Report*.

Financial Highlights

The chart below illustrates the percentage changes in plan assets and expenses for fiscal 2005. Highlights of the fiscal year include:

- The investment rate of return was 12.25% in fiscal 2005. The investment portfolio rate of return for fiscal 2004 was 17.70% following a 2.32% return in 2003. Five- and 10-year total fund returns are 3.07% and 8.18%, respectively.
- Total plan net assets increased by 9.19% from the prior fiscal year, ending at $59.6 billion as of June 30, 2005. Total plan assets increased 14.57% from fiscal 2003 to fiscal 2004, ending at $54.6 billion as of June 30, 2004.

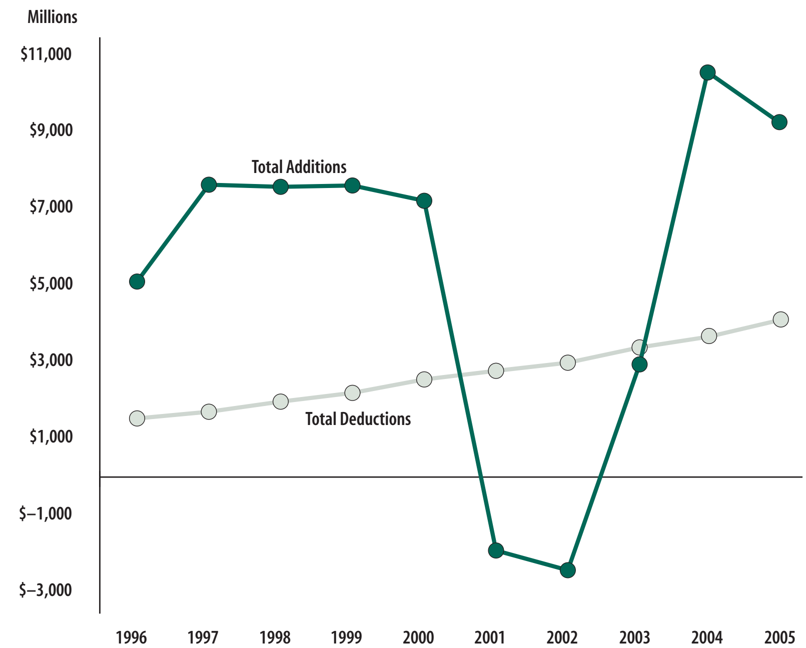
Percentage Changes in Plan Assets and Expenses for Fiscal Year 2004–2005

- The post-employment health care balance increased 6.35% to $3.3 billion. Investment income for the fund was $361.6 million in 2005. The post-employment health care balance increased 10.34% from fiscal 2003 to fiscal 2004, ending at $3.1 billion as of June 30, 2004.
- Defined contribution accounts finished the year with $158 million in net assets, an increase of 50.66% from 2004. Investment management and administrative fees paid by plan participants reduced the accrued Defined Contribution and Combined Plan start-up costs by $1.6 million during fiscal 2005. The defined contribution accounts ended at June 30, 2004, with $60 million in assets, an increase of 74.95% from fiscal 2003.
- Total benefit payments were $3.8 billion during fiscal 2005, an increase of 8.84% from fiscal 2004. STRS Ohio paid members nearly $3.4 billion in service retirement, disability and survivor benefits plus $444 million for health care coverage during fiscal 2005. Total benefit payments were $3.5 billion during fiscal 2004, an increase of 7.05% from fiscal 2003.
- Total additions to plan net assets were $9 billion during fiscal 2005, a decrease of $1.6 billion from 2004. Net investment income during fiscal 2005 totaled $6.5 billion, most of it coming from appreciation in investment values. Total additions to plan net assets were $10.6 billion during fiscal 2004, an increase of nearly $7.5 billion over fiscal 2003.
- Member and employer contributions totaled $2.34 billion during fiscal 2005. Total covered payroll, which is the combined salary for all plan participants, increased 2.19%. During fiscal 2004, member and employer contributions totaled $2.30 billion.
- Administrative expenses declined by 5.45% to end fiscal 2005 at $63.7 million. Investment expenses, which include salaries and benefits for investment personnel, increased by 4.50% to $24.9 million in fiscal 2005. In fiscal 2004, administrative and investment expenses declined by 8.85% and 2.85%, respectively, from fiscal 2003 amounts. Since fiscal 2002, administrative and investment expenses have decreased by $14.9 million.

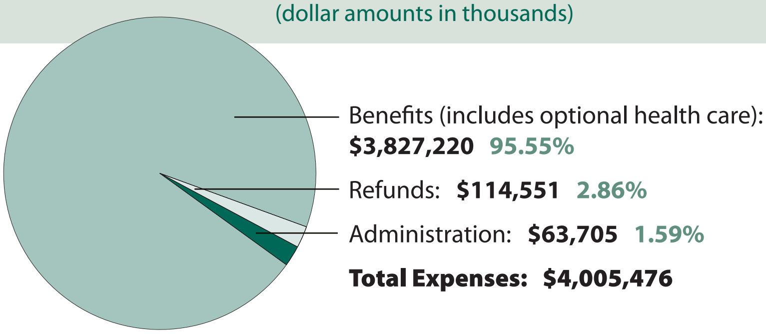
Annual Financial Review

The combined portfolio delivered a 12.25% rate of return in 2005. Every asset class yielded a positive return, led by the international equities return of 22.07%. Domestic stocks achieved a 8.01% return, real

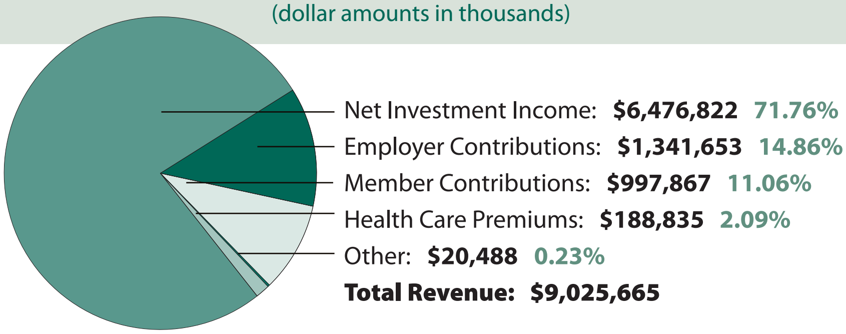
Historical Expense vs. Revenue Trends
(years ended June 30)



Expenses by Type — Year Ended June 30, 2005
(dollar amounts in thousands)



Revenues by Source — Year Ended June 30, 2005
(dollar amounts in thousands)



estate generated a 21.71% return and fixed income had a 7.49% return. Diversification of investments among the different asset classes enables STRS Ohio to reduce risk by offsetting short-term fluctuations in individual asset classes. STRS Ohio is a long-term investor. Looking at annualized investment returns for the period of July 1, 1996, to June 30, 2005, STRS Ohio had a total fund return of 8.18%, exceeding the actuarial assumption and the total fund objective of 8% by 18 basis points.

The unfunded pension liability for STRS Ohio, as of July 1, 2005, is $20.1 billion, up from $17.6 billion as of July 1, 2004. The expected amortization period to pay off the unfunded liability is 55.5 years at current contribution rates. The funded ratio at July 1, 2005, is 72.8%, a decrease from 74.8% at July 1, 2004. Although the investment rate of return at market exceeded the assumption in 2005, an actuarial loss on investment return was incurred because the actuarial value of assets includes deferred losses from previous years. Other actuarial losses resulted from less-than-expected payroll growth, and members retiring earlier and retirees living longer than expected. During fiscal 2004, the teacher contribution rate was increased to 10% from 9.3% of earned compensation. This increase generated additional member contributions of $64 million in 2005 and $63 million in 2004 to help reduce the unfunded liability.

Historical expense and revenue trends indicate a pattern of steadily increasing expenses (deductions) compared to volatile revenues (additions) as shown in the chart at the top of this page. Although varying from year-to-year, growth in revenues exceeded expenses over the longer term. Expenses by type and revenues by source for fiscal year ended June 30, 2005, are shown in the pie charts to the left. Pension benefit payments, including health care, exceed member and employer contributions. Investment income compensates for the difference between benefit payments and contributions.

Investment market returns and major plan design changes effective Jan. 1, 2004, increased the net assets for post-employment health care to $3.3 billion from $3.1 billion. Health care premiums rose 20.3% in fiscal 2005. Due to changes in plan coverage and increased oversight of the health care provider networks, health care expenses increased 4.21% to $444 million. Small modifications have been made to the health care program for 2006.

Administrative expenses were reduced for the third straight year. Total investment and administrative expenses have decreased $14.9 million from fiscal 2002. Total personnel costs account for much of the decrease as reductions in staff and the elimination of performance-based incentive plan awards for non-Investment associates resulted in lower payroll and fringe benefit costs. Ongoing efforts were made to reduce expenses in 2005, resulting in line item reductions to such areas as computer support services, printing, telephone and depreciation.

Overview of the Financial Statements of STRS Ohio

The two basic financial statements are the *Statements of Plan Net Assets* and the *Statements of Changes in Plan Net Assets*. Amounts are shown for the most recent and previous fiscal years for comparison and analysis of changes in individual line items. The statements are prepared in conformity with generally accepted accounting principles.

The *Statements of Plan Net Assets* are a measure of STRS Ohio's assets and liabilities at the close of the fiscal year. Total assets less current liabilities equal the net assets held in trust for future benefits.

The *Statements of Changes in Plan Net Assets* show revenues (additions) and expenses (deductions) for the fiscal year. The net increase (or decrease) is the change in net assets available for benefits since the end of the previous fiscal year.

For financial reporting purposes, STRS Ohio assets are divided into three primary funds: the Defined Benefit (DB) Plan, the Defined Contribution (DC) Plan and post-employment health care.

- The Defined Benefit Plan is the largest fund and includes member contributions, employer contributions and investment earnings for DB participants. The DB Plan pays service retirement benefits using a fixed formula based on age, years of service and salary. In addition to service retirement, DB participants are eligible for disability and survivor benefits.
- The Defined Contribution Plan began on July 1, 2001. It is an optional plan available to new members. DC participants allocate both member and employer contributions in investment choices provided by STRS Ohio. Benefits are based on the member's account value.

  As an alternative to the Defined Benefit or Defined Contribution Plan, new members may elect the Combined Plan. Combined Plan participants allocate their member contributions among the same investment choices as DC members, and employer contributions are used to provide a reduced formula service retirement benefit along with disability and survivor protection. Assets to provide benefits to Combined Plan members are divided between the Defined Benefit Plan and the Defined Contribution Plan.
- Net assets for post-employment health care consist of assets set aside to subsidize health care coverage for members enrolled in the Defined Benefit and Combined Plans.

The *Notes to Financial Statements* are a fundamental part of the financial statements and provide important information to augment the figures in the financial statements. The notes describe accounting policies along with plan membership and benefits. Supplementary disclosures of selected financial data are included in the notes.

In addition to the basic financial statements and footnotes, a *Schedule of Funding Progress*, a *Schedule of Employer Contributions* and *Notes to the Trend Data* are included as "required supplementary information." These schedules emphasize the long-term nature of pension plans and show the progress of STRS Ohio in accumulating sufficient assets to pay benefits when due.

The *Schedule of Funding Progress* shows actuarial trend information for the past six years. It includes

Investment Performance

(total returns, annualized on a fiscal-year basis, July 1–June 30)

1-Year Returns (2005)

Asset Category	STRS Ohio Return	Index Name	Index Return
Domestic Equities	8.01%	Russell 3000*	8.05%
International	22.07%	International Equity**	19.45%
Fixed Income	7.49%	Lehman Universal***	7.42%
Real Estate	21.71%	Real Estate Composite****	19.32%
Total Fund	**12.25%**	**Total Fund Composite Benchmark**	**11.43%**

5-Year Returns (2001–2005)

Asset Category	STRS Ohio Return	Index Name	Index Return
Domestic Equities	(1.31%)	Russell 3000*	(1.04%)
International	2.48%	International Equity **	0.39%
Fixed Income	8.24%	Lehman Universal***	7.63%
Real Estate	12.21%	Real Estate Composite ****	11.04%
Total Fund	**3.07%**	**Total Fund Composite Benchmark**	**2.81%**

STRS Ohio Long-Term Policy Objective (20 Years)

Domestic Equities: 8.65% Fixed Income: 6.35% International Equities: 9.40% Real Estate: 8.55% Total Fund: 8.30%

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

*The domestic equities benchmark is calculated using the Russell 3000 Index for all periods beginning on or after Aug. 1, 2003; the Domestic Equity Composite for April 1, 2003, through July 31, 2003; and the S&P 1500 Index for all periods before April 1, 2003.

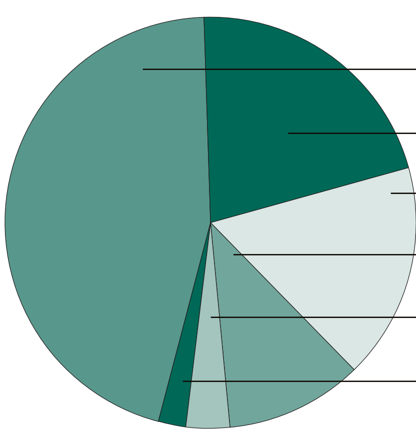
**The international equities benchmark is calculated using 75% of the MSCI World ex USA Index (50% hedged) and 25% of the MSCI EMF Index for all periods beginning on or after July 1, 2003; 75% EAFE (50% hedged) and 25% EMF from Oct. 1, 2000, through June 30, 2003; and 70% EAFE (50% hedged) and 30% EMF for all periods before Oct. 1, 2000.

***The fixed-income benchmark is calculated using the Lehman Universal Index for all periods beginning on or after Oct. 1, 2000, and using the Lehman Aggregate Index for all periods before Oct. 1, 2000.

***The real estate benchmark is calculated using 80% NCREIF Property Index (NPI), 10% NCREIF Timberland Index and 10% Wilshire REIT Index from July 1, 2002, through June 30, 2005; 80% NPI Index, 10% NCREIF Timberland Index and 10% NAREIT Equity Index from Jan. 1, 2001, through June 30, 2002; and 75% NPI Index, 5% NCREIF Farmland Index, 10% NCREIF Timberland Index and 10% NAREIT Equity Index for all periods before Jan. 1, 2001.

Investment Distribution by Fair Value — as of June 30, 2005

(dollar amounts in thousands)



Domestic Equities: **$26,384,658** 44.2%

International: **$11,393,316** 19.1%

Fixed Income: **$12,797,218** 21.5%

Real Estate: **$5,069,007** 8.5%

Short-Term Investments: **$2,468,844** 4.1%

Alternative Investments: **$1,523,751** 2.6%

Total Investments: $59,636,794

the ratio of valuation assets to actuarial accrued liability (funded ratio). The funded ratio increases over time as the funding status of a pension plan improves and vice versa. The *Schedule of Funding Progress* also shows the unfunded actuarial accrued liability as a percentage of member payroll. This percentage decreases as a pension plan grows stronger from a funding standpoint.

The *Schedule of Employer Contributions* shows the amount of required employer contributions determined in accordance with parameters established by Governmental Accounting Standards Board (GASB) Statement No. 25 and the percentage actually contributed. Employers have met their obligation by contributing at the legally required contribution rates for each of the six years shown in the schedule. The actuary has determined that for the 2005 fiscal year, employers have contributed 96% of the annual required contributions as established by GASB Statement No. 25.

The *Notes to the Trend Data* provide the actuarial method and assumptions used to determine the data in the *Schedule of Funding Progress* and the *Schedule of Employer Contributions*.

A *Schedule of Administrative Expenses*, a *Schedule of Investment Expenses* and a *Schedule of Fees to External Asset Managers by Asset Class* are included to detail the administrative and investment costs to operate STRS Ohio.

Investment Allocation and Fiscal Year Performance

For fiscal 2005, total investments achieved a 12.25% rate of return. The relative benchmark for STRS Ohio returned 11.43%. STRS Ohio generated 82 basis points of additional value compared to the passively managed benchmark. The target allocations at the end of June 2005 were 1% in short-term investments, 23% fixed income, 45% domestic stock, 20% international, 9% real estate and 2% alternative investments. Amounts actually invested in these categories at the end of June represent either an investment over/underweight if different from the target allocation. Over/underweighting occurs as fair values change and as investment managers determine allocation entry and exit timing strategies. See Page 12 for detailed investment performance.

External asset management fees are shown separately in the *Statements of Changes in Plan Net Assets* as a reduction of investment income. Coupled with direct internal investment costs, the cost to manage investments was $122 million or 21 basis points in fiscal 2005 and 24 basis points in fiscal 2004.

Financial Statement Analysis

The tables on Page 14 show condensed information from the *Statements of Plan Net Assets* and *the Statements of Changes in Plan Net Assets*.

The plan net assets increased 9.2% from fiscal 2004. The plan net assets increased 14.6% from fiscal 2003 to fiscal 2004. The increase in plan net assets since fiscal 2003 is a result of improvements in the fair value of investments. Increases in the amount of securities on loan for fiscal 2005 caused the securities lending collateral, and the offsetting liability for securities lending, to be more.

The value of capital assets decreased from fiscal 2003 because capital additions were less than depreciation in fiscal 2005 and 2004.

Total investment income decreased by $1.7 billion from fiscal 2004. Investment income increased $7.3 billion from 2003.

Member contributions increased less than 1% in fiscal 2005 as payroll growth slowed. Revenue from programs to purchase service credit in 2005 was less than in fiscal 2004. Member contributions increased by 11.72% in 2004 primarily because the member rate increased to 10% from 9.3%, effective July 1, 2003. The employer rate remained at 14% of earned compensation for 2004 and 2005.

Health care premiums were increased effective Jan. 1, 2004, to help offset some of the increases in health care costs. Of the $444 million paid to health care providers in fiscal 2005, health care enrollees paid $189 million of the total costs through premium deductions. Employers paid $93 million of the total cost with the 1% allocation from the 14% employer rate. The remainder of health care costs was paid by investment income allocated to post-employment health care. For fiscal 2004, benefit recipients and employers contributed $157 million and $92 million, respectively.

Plan Net Assets
(dollar amounts in thousands)

	2005	2004	2003	Amount Increase (Decrease) From 2004 to 2005	Percentage Change From 2004 to 2005
Cash and investments	$ 59,653,908	$ 54,685,321	$ 47,874,292	$ 4,968,587	9.09%
Receivables	867,138	766,215	662,599	100,923	13.17%
Securities lending collateral	2,810,118	2,580,147	3,559,733	229,971	8.91%
Capital assets	128,124	133,859	141,971	(5,735)	(4.28%)
Total net assets	63,459,288	58,165,542	52,238,595	5,293,746	9.10%
Liabilities	3,835,653	3,562,096	4,578,315	273,557	7.68%
Plan net assets	**$ 59,623,635**	**$ 54,603,446**	**$ 47,660,280**	**$ 5,020,189**	**9.19%**

Additions to Plan Net Assets
(dollar amounts in thousands)

	2005	2004	2003	Amount Increase (Decrease) From 2004 to 2005	Percentage Change From 2004 to 2005
Contributions:					
Member contributions	$ 997,867	$ 990,846	$ 886,931	$ 7,021	.71%
Employer contributions	1,341,653	1,311,175	1,263,457	30,478	2.32%
Health care premiums	188,835	156,970	103,913	31,865	20.30%
Other	20,488	20,777	21,486	(289)	(1.39%)
Total contributions	2,548,843	2,479,768	2,275,787	69,075	2.79%
Total investment income	6,476,822	8,167,434	914,558	(1,690,612)	(20.70%)
Total additions to plan net assets	**$ 9,025,665**	**$ 10,647,202**	**$ 3,190,345**	**$ (1,621,537)**	**(15.23%)**

Deductions From Plan Net Assets
(dollar amounts in thousands)

	2005	2004	2003	Amount Increase (Decrease) From 2004 to 2005	Percentage Change From 2004 to 2005
Deductions:					
Benefit payments	$ 3,383,605	$ 3,108,753	$ 2,845,503	$ 274,852	8.84%
Health care coverage	443,615	425,709	456,214	17,906	4.21%
Refunds to members	114,551	102,194	77,529	12,357	12.09%
Administrative expenses	63,705	67,380	73,919	(3,675)	(5.45%)
Total deductions	**$ 4,005,476**	**$ 3,704,036**	**$ 3,453,165**	**$ 301,440**	**8.14%**

Change in Net Assets From Plan Additions and Deductions
(dollar amounts in thousands)

	2005	2004	2003	Amount Increase (Decrease) From 2004 to 2005	Percentage Change From 2004 to 2005
Change in plan net assets	**$ 5,020,189**	**$ 6,943,166**	**$ (262,820)**	**$ (1,922,977)**	**(27.70%)**

Management's Discussion and Analysis

STRS Ohio was created to provide retirement, disability and survivor benefits to members and eligible beneficiaries. Expenditures include monthly payments to eligible recipients, refunds of contributions to members who terminate employment, and the administrative costs of operating STRS Ohio.

Total deductions from plan net assets were $4.0 billion for 2005, a 8.1% increase over 2004. Total deductions were $3.7 billion for 2004, a 7.3% increase over 2003. The largest component was monthly benefit payments for service retirement, disability and survivor benefits. Total pension benefit payments increased 8.8% in 2005 and 9.3% in 2004 as a result of new retirees and cost-of-living adjustments.

Health care costs increased 4.2% in 2005 as a result of increases in copayments by benefit recipients, changes in the prescription drug plan and reductions in the number of covered individuals. Health care costs decreased in 2004 from 2003 by 6.7%. Health care program changes effective Jan. 1, 2004, slowed the rate of increase in health care costs.

Funding Analysis

In fiscal 2005, the funding period increased by 13.3 years to 55.5 years from 42.2 years. The funding period was 42.3 years at the end of fiscal 2003. In 2005, actuarial losses resulted from actuarial investment returns being less than expected, members retiring earlier and retirees living longer, and payroll growth being less than expected.

The unfunded accrued liability for STRS Ohio pension benefits is $20.1 billion at July 1, 2005, up from $17.6 billion at July 1, 2004. Market changes in investment assets are smoothed over a four-year period for valuation proposes. Valuation assets ended 2005 at $53.8 billion, up from $52.3 billion the prior year. The present value of promised benefits to current and future benefit recipients (the actuarial accrued liability) at fiscal 2005 and 2004 was $73.8 billion and $69.9 billion, respectively. The resulting funded ratio, which is the valuation assets divided by the actuarial accrued liability, was 72.8% at July 1, 2005, down from 74.8% at July 1, 2004.

The State Teachers Retirement Board took action to improve pension benefit funding by increasing the member contribution rate to the 10% legal maximum from 9.3%, effective July 1, 2003. For 2004 and 2005, this resulted in $127 million in additional member contributions.

Requests for Information

Questions about any information provided in this report should be addressed to:

State Teachers Retirement System of Ohio
ATTN: Chief Financial Officer
275 E. Broad St.
Columbus, OH 43215-3771

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STRS OHIO

Statements of Plan Net Assets

(in thousands)

	June 30, 2005				June 30, 2004			
	Defined Benefit	Defined Contribution	Post-employment Health Care	Totals	Defined Benefit	Defined Contribution	Post-employment Health Care	Totals
Assets:								
Cash & short-term investments	$ 2,325,162	$ 16,643	$ 144,153	$ 2,485,958	$ 1,424,723	$ 10,148	$ 87,545	$ 1,522,416
Receivables:								
Accrued interest & dividends	165,232		9,846	175,078	147,510		9,000	156,510
Employer contributions	201,344	45	11,997	213,386	198,779	31	12,130	210,940
Retirement incentive	868			868	4,957			4,957
Member contributions	128,605	88		128,693	124,965	59		125,024
Due from defined contribution plans	5,144			5,144	6,760			6,760
Securities sold	323,485		19,275	342,760	245,635		14,987	260,622
Miscellaneous receivables	1,209			1,209	1,402			1,402
Total receivables	825,887	133	41,118	867,138	730,008	90	36,117	766,215
Investments, at fair value:								
Fixed income	12,044,062	41,109	712,047	12,797,218	10,856,262	30,112	664,202	11,550,576
Domestic common and preferred stock	24,829,259	75,929	1,479,470	26,384,658	24,128,198	53,922	1,475,407	25,657,527
International	10,739,517	13,877	639,922	11,393,316	9,167,258	8,788	559,852	9,735,898
Real estate	4,769,147	15,687	284,173	5,069,007	4,700,417	8,729	287,315	4,996,461
Alternative investments	1,438,063		85,688	1,523,751	1,152,148		70,295	1,222,443
Total investments	53,820,048	146,602	3,201,300	57,167,950	50,004,283	101,551	3,057,071	53,162,905
Invested securities lending collateral	2,652,091		158,027	2,810,118	2,431,775		148,372	2,580,147
Capital assets, at cost, net of accumulated depreciation of $78,963 and $70,547, respectively	128,124			128,124	133,859			133,859
Total assets	59,751,312	163,378	3,544,598	63,459,288	54,724,648	111,789	3,329,105	58,165,542
Liabilities:								
Securities purchased and other investment liabilities	523,887		31,216	555,103	451,550		27,550	479,100
Real estate note payable	377,506		22,494	400,000	376,998		23,002	400,000
Accrued expenses & other liabilities	15,350		915	16,265	52,824		3,223	56,047
Due to defined benefit plans		5,144		5,144		6,760		6,760
Medical benefits payable			49,023	49,023			40,042	40,042
Obligations under securities lending program	2,652,091		158,027	2,810,118	2,431,775		148,372	2,580,147
Total liabilities	3,568,834	5,144	261,675	3,835,653	3,313,147	6,760	242,189	3,562,096
Net assets held in trust for defined benefit, defined contribution and post-employment health care coverage: (An unaudited schedule of funding progress is presented on Page 30.)	$ 56,182,478	$ 158,234	$ 3,282,923	$ 59,623,635	$ 51,411,501	$ 105,029	$ 3,086,916	$ 54,603,446

See accompanying Notes to Financial Statements.

Statements of Changes in Plan Net Assets

(in thousands)

	Year Ending June 30, 2005				Year Ending June 30, 2004			
	Defined Benefit	Defined Contribution	Post-employment Health Care	Totals	Defined Benefit	Defined Contribution	Post-employment Health Care	Totals
Additions								
Contributions:								
Member	$ 969,226	$ 28,641		$ 997,867	$ 967,234	$ 23,612		$ 990,846
Employer	1,232,317	16,270	$ 93,066	1,341,653	1,206,439	13,147	$ 91,589	1,311,175
Retirement incentive	7,386			7,386	10,606			10,606
Benefit recipient health care premiums			188,835	188,835			156,970	156,970
Other retirement systems	13,102			13,102	10,171			10,171
Total contributions	2,222,031	44,911	281,901	2,548,843	2,194,450	36,759	248,559	2,479,768
Investment income from investing activities:								
Net appreciation in fair value of investments	4,690,322	13,334	278,133	4,981,789	6,429,334	11,723	361,607	6,802,664
Interest	558,592	294	33,048	591,934	515,882	67	42,966	558,915
Dividends	693,766		41,023	734,789	528,224		53,335	581,559
Real estate income	262,471		15,520	277,991	310,947		20,178	331,125
	6,205,151	13,628	367,724	6,586,503	7,784,387	11,790	478,086	8,274,263
Less investment expenses	(23,437)	(68)	(1,390)	(24,895)	(21,967)	(49)	(1,807)	(23,823)
Less external asset management fees	(91,787)		(5,428)	(97,215)	(90,844)		(7,056)	(97,900)
Net income from investing activities	6,089,927	13,560	360,906	6,464,393	7,671,576	11,741	469,223	8,152,540
From securities lending activities:								
Securities lending income	67,076		3,966	71,042	32,825		5,156	37,981
Securities lending expenses	(55,341)		(3,272)	(58,613)	(18,833)		(4,254)	(23,087)
Net income from securities lending activities	11,735		694	12,429	13,992		902	14,894
Net investment income	6,101,662	13,560	361,600	6,476,822	7,685,568	11,741	470,125	8,167,434
Total additions	8,323,693	58,471	643,501	9,025,665	9,880,018	48,500	718,684	10,647,202
Deductions								
Benefits:								
Service retirement	3,106,371			3,106,371	2,840,334			2,840,334
Disability retirement	187,426			187,426	182,889			182,889
Survivor benefits	81,589			81,589	77,089			77,089
Health care			443,615	443,615			425,709	425,709
Other retirement systems	8,188			8,188	8,331			8,331
Additional death benefits (net)	31			31	110			110
Total benefit payments	3,383,605		443,615	3,827,220	3,108,753		425,709	3,534,462
Refunds to members who have withdrawn	110,018	4,533		114,551	99,538	2,656		102,194
Administrative expenses	59,093	733	3,879	63,705	62,768	849	3,763	67,380
Total deductions	3,552,716	5,266	447,494	4,005,476	3,271,059	3,505	429,472	3,704,036
Net increase	4,770,977	53,205	196,007	5,020,189	6,608,959	44,995	289,212	6,943,166
Net assets held in trust for defined benefit, defined contribution and post-employment health care coverage:								
Beginning of year	51,411,501	105,029	3,086,916	54,603,446	44,802,542	60,034	2,797,704	47,660,280
End of year	$ 56,182,478	$ 158,234	$ 3,282,923	$ 59,623,635	$ 51,411,501	$ 105,029	$ 3,086,916	$ 54,603,446

See accompanying Notes to Financial Statements.

Notes to Financial Statements

June 30, 2005 and 2004

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.

Organization — STRS Ohio is a cost-sharing, multiple-employer plan that operates under Chapter 3307 of the Ohio Revised Code (Revised Code) and is administered by a board comprised of 11 members as follows: five elected contributing members; two elected retired teacher members; an investment expert appointed by the governor; an investment expert appointed jointly by the speaker of the House and the Senate president; an investment expert designated by the treasurer of state; and the superintendent of public instruction or her designated investment expert. (Prior to Sept. 15, 2004, the board was comprised of five active teacher 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, *The 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.

Investment Accounting — Purchases and sales of investments are recorded as of their trade date. Dividend income is recognized on the ex-dividend 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.

Contributions and Benefits — Employer and member contributions are recognized when due based on statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Capital Assets — Capital 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. Capital assets include purchases of $500 or more with a useful life of at least five years.

Method Used to Value Investments — Investments are reported at fair value. Short-term investments, with maturities less than one year, 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. Fixed-income investments are valued based on their coupon rate relative to the coupon rate for similar securities. 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 alternative investment partnership based on the valuation methodology outlined in the partnership agreement.

Federal Income Tax Status — Under Section 401(a) of the Internal Revenue Code, STRS Ohio is exempt from federal income taxes.

Reclassifications — Certain 2004 balances have been reclassified to conform to the current-year presentation.

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

Recently Issued Accounting Pronouncement — In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*. This statement establishes uniform financial reporting standards for post-employment benefits other than pension plans and supersedes the interim guidance included in Statement No. 26, *Financial Reporting for Post-Employment Health Care Plans Administered by Defined Benefit Plans*.

The provisions of this statement are effective in financial statements for periods beginning after Dec. 15, 2005.

STRS Ohio has not yet determined the impact that the new GASB statement will have on the financial statements.

2. Description of the STRS Ohio Plan

Plan Membership — STRS Ohio is a statewide retirement plan for licensed 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 to the right for member and retiree data and participating employers.

Plan Options — New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member. Employer contributions in the Combined Plan are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis.

DB Plan Benefits — Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (1) five years of service credit and attained age 60, (2) 25 years of service credit and attained age 55, or (3) 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 2.2% for the first 30 years of credited service. Each year over 30 years is incrementally increased by .1%, starting at 2.5% for the 31st year of contributing service up to a maximum allowance of 100% of final average salary. 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 incrementally increased by .1% starting at 2.6% for the 32nd year. Members retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts.

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.

Member and Retiree Data at July 1, 2005 and 2004

	2005	2004
Current active members	176,692	179,063
Inactive members eligible for refunds only	120,176	116,738
Terminated members entitled to receive a benefit in the future	18,148	17,763
Retirees and beneficiaries currently receiving a benefit	115,395	111,853
Defined Contribution Plan members	5,248	4,531
Reemployed retirees	19,033	17,929
Total Plan Membership	**454,692**	**447,877**

Participating Employers at June 30, 2005 and 2004

	2005	2004
City school districts	194	194
Local school districts	370	369
County educational service centers	60	60
Exempted village school districts	49	49
Joint vocational schools	49	49
Colleges and universities	37	37
County boards of mental retardation and developmental disabilities	74	76
Community schools	219	142
State of Ohio	1	1
Other	8	8
Total	**1,061**	**985**

Since the plan is tax-qualified, benefits are subject to limits established by Section 415 of the Internal Revenue Code. Benefits are increased annually by 3% of the original base amount.

A retiree of STRS Ohio or another Ohio public retirement system 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 an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

DC Plan Benefits — Benefits are established under Chapter 3307.80 to 3307.89 of the Revised Code.

For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment options. The member receives a quarterly statement of his or her account activity and balance. The remaining 3.5% of the 14.0% employer rate is allocated to the defined benefit unfunded liability.

A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into member accounts are vested after the first anniversary of the first day of paid service.

Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Combined Plan — In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment.

A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity.

Both DC and Combined Plan members transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Death, Survivor and Disability Benefits — A Defined Benefit Plan or Combined Plan member with five or more years of credited service who becomes disabled (illness or injury preventing individual's ability to perform normal job duties for at least 12 months) is entitled to a disability benefit. Additionally, eligible survivors of members who die prior to service retirement may qualify for monthly benefits.

A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to $2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Health Care Coverage After Retirement — Ohio law authorizes the State Teachers Retirement Board to provide access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents.

Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by the plan. All 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. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care.

Pension and post-employment health care assets are commingled for investment purposes. Consequently, amounts reported for individual asset classes are allocated between pension and post-employment health care based upon ending net assets.

Refunds — Withdrawal cancels a member's rights and benefits in STRS Ohio.

Upon termination of employment, a Defined Benefit Plan member may withdraw accumulated contributions made to STRS Ohio. Refunds of member contributions may include interest and 50% matching payments.

A Combined Plan member is eligible for the present value of future benefits from the defined benefit portion of the account if he or she terminates employment after at least five years of service. For the defined contribution portion of the account, the refund consists of member contributions plus any investment gains or losses on those contributions.

Defined Contribution Plan members receive their contributions and any investment gains or losses until they have completed one year of membership. After one year of membership, members receive the balance in their accounts, including employer contributions and related gains or losses.

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.

Employees hired after the ARP is established have 120 days from their date of hire to select a retirement plan.

For employees who elect an ARP, employers are required to remit employer contributions to STRS Ohio at a rate of 3.5% of payroll. For the year ended June 30, 2005, the ARP participant payroll totaled $299,036,000 and there were 7,464 participants. For the year ended June 30, 2004, the ARP participant payroll totaled $267,342,000, and there were 6,730 participants.

Administrative Expenses — The costs of administering the Defined Benefit and post-employment health care plans are financed by investment income. The administrative costs of the Defined Contribution Plan are financed by participant fees.

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. The employer rate is limited to 14% and the member rate is limited to 10% of covered payroll.

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 post-employment health care from which payments for health care coverage 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 funds 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 TSF and the ETF.

The Defined Contribution Fund accumulates DC member and employer contributions, Combined Plan member contributions, investment earnings and DC plan expenses.

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.

After interest is allocated to the various funds, the Guarantee Fund and the Expense Fund are closed into the ETF at year-end.

At June 30, 2005 and 2004, plan net assets were included in the various funds as shown in the chart below.

Fund Balances (in thousands)

	June 30, 2005	June 30, 2004
Teachers' Savings Fund	$ 8,940,971	$ 8,600,068
Employers' Trust Fund	9,899,522	8,337,784
Annuity and Pension Reserve Fund	39,777,706	36,753,700
Survivors' Benefit Fund	847,202	806,865
Defined Contribution Fund	158,234	105,029
Total	$ 59,623,635	$ 54,603,446

4. Commitments and Contingencies

STRS Ohio has made commitments to fund various real estate investments totaling approximately $216,330,421 as of June 30, 2005. The commitments as of June 30, 2005, have expected funding dates from July 2005 to March 2009.

STRS Ohio has made commitments to fund various alternative investments totaling approximately $1,296,016,762 as of June 30, 2005. The average expected funding dates for the commitments as of June 30, 2005, range from July 2005 to June 2011.

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. Deposit and Investment Risk Disclosure

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 value by STRS Ohio at June 30, 2005 and 2004, are summarized in the chart on the right.

Investments Held at Fair Value by STRS Ohio at June 30, 2005 and 2004
(summarized and in thousands)

Category	June 30, 2005	June 30, 2004
Short-term:		
Commercial paper	$ 2,467,844	$ 1,445,955
Short-term investment funds	1,000	51,000
Total short term	2,468,844	1,496,955
Fixed income:		
Guaranteed mortgages	3,881,699	3,238,005
U.S. government obligations	2,191,532	1,625,398
U.S. government Treasury strips	24,904	112,347
U.S. government agency bonds	1,200,634	999,836
Corporate bonds	4,970,020	4,494,097
Canadian bonds	40,445	40,769
Supernationals		61,077
High yield and emerging market	487,984	979,047
Total fixed income	12,797,218	11,550,576
Domestic common and preferred stock	26,384,658	25,657,527
International: (See Note 6)	11,393,316	9,735,898
Real estate: (See Note 7)		
East region	854,367	824,750
Midwest region	471,254	481,933
South region	762,854	848,058
West region	1,150,374	1,026,384
REITs	485,322	363,273
Other	1,344,836	1,452,063
Total real estate	5,069,007	4,996,461
Alternative investments: (See Note 8)	1,523,751	1,222,443
Invested securities lending collateral	2,810,118	2,580,147
Total investments and invested securities lending collateral	**$ 62,446,912**	**$ 57,240,007**

GASB Statement No. 40 — During the year ended June 30, 2005, STRS Ohio implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, effective July 1, 2004. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk.

Credit Risk — The quality ratings of investments in fixed-income securities as described by Standard & Poor's or Moody's, which are nationally recognized statistical rating organizations, at June 30, 2005, are shown in the chart at the top of Page 24. U.S. government

Quality Ratings of Fixed-Income Investments Held at June 30, 2005 (in thousands)

Quality Rating	Fair Value	Percentage of Portfolio
AAA	$ 1,597,312	12.5%
AA or AA2	987,099	7.7%
A or A1	2,327,641	18.2%
BBB	707,109	5.5%
BB	439,111	3.4%
B	376,533	2.9%
CCC and below	99,006	.8%
Not rated	165,272	1.3%
Total Credit Risk Debt Securities	6,699,083	52.3%
U.S. Government Fixed-Income Securities	6,098,135	47.7%
Total Fixed Income	$ 12,797,218	100.00%

fixed-income securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.

Custodial Credit Risk — Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Custodial credit risk is the risk that, in the event of a failure of the counterparty, STRS Ohio will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of STRS Ohio, and are held by either the counterparty or the counterparty's trust department or agent but not in the name of STRS Ohio.

All investments are held in the name of STRS Ohio or its nominee by the Treasurer of the State of Ohio as custodian. At June 30, 2005 and 2004, the bank cash balances were approximately $25,075,000 and $33,411,000, respectively. The bank balances are insured up to $100,000 by the Federal Deposit Insurance Corporation. The remaining bank deposits are covered by collateral held in the name of STRS Ohio's pledging financial institution, as required by state statute.

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. The segmented time distribution reflects fixed-income maturities over different time intervals. The longer the maturity, the more the value of the fixed-income investment will fluctuate with interest rate changes. The table below shows the maturities by segmented time. Commercial paper and short-term investment funds have a maturity less than one year.

Included within the table are securities that have callable or prepayment features. STRS Ohio assumes that the cash flows from these investments will follow a predictable payment pattern. Securities that are callable or subject to prepayment are more sensitive to interest rate movements. At June 30, 2005, there was $87 million of callable debt in U.S. government obligations and $125 million of callable debt in U.S. government agency bonds. In addition, STRS Ohio owns collateralized mortgage obligations (CMOs) and asset-

Maturities of Fixed-Income Investments Held at June 30, 2005 (in thousands)

Investment	Less Than 1 Year	1–5 Years	6–10 Years	More Than 10 Years	Total by Investment
U.S. Government Obligations	$ 351,988	$ 862,864	$ 479,973	$ 496,707	$ 2,191,532
U.S. Government Treasury Strips	24,904				24,904
U.S. Government Agency Bonds	110,934	920,278	103,932	65,490	1,200,634
Corporate Bonds	1,022,485	2,026,280	1,265,471	655,784	4,970,020
Canadian Bonds		40,445			40,445
Guaranteed Mortgages	118,291	215,759	90,657	3,456,992	3,881,699
High Yield and Emerging Market Fixed Income	31,803	57,336	211,959	186,886	487,984
Total by Maturity	$ 1,660,405	$ 4,122,962	$ 2,151,992	$ 4,861,859	$ 12,797,218

backed securities (ABSs). CMOs and ABSs were purchased for their predictable cash flow characteristics and for favorable yields compared to similar investments. CMOs and ABSs are based on cash flows from interest and principal payments from the underlying investments that are sensitive to prepayments which may result from a decline in interest rates. At June 30, 2005, there was $119 million in CMOs and $64 million in ABSs.

Concentration of Credit Risk — STRS Ohio is guided by statute and policy in the selection of security investments. No investment in any one organization represents 5% or more of plan net assets.

Significant investment guidelines that relate to investment concentration, interest rate risk and foreign currency risk by major asset class are as follows:

Overall Investment Portfolio — The Retirement Board has approved a target risk budget of 1% annualized for active investment management for the total fund. A risk budget is the amount the Retirement Board has approved for returns to vary from an unmanaged passive investment profile. For example, if an unmanaged passive investment mix generated a 10% return for the year, STRS Ohio would expect to have returns that are +/– 1% from the passively managed results (9% to 11% return). The total actively managed fund is expected to add 0.45% excess returns on average over a five-year period by assuming the additional 1% risk.

Fixed-Income — The portfolio will seek diversification by market sector, quality and issuer. The risk budget for fixed income is 0.70% using the Lehman Universal Index as the benchmark. Derivatives may be used to adjust the exposure to interest rates, individual securities or to various market sectors in the portfolio. Underlying exposure of derivatives for internally managed fixed-income investments will not exceed 5% of total fund assets.

Domestic Equities — The risk budget for domestic equities is 0.60% using the Russell 3000 as the benchmark. Derivatives may be used in management of the equity portfolio. The use of leverage is prohibited. Underlying exposure of equity derivatives cannot exceed 10% of total STRS Ohio assets.

International — International assets will be a diversified portfolio including both developed and emerging countries. The risk budget for international equity is 2% using a blended benchmark of 75% MSCI World ex USA Index (50% hedged) and 25% MSCI Emerging Market Free Index. Derivatives may be used in management of the portfolio and underlying exposure of derivatives for international investments will not exceed 10% of total STRS Ohio assets.

Real Estate — The real estate portfolio shall be diversified between property type, geographic location and investment structure. The risk budget for real estate investments is 2.75% using a benchmark of 80% NCREIF Property Index, 10% NCREIF Timberland Index and 10% Wilshire Real Estate Investment Trust Index. Investments in specialty real estate, which includes timberland, farmland and senior living property, shall not exceed 20% of total real estate assets. Derivatives may be used and cannot exceed 1% of total assets. STRS Ohio may borrow funds on a secured or unsecured basis and leverage is limited to 50% of the portfolio excluding specialty real estate.

Foreign Currency Risk — Foreign currency risk is risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. Through internal or external international equity management, the investment portfolio is exposed to foreign currency risk. STRS Ohio reduces the exposure to currency risk by hedging 50% of the developed countries currency to U.S. dollars. The difference between total international holdings and the foreign currency table of $7,042,346 is a result of the currency hedge and U.S. dollar-denominated investments. STRS Ohio has exposure to foreign currency as shown in the chart at the top of the next page.

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 equity and U.S. dollar-denominated

Foreign Currency Held at June 30, 2005
(in thousands)

Foreign Currency	Fair Value	Percentage of Portfolio
South Korean Won	$ 602,607	13.85%
Euro	557,838	12.82%
British Pound Sterling	392,607	9.02%
New Taiwan Dollar	346,124	7.96%
Japanese Yen	304,474	7.00%
South African Rand	291,303	6.70%
Canadian Dollar	182,673	4.20%
Brazilian Real	181,095	4.16%
Hong Kong Dollar	159,258	3.66%
Indian Rupee	142,652	3.28%
Other	1,190,339	27.36%
Total Foreign Currency	$ 4,350,970	100.00%

international fixed-income loaned securities' fair value and 105% of the international loaned securities' fair value.

STRS Ohio lends domestic equities, international equities, U.S. Treasuries, agencies and corporate bonds. The 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 between the duration of the cash invested and the length of time the securities are on loan. As of June 30, 2005, the average maturity of the invested cash collateral is 175 days. Because much of the cash collateral is invested in floating rate securities, interest rates are reset every 19 days on average as of June 30, 2005. 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 value of the loaned securities was approximately $2,734,078,000 and $2,504,466,000 as of June 30, 2005 and 2004, respectively. The fair value of the associated collateral received as of June 30, 2005 and 2004, was approximately $2,810,118,000 and $2,580,147,000, 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 may be 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 developed and emerging international markets.

Internally Managed:

Developed Markets, Emerging Stock and Country Funds — STRS Ohio actively invests in developed and emerging markets through individual stock selection and 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.

Equity Swaps — Seven EAFE and seven Emerging Market Free (EMF) international equity swap agreements were contracted during fiscal 2005 with maturity dates in fiscal 2006. In exchange for LIBOR (London Interbank Offered Rate) minus a negotiated spread, STRS Ohio will receive or pay the difference of the change in the total return of the various market indices included in the swap agreements. Fixed-income securities with an initial notional amount of $1.64 billion have been set aside at the Bank of New York as security.

The fair values of international investments held at June 30, 2005 and 2004, are shown in the chart below.

Fair Values of International Investments Held at June 30, 2005 and 2004 (in thousands)

	June 30, 2005	June 30, 2004
Externally managed		
International equities	$ 5,929,893	$ 5,046,536
International fixed income	113,353	74,282
International currency and liquidity reserves	148,868	116,309
Forward contracts	37,858	(6,799)
Total externally managed	6,229,972	5,230,328
Internally managed		
Developed markets	2,468,244	2,143,629
Emerging stock and country funds	921,953	752,788
EAFE Index Fund	1,706,791	1,486,420
EAFE equity swaps	62,008	124,905
EMF equity swaps	4,348	(2,172)
Total internally managed	5,163,344	4,505,570
Total international	$ 11,393,316	$ 9,735,898

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, real estate investment trusts (REITs) and other.

REITs — 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. Farmland investments generate income primarily as a result of harvest proceeds. Income is generated from the sale of timber on timberland investments. Finally, opportunity funds generate income as a result of operations and property sales, which are distributed to the investors.

Real Estate Note Payable and Interest Rate Swap — During fiscal 2004, STRS Ohio borrowed $400 million, collateralized by general real estate assets. The note has a two-year term with two one-year options to extend the loan agreement. Also during fiscal 2004, STRS Ohio entered into a two-year interest rate swap agreement to effectively convert the variable rate note to a fixed rate loan. The 90-day LIBOR variable rate was swapped for a fixed rate of 3.31%.

8. Alternative Investments

Alternative investments are primarily investments in private equities, which include venture and buyout/growth opportunities. STRS Ohio invests as a limited partner in closed-end partnerships along with other pension funds, endowments and high-net-worth individuals. Individual alternative investments tend to be limited to a particular industry to take advantage of the general partner's knowledge and skill.

9. 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 $1.64 billion. The market risk of the swap is the same as if STRS Ohio owned the underlying stocks that comprise the indexes. The revenues and expenses resulting from these agreements have been recorded in the basic financial statements. See Note 6 for the related equity swap fair values as of June 30, 2005 and 2004.

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 and EMF 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. STRS Ohio is also subject to the risk that the counterparty will fail to fulfill the contract.

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 that comprise the index. The market and credit risk of the futures were the same as if STRS Ohio had owned the underlying stocks that comprise the index.

Additionally, futures were used in the EAFE Index Fund and by external money managers. The values of the future and forward contracts at June 30, 2005 and 2004, are shown in the chart below.

Value of Future and Forward Contracts Held at June 30, 2005 and 2004 (in thousands)

	June 30, 2005	June 30, 2004
Forward contracts		
Externally managed	$ 1,519,800	$ 1,330,700
Internally managed	3,089,600	2,814,400
Total forward contracts	4,609,400	4,145,100
Future contracts		
S&P 500	$ 503,900	$ 4,600
EAFE Index Fund	26,400	22,600
Externally managed	39,300	25,800
Total futures contracts	$ 569,600	$ 53,000

Options — STRS Ohio writes option contracts on existing stock positions to enhance the return on the stock portfolio. In 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. There were no open option contracts as of June 30, 2005 or 2004.

Fixed-Income Credit Default Swaps — STRS Ohio had investments in credit default swaps during the year. The credit default swaps held by STRS Ohio are derivative instruments constructed to replicate the effect of investing in debt obligations of corporate bond issuers. Credit default swaps are used to manage corporate bond exposure. Fixed-income collateral is allocated to equal the notional value of the contracts. The risk of the credit default swaps and paired collateral is comparable to the underlying debt obligations of corporate issuers that comprise the credit default swaps. STRS Ohio receives fixed premium payments on a quarterly basis in exchange for assuming the credit risk of the bond from the bond holder. At June 30, 2005, the notional value of the credit default swaps held in the STRS Ohio fixed-income portfolio was $165 million par. At June 30, 2004, the notional value of the credit default swaps held in the STRS Ohio fixed-income portfolio was $310 million par.

10. Pension Plan

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

Eligible employees are entitled to a retirement benefit, payable monthly for life, equal to 2.2% 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 credited 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 law.

Employees covered by OPERS are required by Ohio law 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; 9.55% 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 below.

STRS Ohio Required Employer Contributions to OPERS

Year Ended June 30	Annual Required Contributions	Percentage Contributed
2005	**$ 5,521,000**	**100%**
2004	$ 5,543,000	100%
2003	$ 6,073,000	100%

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

OPERS also provides post-employment 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 Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for funding post-employment health care. The Revised Code provides statutory authority for employer contributions. For calendar years 2004 and 2003, 4% and 5%, respectively was the portion of the employer rate that was used to fund health care for those years.

OPERS expenditures for OPEB during 2004 were $963,384,000.

Required Schedule of Funding Progress
For the Years Ending June 30, 2000–2005 (dollar amounts in thousands)

Valuation Year	Actuarial Accrued Liability (AAL)*	Valuation Assets*	Unfunded Actuarial Accrued Liability (UAAL)*	Ratio of Assets to AAL	Covered Payroll**	UAAL as % of Covered Payroll
2005	**$ 73,817,114**	**$ 53,765,570**	**$ 20,051,544**	**72.8%**	**$ 9,775,159**	**205%**
2004	69,867,425	52,253,798	17,613,627	74.8%	9,565,978	184%
2003	65,936,357	48,899,215	17,037,142	74.2%	9,206,086	185%
2002	63,215,643	48,958,824	14,256,819	77.4%	8,747,102	163%
2001	59,425,300	54,194,672	5,230,628	91.2%	8,256,683	63%
2000	55,774,052	51,293,815	4,480,237	92.0%	7,845,021	57%

*The amounts reported in this schedule do not include assets or liabilities for post-employment health care coverage.

**Covered payroll includes salaries for alternative retirement plan participants and defined contribution plan participants. For 2005 and 2004, alternative retirement plan participant payroll totaled $299,036 and $267,342, respectively. For 2005 and 2004, defined contribution plan payroll totaled $154,378 and $137,610, respectively.

Required Schedule of Employer Contributions
For the Years Ending June 30, 2000–2005 (dollar amounts in thousands)

Year Ended June 30	Annual Required Contributions*	Percentage Contributed
2005	**$ 1,281,546**	**96%**
2004	1,270,388	95%
2003	1,163,732	100%
2002	814,647	100%
2001	777,416	100%
2000	470,343	100%

*The amounts reported in this schedule do not include contributions for post-employment health care coverage. The Government Accounting Standards Board (GASB) requires disclosure of the Annual Required Contributions (ARC) using a maximum amortization period of 40 years. Amounts shown as the ARC for each year may be different from the contributions required by state statute. The information here was determined as part of the actuarial valuations for the dates indicated. Additional information as of the latest actuarial valuation is shown in the table below.

Notes to the Trend Data

Valuation date	July 1, 2005	July 1, 2004
Actuarial cost method	Entry age	Entry age
Amortization method	Level percent open	Level percent open
Remaining amortization period (for GASB disclosure)	40.0 years	40.0 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	8.00%	8.00%
Projected salary increases	10.45% at age 20 to 3.85% at age 65	10.45% at age 20 to 3.85% 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 for the dates indicated. See accompanying independent auditors' report.

Schedules of Administrative Expenses
For the Years Ending June 30, 2005 and 2004

	2005	2004
Personnel		
Salaries and wages	$ 27,937,656	$ 28,731,933
Retirement contributions	3,761,289	3,895,554
Benefits	4,117,856	4,190,891
Total personnel	**35,816,801**	**36,818,378**
Professional and technical services		
Computer support services	4,806,019	6,491,279
Health care services	1,352,598	1,339,565
Actuary	630,021	548,675
Auditing	102,363	100,504
Defined contribution administrative fees	1,005,062	1,006,874
Legal	469,615	347,899
Temporary employment services	50,107	56,353
Total professional and technical services	**8,415,785**	**9,891,149**
Communications		
Postage and courier services	1,437,606	1,362,914
Printing and supplies	1,741,990	1,880,339
Telephone	516,128	657,992
Total communications	**3,695,724**	**3,901,245**
Other expenses		
Equipment repairs and maintenance	3,839,549	4,013,505
Building utilities and maintenance	1,339,206	1,186,083
Transportation and travel	263,528	255,184
Recruitment fees	33,043	15,145
Equipment rental	16,200	16,037
Depreciation	8,416,457	9,516,175
Member and staff education	229,806	195,669
Insurance	799,918	800,453
Memberships and subscriptions	228,218	161,630
Ohio Retirement Study Council	369,099	317,818
Miscellaneous	241,666	291,056
Total other expenses	**15,776,690**	**16,768,755**
Total administrative expenses	**$ 63,705,000**	**$ 67,379,527**

Note: Above amounts do not include investment administrative expenses, which are deducted from investment income.

See accompanying independent auditors' report.

Schedules of Investment Expenses
For the Years Ending June 30, 2005 and 2004

	2005	2004
Personnel		
Salaries and wages	$ 13,512,081	$ 13,237,624
Retirement contributions	1,759,471	1,647,044
Benefits	1,132,928	928,881
Total personnel	**16,404,480**	**15,813,549**
Professional and technical services		
Legal	20,098	79,089
Investment research	713,065	442,747
Real estate and international advisors	570,986	524,746
Investment advisors	390,988	377,497
Banking fees	6,011,721	5,775,337
Total professional and technical services	**7,706,858**	**7,199,416**
Other expenses		
Printing and supplies	18,433	23,621
Building utilities and maintenance	266,790	256,475
Travel	255,918	311,751
Equipment rental	87,394	96,486
Memberships and subscriptions	108,389	109,139
Miscellaneous	46,983	12,324
Total other expenses	**783,907**	**809,796**
Total investment expenses	**$ 24,895,245**	**$ 23,822,761**

See accompanying independent auditors' report.

Schedules of Fees to External Asset Managers by Asset Class
For the Years Ending June 30, 2005 and 2004

	2005	2004
Asset class		
Domestic common and preferred stock	$ 13,782,257	$ 10,676,201
International	22,561,406	24,843,359
Fixed income	4,932,180	4,772,241
Alternative investments	45,454,391	45,606,554
Real estate	10,484,783	12,001,421
Total external manager fees	**$ 97,215,017**	**$ 97,899,776**

See accompanying independent auditors' report.

Investment Review

For Fiscal Year July 1, 2004, through June 30, 2005
Prepared by STRS Ohio's Investments Associates

The economy moves into a slower, sustainable growth phase

After holding short-term interest rates at extraordinarily low levels for more than two years to help revive a sluggish economy, the Federal Reserve altered monetary policy at the very end of fiscal 2004 by raising the federal funds rate to 1.25% from 1%. That modest increase in short-term interest rates came after a year of robust economic activity and amid threats of higher inflation. More importantly, it marked the end to the Federal Reserve's policy of reflation that worked, along with stimulative fiscal policy, to prevent the U.S. economy from falling into a destructive bout of deflation. Since that initial rate increase, the Federal Reserve raised the federal funds rate 0.25% at each of its subsequent eight meetings so that at the end of the July 1, 2004–June 30, 2005, fiscal year, short-term rates were targeted at 3.25%.

Economic growth decelerated from the robust gains recorded during fiscal 2004, but the pace remained solid. In fiscal 2004, real (inflation-adjusted) gross domestic product (GDP) soared by 4.6%. Excluding international trade because of unsynchronized economic cycles around the world, U.S. domestic economic growth was an even better 5.1% during that fiscal year. During fiscal 2005, real GDP grew by 3.6% — a rate of growth that still exceeded the economy's likely longer-term potential growth of about 3.25% a year, but one that was notably slower than in fiscal 2004.

Most of the contribution to economic growth came from consumer spending. Personal consumption advanced by 3.9% in fiscal 2005, accounting for nearly 2.75 percentage points of the 3.6% growth in real GDP. In the prior fiscal year, consumer spending contributed roughly the same amount to an economy that grew a percentage point faster. Durable goods purchases led the way for consumer spending — advancing by 6.7% in fiscal 2005 after growing 5.8% during fiscal 2004.

Business spending on information processing, industrial, transportation and other equipment also contributed significantly to strong economic growth during the fiscal year. In fiscal 2004, the contribution from that segment of the economy accounted for nearly a percentage point of the 4.6% growth in real GDP. In fiscal 2005, it contributed the same amount in an economy growing by 3.6%.

While strong consumer and business spending held up the economy, there were also areas of disappointment. Housing activity contributed marginally to economic growth after it had been a source of economic strength in the prior fiscal year. Inventory investment also decelerated and took away from overall economic growth — deducting nearly .75 of a percentage point from real GDP growth in fiscal 2005. Meanwhile, the main culprit to slower real GDP growth in recent fiscal years — a rapidly deteriorating international trade position for the United States — finished fiscal 2005 with an improvement that left it as a small negative factor on the year's economic activity.

Until the final quarter of the fiscal year, the U.S. dollar had gone through a three-year period of gradual decline — particularly against the euro. Normally, that would significantly improve the U.S. trade position by making U.S. exports cheaper relative to foreign imports. However, the other main source for growth in the global economy — China — continued to peg its currency to the dollar and, as a result, the U.S. trade position with that growing region of the world had not improved.

The weaker dollar also introduced a threat of higher inflation from imported oil prices and some imported non-oil prices. The four-quarter growth rate of import prices accelerated from 5.7% at the end of fiscal 2004 to 7.4% in fiscal 2005. When added to building inflation pressures from domestic activity and easy monetary policy, inflation measures at the early stages of the production process, along with soaring energy costs, turned noticeably higher in fiscal 2005.

Prices of core (excluding volatile food and energy goods) intermediate-stage producer goods grew 5.5% in fiscal 2005 — up from 5.1% in the prior fiscal year. Those price increases will leak into the finished stage for producer prices and into consumer prices over time, though neither measure of inflation so far has picked up significantly.

While actual inflation has been stable or declined slightly, inflation pressures continued to build near the end of fiscal 2005. The Federal Reserve's primary mission in such an environment has been to remove its prior stimulative monetary policy and keep future inflation growth in check.

The bond market apparently believed in fiscal 2005 the Federal Reserve will be successful by keeping long-term yields low. Entering fiscal 2005, the 10-year Treasury yield was roughly 4.6%. At year end, that same yield was roughly 4%. Inflation expectations priced into Treasury inflation-indexed securities suggest future inflation will be slightly less than that expected at the beginning of the fiscal year.

The bond market rallies as the economy moderates and the Federal Reserve fights inflation threats

The Federal Reserve maintained short-term interest rates at extraordinarily low levels for more than two years prior to the beginning of fiscal 2005. By keeping interest rates at historic lows, its goal was to stimulate economic activity and prevent the U.S. economy from an unwanted bout of deflation. After successfully boosting economic growth and with increasing signs of rising inflation, the Federal Reserve embarked on a trend of steadily raising short-term interest rates on the final day of fiscal 2004. By the end of fiscal 2005, the federal funds rate had risen to 3.25% from 1.25%. Surprising many market participants, a decline in long-term interest rates occurred during the fiscal year. Ten-year Treasury rates fell from 4.6% at the beginning of the fiscal year to end the year at 3.9%. Since bond prices increase when interest rates decline, total returns (price change plus coupon income) were greater than coupon income, which resulted in positive bond returns in fiscal 2005.

The STRS Ohio fixed-income portfolio returned 7.49% versus the benchmark's return of 7.42%. Over the three prior fiscal years, the STRS Ohio fixed-income portfolio returned an annual average of 7.23% versus the benchmark's return of 6.56%. The STRS Ohio performance over the prior five fiscal years was 8.24% versus the benchmark's 7.63%. A more complete report of STRS Ohio performance appears on Page 47.

A strong first half was followed by a consolidating second half in the domestic equity markets

The domestic equity markets followed a remarkably similar pattern to the previous year, albeit far less dramatically, with all of the gains coming in the first half and the indices marking time for the remainder of the year. Volatility remained low by historical standards as the market digested the competing forces of rising earnings and higher short-term interest rates and oil prices. Earnings per share rose very strongly during fiscal 2005, gaining almost 14% as labor costs were restrained and pricing power began to return to corporate America. This was offset to a large degree by declining price-to-earnings ratios caused by the uncertainty posed by the Federal Reserve's rate hikes and renewed fears of an energy crisis.

The domestic equity markets, as represented by the Russell Top 200 Index, posted only a modest gain of 4.5% for fiscal 2005. Other broader market indices were able to post marginally higher returns as smaller capitalization companies continued to outperform. This did not carry through, however, to the technology-heavy NASDAQ, which gained only 1% as technology companies continued to struggle with excess capacity and uneven demand.

The STRS Ohio domestic equities portfolio returned 8.01%, slightly below the benchmark return of 8.05%. Over the past three years, the STRS Ohio domestic equities portfolio returned an annual average of 9.11% versus the benchmark's 9.22%. The STRS Ohio performance over the past five fiscal years was –1.31% versus the benchmark's –1.04%. A more complete report of STRS Ohio performance appears on Page 47.

International equities produce exceptional returns

Equity markets were strong around the world during the fiscal year. The developed markets, represented by the Morgan Stanley Capital International (MSCI) World ex USA Index rose 14.5%. A significant contributor to the return for the international markets was the strength of foreign currencies against the dollar, particularly the euro. With stronger earnings around the globe and a continued benign inflation picture, the result was exceptional returns.

The returns in the international markets were strong for the year with every market but one being up: Norway rose 49.7%, Austria was up 48.8%, Australia grew 39.4% and Greece was up 37.9%. The laggard, and only down market, was Japan, -1.4%. Currency played a major role in returns for fiscal 2005 as the euro appreciated nearly 10% — giving a strong tailwind to U.S.-dollar-based investors, while the yen fell modestly against the dollar.

The STRS Ohio international portfolio returned 22.07% during the fiscal year, outpacing its benchmark that grew 19.45%. The STRS Ohio international portfolio returned an annual average of 14.54% versus the benchmark's return of 12.63% over the past three fiscal years. Over the past five fiscal years, the portfolio returned an annual average of 2.48% versus the benchmark's return of 0.39%. A more complete report of STRS Ohio performance appears on Page 47.

Another blockbuster year for real estate investments occurred in fiscal 2005

Over the past fiscal year, REITs once again generated strong absolute returns. The Wilshire REIT Index outperformed the broader equity markets with an astounding 34.2% return. The average annual rate of return for the last five years has been more than 20%. The primary driver of these returns continues to be the flow of funds into the sector.

For the 12 months ending June 30, 2005, an estimated $4 billion of new capital was invested in REIT mutual funds. This is down from the torrid $6 billion pace of 2004, but still healthy for a sector that has a market capitalization of less than $300 billion. This demand for stocks has been a contributing factor to the stocks' run. In addition, real estate fundamentals are beginning to improve. The combination of these two forces resulted in the surprisingly strong returns for the fiscal year.

The relative attractiveness of real estate and REITs compared to other investment opportunities came from the smoother, more predictable operating fundamentals and, therefore, more predictable earnings. Though REIT yields declined as prices continued to rise, the REIT dividend yield was still quite competitive over the fiscal year.

STRS Ohio's real estate portfolio soared by 21.71% during the fiscal year, considerably outperforming the 19.32% return of its benchmark. Over the past three fiscal years, the STRS Ohio real estate portfolio returned an annual average of 15.01% versus the benchmark's return of 12.72%. The STRS Ohio portfolio performance over the past five fiscal years was 12.21% versus the benchmark return of 11.04%. A more complete report of STRS Ohio performance appears on Page 47.

Total fund returns outperformed benchmark returns in fiscal 2005

During fiscal 2005, the STRS Ohio fund returned 12.25% versus the benchmark's (hybrid index of industry benchmarks) return of 11.43%. The strong economy led to gains in all the asset classes. Over the three prior fiscal years, the STRS Ohio fund returned an annual average of 10.57% versus the benchmark's return of 9.79%. The STRS Ohio fund performance over the prior five fiscal years was 3.07% versus the benchmark's 2.81%. The strong performance in fiscal 2005 was the second straight year that the fund's total return exceeded the absolute long-term policy standard for STRS Ohio investments.

Statement of Investment Objectives and Policy

Effective Jan. 16, 2004

1.0 Purpose

1.1 The State Teachers Retirement Board of Ohio (the "Board") is vested with the operation and management of the State Teachers Retirement System of Ohio ("STRS Ohio") (ORC Section 3307.04). The Board has the full power to invest the assets (the "Fund") of STRS Ohio (ORC Section 3307.15). The Board is required to ". . . adopt, in regular meetings, policies, objectives, or criteria for the operation of the investment program . . ." (ORC Section 3307.15).

1.2 To fulfill the statutory requirement of ORC Section 3307.15, the Board has adopted this Statement of Investment Objectives and Policy (the "Statement") to govern the investment of the Fund. This Statement summarizes the objectives and policies for the investment of the Fund.

1.3 The Board has approved these objectives and policies after careful consideration of STRS Ohio benefit provisions, and the implications of alternative objectives and policies.

1.4 The Statement has been prepared with five audiences in mind: incumbent, new and prospective Board members; STRS Ohio investment staff; STRS Ohio active and retired members; Ohio General Assembly and Governor; and agents engaged by the Board to manage and administer the Fund.

1.5 The Board regularly, but in no event less than annually, will assess the continued suitability of this Statement, initiate change as necessary and update this Statement accordingly.

1.6 The Board may authorize its administrative officers and committees to act for it in accord with its policies (ORC Sections 3307.04 and 3307.15). The Board, no less frequently than annually, adopts a resolution delegating to the Executive Director and the Deputy Executive Director — Investments, the authority to acquire, dispose, operate and manage the Fund, subject to the Board's policies and to subsequent approval by the Board. Consequently, the Executive Director, the Deputy Executive Director — Investments and the investment staff are responsible for preparing and maintaining numerous supporting management documents that govern the implementation of Board policies, including, but not limited to, individual investment manager mandates and guidelines, agent agreements and limited partnership documents.

1.7 In carrying out the operation and management of STRS Ohio, the Board, the Executive Director, his/her investment staff and others who are considered fiduciaries as defined in ORC Section 3307.01(K) are subject to various fiduciary responsibilities in ORC Chapter 3307, including those found in ORC Sections 3307.15, 3307.151, 3307.181 and 3307.18. This Statement incorporates, and is subject to, all of the provisions of ORC Chapter 3307.

1.8 The Board acknowledges its responsibilities under ORC Chapter 3307 and to the extent that this Statement is inconsistent with ORC Chapter 3307, Chapter 3307 shall control.

1.9 The Board approved this Statement on Jan. 16, 2004.

2.0 Investment Objective

2.1 Subject to the Ohio Revised Code, the investment objective for the total fund is to earn, over moving 20-year periods, an annualized return that equals or exceeds the actuarial rate of return (ARR), approved by the Board to value STRS Ohio liabilities. The current actuarial rate of return is 8.0%.

2.2 The Board believes, based on the assumptions herein, that the investment policies summarized in this document will achieve this long-term actuarial objective, at an acceptable level of risk. The Board evaluates risk in terms of the probability of not achieving the ARR over a 20-year time horizon.

3.0 Asset Mix Policy, Risk Diversification and Return Expectations

3.1 After careful consideration of the investment objectives, liability structure, funded status and liquidity needs of STRS Ohio, and the return, risk and risk-diversifying characteristics of different asset classes, the Board approved the asset mix policy presented in Exhibit 1. The exhibit also summarizes the Board's return expectations for the asset mix policy and active management.

3.2 Sixty-seven percent of the Fund is targeted for investment in equities, inclusive of alternative investments. Equity investments have provided the highest returns over long time periods, but can produce low and even negative returns over shorter periods.

3.3 The risk of low returns over shorter time periods makes 100% equity policies unsuitable for most pension funds, including STRS Ohio. By investing across multiple equity asset classes, and in lower return but less risky fixed income and real estate, the Board is managing and diversifying total fund risk.

3.4 Forecasts of capital market and active management returns undertaken by the Board's asset management consultant indicate that the Board's investment policy summarized in Exhibit 1 has an expected 20-year annualized return of 8.3%. The expected 8.3% annualized return is 0.3% above the Board-approved 8.0% actuarial rate of return.

3.5 The same forecasts also indicate that there is an estimated 55% probability that the approved investment policy will not achieve the 8.0% ARR over the 20-year horizon. An expected 8.3% annualized return and a 55% probability of not earning an 8.0% actuarial return is not contradictory. This is the inevitable consequence of the skewed distributions that characterize capital market returns.

3.6 The 7.85% expected asset mix policy return was developed with reference to the observed long-term relationships among major asset classes, adjusted by current market conditions as of Dec. 31, 2002. The Board believes this return expectation is reasonable, but recognizes that the actual 20-year asset mix policy return can deviate significantly from this expectation — both positively and negatively.

3.7 Fund assets are invested using a combination of passive and active management strategies. Active management of public market securities and real estate assets is

Exhibit 1: Asset Mix Policy and Return Expectations for STRS Ohio Total Fund

Asset Class	Target Allocation	Rebalancing Range	Expected 20-Year Policy Returns[1]	Expected Five-Year Management Returns[2]	Expected Total Return
Equity					
Domestic	45%	43–50%	8.40%	0.25%	8.65%
International	20%	15–25%	8.40%	1.00%	9.40%
Alternatives	2%	1-3%	13.60%		13.60%
Total Equity	67%				
Fixed Income	23%	13–28%	6.00%	0.35%	6.35%
Real Estate	9%	6–12%	7.80%	0.75%	8.55%
Liquidity Reserve	1%	0–4%	4.30%		4.30%
Total Fund	100%		7.85%	0.45%	8.30%

[1] Based on capital market forecasts developed by the Russell Investment Group, for the 20 years ending Dec. 31, 2022.

[2] Excludes impact of rebalancing decisions. The impact of rebalancing on total fund returns is included in investment reports to the Board.

expected to earn 0.45% per annum of additional returns over moving five-year periods. The Board recognizes that unsuccessful active management can reduce total fund returns.

3.8 Investment objectives and guidelines for individual asset classes have been approved by the Board, and are summarized below.

3.9 Liquidity reserves are kept at a minimum level, but sufficient to cover the short-term cash flow needs.

3.10 The Board reviews at least annually its expectations for asset class and active management performance, and assesses how the updated expectations affect the probability that the Fund will achieve the established investment objectives.

4.0 Rebalancing

4.1 Exposures to selected asset classes are maintained within the rebalancing ranges specified in Exhibit 1. Rebalancing ensures that the Fund's actual asset allocation remains close to the target asset mix policy.

4.2 The Fund's actual asset allocation is monitored at least monthly relative to established asset allocation policy targets and ranges. The timing and magnitude of rebalancing are decided with due consideration to the liquidity of the investments and the associated transaction costs.

4.3 Investment staff has the authority to actively manage asset mix exposures within the specified rebalancing ranges. In its Annual Investment Plan prepared for the Board, staff explains how they are managing asset class exposures based on short- and intermediate-term capital forecasts.

4.4 The impact of rebalancing decisions on total fund returns is included in investment performance reports to the Board.

5.0 Passive and Active Management Within Risk Budgets

5.1 STRS Ohio investment staff has been delegated the responsibility for managing the Fund's exposure to passive and active investment strategies, subject to the constraint that active risk does not exceed Board-approved target risk budgets for the total fund and individual asset classes.

5.2 The Board has approved a target risk budget of 1.0% annualized for active management for the total fund. In exchange for assuming this level of active risk, the Board expects active management to add 0.45% of annualized excess return over moving five-year periods.

5.3 The Board realizes that actual management returns will likely be above or below the 0.45% target over any five-year moving period, and therefore will evaluate the success of the STRS Ohio active management program within this context. The Board recognizes that any amount of management return in excess of the associated investment costs improves the security of STRS Ohio plan members.

5.4 Passive management uses low-cost index funds to access the return streams available from the world's capital markets. Indexed funds control costs, are useful tools for evaluating active management strategies, capture exposure to the more efficient markets and facilitate rebalancing to the policy asset mix.

5.5 Active management tries to earn higher returns than those available from index funds by making value-adding security selection and asset mix timing decisions. Unsuccessful active management earns below index fund returns.

5.6 Because there are no index fund products for real estate and alternative investments, these asset classes must be actively managed.

6.0 Domestic Equity

6.1 Domestic equity is being managed relative to a Board-approved 0.6% risk budget, and is expected to earn at least 0.25% of annualized excess return above the Russell 3000 Index over moving five-year periods.

6.2 Key elements of the strategy:

(a) The portfolio's active management adds value primarily through security selection. Sector tilts by style, economic sectors or market capitalization are managed in accordance with the risk budget for domestic equities.

(b) The portfolio utilizes a variety of portfolio management approaches including quantitative and fundamental techniques to diversify the source of excess return.

(c) The portfolio utilizes a combination of internal and external management, utilizing multiple internal portfolio managers and multiple external manager firms to improve the likelihood of achieving excess returns, to diversify risk and to control costs.

7.0 International Equity

7.1 International equity is being managed relative to a Board-approved 2.0% risk budget, and is expected to earn at least 1.0% of annualized excess return above a blended benchmark of 75% MSCI World ex-US (50% hedged) and 25% MSCI Emerging Market Free Index over moving five-year periods.

7.2 Key elements of the strategy:

(a) The portfolio emphasizes fundamental management approaches and exposures to security selection and country allocation decisions. These decisions have been shown to be the principal sources of the excess return in international equity portfolios. Managers have the ability to add value through currency management.

(b) Aggregate exposures to countries, currencies, equity styles and market capitalization are monitored and managed relative to their benchmark exposures.

(c) The portfolio utilizes a combination of internal and external management, with multiple internal portfolio managers and multiple external manager firms to improve the likelihood of achieving excess returns, to diversify risk and to control costs.

8.0 Fixed Income

8.1 Fixed income is being managed relative to a Board-approved 0.7% risk budget, and is expected to earn at least 0.35% of annualized excess returns above the Lehman Brothers Universal Bond Index over moving five-year periods.

8.2 All of fixed income is actively managed because active management is generally low cost and market opportunities exist for skilled managers to generate excess returns.

8.3 Key elements of the strategy:

(a) The portfolio will primarily be managed internally, with multiple external managers utilized in specialist segments of the market such as high yield and emerging market debt.

(b) The portfolio will emphasize issue selection, credit analysis, sector allocations and duration management.

(c) Aggregate exposures to duration, credit and sectors are monitored and managed relative to corresponding exposures in the asset class benchmark.

9.0 Real Estate

9.1 Real estate investments are being managed relative to a Board-approved 2.75% annualized risk budget, and are expected to earn at least 0.75% of annualized excess returns above a composite benchmark over moving five-year periods. The composite benchmark is 80% NCREIF Property Index, 10% NCREIF Timberland Index and 10% Wilshire Real Estate Investment Trust Index.

9.2 Key elements of the strategy:

(a) Real estate is 100% actively managed because index funds replicating the real estate broad market are not available. The portfolio is primarily managed internally.

(b) Direct property investments represent most of the real estate portfolio. Specialist managers are utilized. Risk is diversified by investing across major property types and geographic areas.

(c) Leverage of up to 50% is permitted with the core real estate portfolio.

(d) Exchange-traded real estate investment trusts (REITs) are targeted at 10% of the real estate portfolio to enhance liquidity, diversification and excess returns.

(e) Non-core real estate investments are limited to 20% of the real estate portfolio. Investment strategies will be characterized as "opportunistic" based on the market conditions prevailing at the time of investment.

(f) Leverage is employed within REITS and non-core real estate investments, and these leverage levels are monitored by investment staff.

10.0 Alternative Investments

10.1 Alternative investments are being managed with the objective of earning at least 5% net of fees above domestic public equity markets over very long time horizons, typically moving 10-year periods. Because alternative investments are traded infrequently, risk budget concepts are not applicable.

10.2 Key elements of the strategy:

(a) Alternative investments are 100% actively managed because index funds are not available.

(b) Asset class risk is diversified by investing across different types of alternative investments including private equity (venture capital, leverage buyouts, mezzanine debt, sector and international funds), distressed debt and hedge funds.

(c) Private equity risk is also diversified by investing across vintage years, industry sectors, investment size, development stage and geography.

(d) Private equity investments are managed by general partners with good deal flow, specialized areas of expertise, established or promising net-of-fees track records, and fully disclosed and verifiable management procedures.

11.0 Derivatives

11.1 Derivatives may be used in the management of internal and external fixed-income, equity and real estate portfolios. Derivatives are typically, but not exclusively, futures contracts, option contracts and option contracts on futures for market indexes. Options on individual securities, baskets of securities and equity-linked notes are further examples. Derivatives are both exchange traded and traded over the counter.

11.2 Derivative exposures must be of a hedging or positioning nature, not speculative.

11.3 Leveraged derivative positions are prohibited.

11.4 As a percentage of Fund assets, the underlying exposure of derivative positions will not exceed:

(a) 5% for fixed-income investments;

(b) 10% for domestic equity investments;

(c) 10% for international equity investments; and

(d) 1% for real estate investments.

12.0 Proxy Voting

12.1 Common stock proxies are valuable and should be voted in the best interest of active and retired members.

12.2 The Board shall maintain stock proxy voting policies and has directed staff and the proxy voting agents to use these policies as guidelines for voting common stock proxies held by the Fund.

13.0 Ohio Investments

13.1 The Board will give due consideration to investments that enhance the general welfare of the state and its citizens provided that assets are invested in the best interest of STRS Ohio active and retired members. Preference will be given to Ohio investments offering competitive returns at risk levels comparable to similar investments currently available to the Board.

13.2 STRS Ohio investment staff shall maintain and implement an Ohio Investment Plan. The 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 criteria are satisfied, to acquire such investments.

14.0 Broker-Dealers

14.1 Purchases and sales of publicly traded securities shall be executed with broker-dealers from a list reviewed by the Board. The list shall be limited, as practicable, to 65 firms plus those in the Ohio and emerging firms sub-list.

14.2 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.

14.3 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.

14.4 The Board shall give equal consideration to minority-owned and controlled firms and to firms owned and controlled by women.

14.5 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.

14.6 Each firm listed shall file with the 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.

14.7 When stocks are purchased during underwriting, allocations may be made to dealers not on the approved list provided the managing underwriter is so listed.

14.8 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.

15.0 Securities Lending

15.1 The Board may operate a securities lending program to enhance the income of the Fund. The program must be operated by a bank trustee who follows the custodial requirements of the Treasurer of State and each security lent must be fully collateralized. Results of the program must be reported to the Board annually.

16.0 Security Valuation

16.1 Valuation of investments shall be the total of:

(a) The primary closing price on the principal registered stock exchange for all common and preferred stocks so listed.

(b) The NASDAQ Official Closing Price (NOCP) as reflected by NASDAQ for common and preferred stocks not listed on a registered stock exchange.

(c) The current value as determined by a qualified independent service for all bonds, notes and certificates of indebtedness.

(d) Amortized cost for commercial paper, certificates of deposit, repurchase agreements and other short-term investments with a maturity of 270 or fewer days.

(e) Real estate valued through a combination of independent appraisals and manager 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.

(f) The most recent manager valuations for alternative investments.

(g) International investments are valued by the subcustodian using relevant closing market prices and exchange rates.

17.0 Performance Monitoring and Evaluation

17.1 The Board and its agents use a variety of compliance, verification and performance measurement tools to monitor, measure and evaluate how well STRS Ohio assets are being managed. Monitoring, reporting and evaluation frequencies range from hourly to daily, weekly, monthly, quarterly and annually.

17.2 The Board has developed a performance monitoring and evaluation system that answers two fundamental fiduciary questions:

(a) Are the assets being prudently managed? More specifically, are assets being managed in accordance with established laws, policies and procedures, and are individual investment managers in compliance with their mandates?

(b) Are the assets being profitably managed? More specifically, has performance affected benefit security, has capital market risk been rewarded and has active management risk been rewarded?

17.3 If there is a deviation from Board policies, STRS Ohio investment staff is required to provide the Board with a report explaining how the deviation was discovered, the reasons for the deviation, the impact on Fund performance, if any, and steps taken to mitigate future occurrences.

17.4 Exhibit 2 is one of many reports used by the Board to monitor and evaluate performance of the total fund. Panel one indicates if the total fund return exceeded the 8.0% actuarial rate of return over the one-year period ending Sept. 30, 2003. Panel two indicates if the Fund was rewarded for investing in higher return but more risky equity investments over the same period. And panel three indicates if active management added or subtracted returns.

17.5 Additional reports provide the Board with a multilevel view of investment activities at different levels and over different time horizons. These include:

(a) Performance of the total fund;

(b) Performance of individual asset class strategies;

(c) Performance of internal and externally managed portfolios; and

(d) Performance of individual external managers.

Exhibit 2: EXAMPLE
Total Fund Board Report

STRS Ohio Total Fund Board Report
One-Year Return, Gross of Fees, Ending Sept. 30, 2003

Have returns affected benefit security?	
1. Total fund total return	19.81%
2. Actuarial rate of return	8.00%
3. Out-performance (1 – 2)	11.81%
Has plan been rewarded for capital market risk?	
4. Total fund total policy return	18.70%
5. Minimum risk/high cost policy of 91-Day T-bills	1.22%
6. Impact of asset mix policy (4 – 5)	17.48%
Has plan been rewarded for active management risk?	
7. Active management effect (1 – 4)	1.11%

Statement of Fund Governance

Effective Jan. 16, 2004

1.0 Purpose

1.1 This Statement of Fund Governance (the "Statement") summarizes the governance structure established by the State Teachers Retirement Board of Ohio (the "Board") to ensure the prudent, effective and efficient management of the assets of the State Teachers Retirement System of Ohio ("STRS Ohio").

1.2 The fund governance structure was approved by the Board after careful consideration of alternative approaches to governing a very large and growing pension fund within an increasingly complex financial and investment environment.

1.3 The Statement has been prepared with five audiences in mind: incumbent, new and prospective Board members; STRS Ohio investment staff; STRS Ohio active and retired members; Ohio General Assembly and Governor; and agents engaged by the Board to manage, administer or advise on STRS Ohio assets.

1.4 The Statement summarizes more detailed policy and procedure documents prepared and maintained by STRS Ohio investment staff, and numerous other documents that govern the day-to-day management of STRS Ohio assets.

1.5 The Board regularly assesses the continued suitability of the STRS Ohio fund governance structure, initiates change as necessary and updates this Statement accordingly.

1.6 The Board may authorize its administrative officers and committees to act for it in accord with its policies (ORC Sections 3307.04 and 3307.15). The Board, no less frequently than annually, adopts a resolution delegating to the Executive Director and the Deputy Executive Director — Investments, the authority to acquire, dispose, operate and manage the Fund, subject to the Board's policies and to subsequent approval by the Board.

1.7 In carrying out the operation and management of STRS Ohio, the Board, the Executive Director, his/her investment staff and others that are considered fiduciaries as defined in ORC Section 3307.01(K) are subject to various fiduciary responsibilities in ORC Chapter 3307, including those found in ORC Sections 3307.15, 3307.151, 3307.181 and 3307.18. This Statement incorporates, and is subject to, all of the provisions of ORC Chapter 3307.

1.8 The Board acknowledges its responsibilities under ORC Chapter 3307 and to the extent that this Statement is inconsistent with ORC Chapter 3307, Chapter 3307 shall control.

1.9 The Board approved this Statement on Jan. 16, 2004.

2.0 Governance Principles

2.1 Three principles guided the Board's development of the STRS Ohio fund governance structure:

(a) As STRS Ohio governing fiduciary, the Board is ultimately accountable for all investment decisions. Section 3307.15 of the Ohio Revised Code (the "Code") vests the investment function in the Board and requires the Board to ". . . adopt, in regular meetings, policies, objectives, or criteria for the operation of the investment program . . ." Section 3307.15 of the Code sets forth the fiduciary responsibility of the Board in discharging its duties with respect to the fund.

(b) To ensure STRS Ohio assets are prudently, profitably and efficiently managed on a day-to-day basis, the Board needs to delegate the management and implementation of Board investment policies to qualified managing and operating fiduciaries. Sections 3307.04 and 3307.15 of the Code empower the Board to authorize its committees and administrative officers to act for it in accord with Board policies. The fiduciary responsibility of Board delegates in discharging their duties with respect to the fund is specified in Section 3307.15.

(c) To ensure effective oversight of delegates, the Board requires informative and timely performance reports that reveal if managing and operating fiduciaries have complied with established policies, and indicate how assets under their care have performed relative to Board-approved investment objectives.

3.0 Investment Decisions Retained by the Board

3.1 The Board approves the following investment policies:

(a) Total fund risk and return objectives;

(b) Total fund target asset mix policy;

(c) Total fund asset mix policy rebalancing ranges;

(d) Active management risk and return objectives at the total fund and asset class levels;

(e) Proxy voting;

(f) Ohio investments;

(g) Securities lending;

(h) Broker-dealer selection and use; and

(i) Performance measurement criteria and evaluation standards.

3.2 Before approving or amending policy decisions, the Board seeks advice, guidance and recommendations from STRS Ohio investment staff, Board-retained investment consultants, and other experts or sources as considered prudent by the Board.

4.0 Investment Decisions Delegated to Investment Staff

4.1 The Board, through the Executive Director, has delegated to qualified STRS Ohio investment staff the following investment management and implementation decisions:

(a) Buying, selling, managing and monitoring individual securities, real assets and/or other investment transactions to achieve the total fund and asset class investment objectives approved by the Board;

(b) Retaining, managing and terminating external investment managers within each asset class as required to achieve the total fund and asset class investment objectives approved by the Board;

(c) Ensure total fund, asset class and individual manager portfolios comply with established parameters and risk levels; and

(d) Preparing, negotiating and executing external investment manager mandates, guidelines and fee agreements.

4.2 In making these decisions, STRS Ohio investment staff seeks the advice, guidance and recommendations of Board-retained investment consultants, external investment managers, and other experts and sources as considered prudent by STRS Ohio staff.

5.0 Board Oversight

5.1 The Board requires investment staff to prepare and deliver an Annual Investment Plan that explains how STRS Ohio assets will be managed in order to achieve the Board-established investment objectives. This provides the Board a focused opportunity to:

(a) Question and comment on staff's investment management plans;

(b) Request additional information and support about staff's investment intentions; and

(c) Express its confidence in the Annual Investment Plan.

5.2 The Board meets at least quarterly to assess how assets are being managed relative to the Annual Investment Plan, to monitor and evaluate investment performance relative to objectives and to address other investments as are warranted.

5.3 The Board approves the criteria and standards for monitoring and evaluating the impact different investment decisions have on total fund, asset class and manager-level performance. Performance is monitored and evaluated with respect to risk and return objectives established by the Board.

(a) Investment risks are monitored and evaluated quarterly by comparing total fund and asset class risk characteristics relative to suitable benchmarks.

(b) Investment returns are monitored monthly and evaluated quarterly by comparing total fund and asset class returns relative to suitable benchmarks.

5.4 Before approving or amending the criteria for monitoring and evaluating investment decisions, the Board seeks advice, guidance and recommendations from investment staff, Board-retained investment consultants, and other experts and sources as considered prudent by the Board.

Investment Performance

(total returns, annualized on a fiscal-year basis, July 1–June 30)

1-Year Returns (2005)

Asset Category	STRS Ohio Return	Index Name	Index Return
Domestic Equities	8.01%	Russell 3000*	8.05%
International	22.07%	International Equity**	19.45%
Fixed Income	7.49%	Lehman Universal***	7.42%
Real Estate	21.71%	Real Estate Composite****	19.32%
Total Fund	**12.25%**	**Total Fund Composite Benchmark**	**11.43%**

3-Year Returns (2003–2005)

Asset Category	STRS Ohio Return	Index Name	Index Return
Domestic Equities	9.11%	Russell 3000*	9.22%
International	14.54%	International Equity **	12.63%
Fixed Income	7.23%	Lehman Universal***	6.56%
Real Estate	15.01%	Real Estate Composite ****	12.72%
Total Fund	10.57%	Total Fund Composite Benchmark	9.79%

5-Year Returns (2001–2005)

Asset Category	STRS Ohio Return	Index Name	Index Return
Domestic Equities	(1.31%)	Russell 3000*	(1.04%)
International	2.48%	International Equity **	0.39%
Fixed Income	8.24%	Lehman Universal***	7.63%
Real Estate	12.21%	Real Estate Composite ****	11.04%
Total Fund	**3.07%**	**Total Fund Composite Benchmark**	**2.81%**

STRS Ohio Long-Term Policy Objective (20 Years)

Domestic Equities: 8.65%	Fixed Income: 6.35%	International Equities: 9.40%	Real Estate: 8.55%	Total Fund: 8.30%

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

*The domestic equities benchmark is calculated using the Russell 3000 Index for all periods beginning on or after Aug. 1, 2003; the Domestic Equity Composite for April 1, 2003, through July 31, 2003; and the S&P 1500 Index for all periods before April 1, 2003.

**The international equities benchmark is calculated using 75% of the MSCI World ex USA Index (50% hedged) and 25% of the MSCI EMF Index for all periods beginning on or after July 1, 2003; 75% EAFE (50% hedged) and 25% EMF from Oct. 1, 2000, through June 30, 2003; and 70% EAFE (50% hedged) and 30% EMF for all periods before Oct. 1, 2000.

***The fixed-income benchmark is calculated using the Lehman Universal Index for all periods beginning on or after Oct. 1, 2000, and using the Lehman Aggregate Index for all periods before Oct. 1, 2000.

***The real estate benchmark is calculated using 80% NCREIF Property Index (NPI), 10% NCREIF Timberland Index and 10% Wilshire REIT Index from July 1, 2002, through June 30, 2005; 80% NPI Index, 10% NCREIF Timberland Index and 10% NAREIT Equity Index from Jan. 1, 2001, through June 30, 2002; and 75% NPI Index, 5% NCREIF Farmland Index, 10% NCREIF Timberland Index and 10% NAREIT Equity Index for all periods before Jan. 1, 2001.

State Teachers Retirement System of Ohio is defined and created by the Ohio Revised Code, Chapter 3307.15. The STRS Ohio Total Fund performance results consist of all assets of the fund, including both internally and externally managed accounts. All results are calculated in U.S. dollars and net of brokerage commissions, expenses related to trading, and applicable foreign withholding taxes on dividends, interest and capital gains. Performance results are generally gross of fees. Net of fees results are available upon request. Investment management fees vary among asset class. Dispersion data is not applicable. Investment results are prepared using a time-weighted rate of return methodology based on the Performance Presentation Standards of the CFA Institute, formerly known as the Association for Investment Management and Research (AIMR).

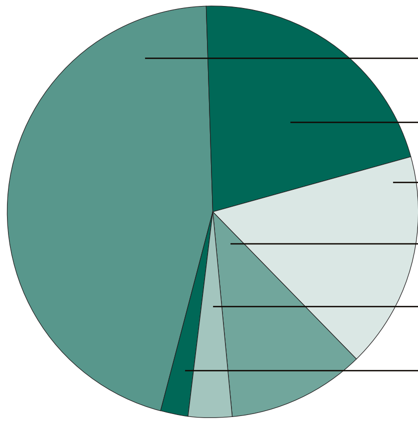
Summary of Investment Assets
As of June 30, 2005 and 2004 (dollar amounts in thousands)

	June 30, 2005 Fair Value	%	June 30, 2004 Fair Value	%
Short term				
Commercial paper	$ 2,467,844	4.1%	$ 1,445,955	2.6%
Short-term investment funds	1,000	0.0%	51,000	0.1%
Total short term	2,468,844	4.1%	1,496,955	2.7%
Fixed income				
Guaranteed mortgages	3,881,699	6.5%	3,238,005	5.9%
U.S. government and governmental agencies	3,417,070	5.8%	2,737,581	5.0%
Corporate bonds	4,970,020	8.3%	4,494,097	8.0%
Canadian bonds	40,445	0.1%	40,769	0.1%
Supernationals		0.0%	61,077	0.1%
High yield and emerging market	487,984	0.8%	979,047	1.8%
Total fixed income	12,797,218	21.5%	11,550,576	21.1%
Domestic common and preferred stock	26,384,658	44.2%	25,657,527	46.9%
Real estate				
East region	854,367	1.4%	824,750	1.5%
Midwest region	471,254	0.8%	481,933	0.9%
South region	762,854	1.3%	848,058	1.6%
West region	1,150,374	1.9%	1,026,384	1.8%
REITs	485,322	0.8%	363,273	0.7%
Other	1,344,836	2.3%	1,452,063	2.7%
Total real estate	5,069,007	8.5%	4,996,461	9.1%
Alternative investments	1,523,751	2.6%	1,222,443	2.2%
International	11,393,316	19.1%	9,735,898	17.8%
Total investments	**$ 59,636,794**	**100.00%**	**$ 54,659,860**	**100.0%**

Investment asset schedule excludes invested securities lending collateral.

Investments

Investment Distribution by Fair Value — as of June 30, 2005



Ohio Investment Profile — as of June 30, 2005 (in thousands)

STRS Ohio continues to engage in quality Ohio investments. As of June 30, 2005, STRS Ohio investments in companies with headquarters in Ohio are valued at more than $1.4 billion.

Liquidity reserves	$ 39,018
Fixed income	152,380
Common stock	834,628
Alternative investments	140,051
Real estate	290,921
Total Ohio-headquartered investments	$ 1,456,998

Schedule of U.S. Stock Brokerage Commissions Paid

(for the year ended June 30, 2005)

Brokerage Firm	Shares Traded	Commissions Paid	Avg. Cents Per Share
Instinet Corporation	338,919,771	$ 4,680,547	1.4
Lehman Brothers	160,163,850	3,577,818	2.2
Prudential Securities	27,016,085	1,281,249	4.7
Cantor Fitzgerald	38,619,821	1,023,801	2.7
Jefferies & Company	33,978,022	996,659	2.9
Morgan Stanley	29,649,622	604,131	2.0
Bloomberg Tradebook	25,578,102	509,852	2.0
Citigroup	10,221,289	462,688	4.5
Merrill Lynch	9,620,865	426,835	4.4
Bear Stearns & Company	8,517,018	415,266	4.9
ITG, Inc.	19,403,077	387,988	2.0
Credit Suisse First Boston	10,271,298	368,910	3.6
SG Cowen Securities	7,067,954	337,133	4.8
Liquidnet Inc.	16,775,900	336,286	2.0
Fidelity Capital Markets	5,828,527	284,700	4.9
Bank of NY Direct Execution	6,857,123	274,044	4.0
Chapdelaine Institutional Equities	5,127,601	248,880	4.9
Banc of America Securities	4,957,757	241,887	4.9
Goldman, Sachs & Company	4,935,499	238,170	4.8
UBS Investment Bank	5,913,098	230,956	3.9
Jones Trading Institutional Services	4,974,293	224,183	4.5
Standard & Poor's Securities	4,355,670	209,505	4.8
JPMorgan Securities	4,698,959	200,526	4.3
CIBC World Markets	4,071,127	177,197	4.4
Sanford Bernstein & Company	3,847,709	164,928	4.3
Others (includes 45 brokerage firms and external managers)	289,081,831	6,371,867	2.2
Total	1,080,451,868	$24,276,006	2.2

Schedule of Largest Investment Holdings*
(as of June 30, 2005)

Domestic Equities — Top 20 Holdings

	Shares	Fair Value
Exxon Mobil Corp.	11,837,983	$680,328,883
General Electric Co.	19,353,674	$670,604,804
Citigroup Inc.	10,699,225	$494,625,172
Microsoft Corp.	19,270,927	$478,689,826
Pfizer Inc.	15,406,716	$424,917,227
Johnson & Johnson	6,206,899	$403,448,435
Bank of America	8,481,022	$386,819,413
Intel Corp.	12,094,948	$315,194,345
Procter & Gamble Co.	5,268,966	$277,937,956
American International Group	4,783,430	$277,917,282
JPMorgan Chase & Co.	7,818,212	$276,139,248
Altria Group Inc.	4,221,245	$272,945,701
Chevrontexaco Corp.	4,557,200	$254,838,624
Cisco Systems	13,296,683	$254,099,612
Wal-Mart Stores Inc.	5,054,090	$243,607,138
International Business Machines Corp.	2,958,139	$219,493,914
Verizon Communications	5,720,475	$197,642,411
Wells Fargo Co.	3,171,512	$195,301,709
ConocoPhillips	3,227,592	$185,554,263
Home Depot Inc.	4,716,247	$183,462,008

International Equities — Top 20 Holdings

	Shares	Fair Value
ING Groep (Netherlands)	3,203,403	$ 90,644,785
GlaxoSmithKline (United Kingdom)	3,629,015	$ 87,892,454
E. on AG NPV (Germany)	937,558	$ 83,641,208
Samsung Electronic (Republic of Korea)	173,250	$ 82,851,404
Total SA (France)	334,823	$ 78,769,959
BP p.l.c. (United Kingdom)	7,314,560	$ 76,185,411
Japan Tobacco Inc. (Japan)	5,691	$ 76,023,829
ORIX Corp. (Japan)	497,200	$ 74,676,487
ENI SPA (Italy)	2,795,150	$ 72,120,894
Royal Dutch Petroleum Co. (Netherlands)	1,081,301	$ 70,698,939
Roche Hldg. (Switzerland)	545,437	$ 69,079,317
Taiwan Semiconductor (Taiwan)	38,579,514	$ 67,336,033
Statoil (Norway)	3,244,700	$ 66,281,188
Vodafone (United Kingdom)	24,408,195	$ 59,508,917
BNP Paribas (France)	830,297	$ 57,001,865
Fortis (Belgium)	2,023,667	$ 56,233,391
Canon Inc. (Japan)	1,002,600	$ 52,849,391
Norsk HYDRO ASA (Norway)	569,279	$ 52,264,992
Kookmin Bank (Republic of Korea)	1,146,065	$ 52,199,766
Societe Generale (France)	481,546	$ 49,064,167

Fixed Income — Top 20 Holdings

	Par Value	Fair Value
TBA 30 Yr FN, 5.50%, due 07/25/2033, AAA	$ 122,999,966	$ 124,731,806
U.S. Treasury N/B, 8.75%, due 08/15/2020, AAA	$ 79,810,000	$ 120,100,482
U.S. Treasury N/B (08 CALL), 12.00%, due 08/15/2013, AAA	$ 70,000,000	$ 87,064,600
U.S. Treasury N/B, 2.38%, due 08/15/2006, AAA	$ 81,000,000	$ 79,949,430
Freddie Mac, 3.63%, due 09/15/2008, AAA	$ 79,000,000	$ 78,376,690
MBNA Credit Card Master Note, 1.11%, due 03/15/2006, AAA	$ 75,000,000	$ 75,027,975
U.S. Treasury N/B, 2.00%, due 05/15/2006, AAA	$ 75,200,000	$ 74,236,688
TBA 20 Yr FN, 5.50%, due 01/01/2025, AAA	$ 71,400,000	$ 72,746,604
U.S. Treasury N/B, 7.25%, due 08/15/2022, AAA	$ 51,860,000	$ 70,586,127
FNMA Dwarf Pool #254510, 5.00%, due 11/01/2017, AAA	$ 69,303,575	$ 70,155,316
Federal Home Loan Bank 3.29%, due 12/15/2006, AAA	$ 70,000,000	$ 69,978,300
U.S. Treasury N/B, 2.00%, due 08/31/2005, AAA	$ 70,000,000	$ 69,863,500
U.S. Treasury N/B, 3.63%, due 07/15/2009, AAA	$ 70,000,000	$ 69,773,900
U.S. Treasury N/B, 2.75%, due 08/15/2007, AAA	$ 70,250,000	$ 68,952,483
FHLMC Gold #A14276, 5.50%, due 10/01/2033, AAA	$ 64,833,083	$ 65,784,832
U.S. Treasury N/B, 8.88%, due 02/15/2019, AAA	$ 44,250,000	$ 65,784,263
Fannie Mae, 6.25%, due 05/15/2029, AAA	$ 53,000,000	$ 65,489,980
U.S. Treasury N/B, 2.63%, due 11/15/2006, AAA	$ 65,000,000	$ 64,142,000
FHR 2521 BN, 5.00%, due 08/15/2016, AAA	$ 62,472,127	$ 63,135,893
FUNBC 2000-C1 A2, 7.84%, due 05/17/2032, AAA	$ 55,000,000	$ 62,753,350

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

Schedule of External Managers
(as of June 30, 2005)

Domestic Equity Managers

Large Cap Enhanced	Barclays Global Investors
	Goldman Sachs Asset Management
	Intech
	Jacobs Levy Equity Management
Small Cap	Chartwell Investment Partners
	Babson Capital Management
	David J. Greene & Company
	Eagle Asset Management
	Fuller & Thaler Asset Management
	Jacobs Levy Equity Management
	Lord, Abbett & Co.
	M.A. Weatherbie & Company
	Next Century Growth Investors
	Transamerica

International Managers

EAFE	Arrowstreet Capital
	Alliance Bernstein
	Marvin & Palmer Associates
Emerging Market	First State Investments
	Genesis Asset Managers
	Marvin & Palmer Associates
	Alliance Bernstein

Fixed Income

High Yield	W.R. Huff Asset Management
	Pacific Investment Co.
	Oaktree Capital Management
Emerging Market	Fidelity Investments
	Salomon Brothers

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an ACS company

November 8, 2005

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, 2005, prepared in accordance with Section 3307.51 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 8% per annum compounded annually. The 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
STRS Ohio reported to the actuary the individual data for members of the System as of the valuation date. 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
The current total contribution rate from employers and members is 24%. The Board allocates the total contribution rate between pension and survivor benefits and health care. For fiscal 2005 and after, the Board has allocated 1% toward health care, leaving 23% for pension and survivor benefits. The valuation indicates that the contribution rates of 23% for fiscal 2005 and after is sufficient to provide for the payment of the promised pension and survivor benefits, with a 55.5-year funding period to amortize the unfunded accrued liability. The funding period has increased 13.3 years from 42.2 years as of July 1, 2004 to 55.5 years as of July 1, 2005, primarily as a result of the actuarial losses incurred during the fiscal year ending June 30, 2005.

The valuation indicates that for the fiscal year ending June 30, 2005, the actuarial experience of STRS Ohio was unfavorable and generated net actuarial losses of $2,313 million.

Financial Results and Membership Data
The valuation report shows detailed summaries of the financial results of the valuation and membership data used in preparing this valuation. The actuary prepared supporting schedules included in the Actuarial and Statistical Sections of the STRS Comprehensive Annual Financial Report. The actuary prepared the trend data schedules included in the Financial Section of the STRS Comprehensive Annual Financial Report.

Qualified actuaries completed the valuations 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.
Principal and Consulting Actuary

KMN:pl

One North Dearborn, Suite 1400 • Chicago, IL 60602
312.846.3000 • 312.846.3999 (fax)

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: 8% per annum, compounded annually. (Adopted 2003)

Death After Retirement: According to the UP 94 Mortality Table (Projection 2002 — Scale AA), with two-year setback in age for males and one-year setback in age for females. Special mortality tables are used for the period after disability retirement. (Adopted 2003)

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 and Salary Increases: 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, 2005, and does not take into account future members. All census and asset data was supplied by the system.

Annual Rates of Separation and Salary Increase

Age	Non-Vested Withdrawal	Vested Withdrawal	Death	Disability	30 Years Service Retirement	25–29 Years Service Retirement	Under 25 Years Service Retirement	Salary Increase*
MEN								
20	.1900	.1500	.0002	—	—	—	—	.1045
30	.1500	.0400	.0006	.0002	—	—	—	.0825
40	.1375	.0240	.0009	.0010	.2500	—	—	.0605
50	.1340	.0150	.0013	.0024	.2500	—	—	.0473
55	.1340	.0150	.0020	.0030	.1500	.2000	—	.0440
60	.1340	.0150	.0033	.0035	.2000	.0900	.1500	.0413
65	.1340	—	.0060	.0040	.4000	.2500	.1800	.0385
70	.1340	—	.0110	.0040	.2500	.1500	.1400	.0385
WOMEN								
20	.1500	.2000	.0002	—	—	—	—	.1045
30	.1175	.0800	.0003	.0002	—	—	—	.0825
40	.0900	.0250	.0005	.0012	.2200	—	—	.0605
50	.0900	.0200	.0009	.0024	.2200	—	—	.0473
55	.0900	.0200	.0012	.0030	.1500	.2000	—	.0440
60	.0725	.0200	.0021	.0035	.3000	.1300	.2500	.0413
65	.0725	—	.0040	.0040	.3500	.3500	.2300	.0385
70	.0725	—	.0079	.0040	.3500	.2000	.1300	.0385

*Includes an inflation adjustment of 3.50%.

Benefit Recipients Added to and Removed From the Rolls, 1999–2005

Fiscal Year Ended	Beginning	Additions	Deletions	Ending
2005	**111,853**	**6,929**	**3,387**	**115,395**
2004	108,294	7,038	3,479	111,853
2003	105,300	6,299	3,305	108,294
2002	102,132	6,500	3,332	105,300
2001	99,011	6,436	3,315	102,132
2000	95,796	6,536	3,321	99,011
1999	91,999	6,922	3,125	95,796

Schedule of Valuation Data — Active Members, 1996–2005

Valuation Date	Number	Annualized Salaries (in thousands)	Annual Average Pay	% Increase in Average Pay
2005	**176,692**	**$8,757,200**	**$49,562**	**3%**
2004	179,063	8,646,404	48,287	3%
2003	179,944	8,425,838	46,825	4%
2002	178,557	8,063,134	45,157	4%
2001	177,013	7,721,258	43,620	3%
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%

Schedule of Valuation Data — Retirees/Beneficiaries, 1996–2005

Valuation Date	Number	Annual Allowances (in thousands)	% Increase in Annual Allowances	Average Annual Allowances
2005	**115,395**	**$3,540,241**	**8%**	**$30,679**
2004	111,853	3,272,078	8%	29,253
2003	108,294	3,021,825	8%	27,904
2002	105,300	2,806,482	8%	26,652
2001	102,132	2,595,549	9%	25,414
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

Solvency Test, 1996–2005 (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)
2005	**$8,940,971**	**$40,937,540**	**$27,221,526**	**$57,048,493**	**100%**	**100%**	**26%**
2004	8,600,068	37,870,700	26,483,574	55,340,715	100%	100%	33%
2003	8,155,685	34,938,341	25,640,035	51,696,919	100%	100%	34%
2002	7,771,703	32,639,291	25,815,171	51,969,345	100%	100%	45%
2001	7,445,894	30,145,012	25,090,334	57,450,612	100%	100%	79%
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%

*The amounts reported include funds set aside to pay post-employment 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 (loss) for year ended June 30: 2005	2004	2003	2002	2001
Investment income. If there is greater investment income than assumed, there is a gain. If less, there is a loss.	$ (1,389,574)	$ 458,527	$(2,976,966)	$(8,336,907)	$ (52,901)
Payroll growth. If more contributions from payroll growth are received than expected, there is a gain. If less, there is a loss.	(469,877)	(173,960)	71,967	80,926	32,051
Salary increases. If there are smaller salary increases than assumed, there is a gain. If greater increases, there is a loss.	60,217	(129,322)	(285,789)	(564,621)	(554,162)
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.	(262,267)	(221,112)	766,258	(378,242)	184,272
Death after retirement. If retirees live shorter than expected, there is a gain. If retirees live longer than assumed, there is a loss.	(246,023)	(105,826)	(117,031)	359,922	(254,890)
Defined Contribution Plan administrative expenses. If there is more expense than participant income, there is a loss.	(5,144)	(6,761)	(6,207)	(5,525)	
Gain (or loss) during year from financial experience	(2,312,668)	(178,454)	(2,547,768)	(8,844,447)	(645,630)
Nonrecurring items adjustment for plan amendments	0	0	0	0	(70,159)
Composite gain (or loss) during the year	$ (2,312,668)	$ (178,454)	$(2,547,768)	$(8,844,447)	$ (715,789)

Summary of Benefit and Contribution Provisions — Defined Benefit Plan

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 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 $205,000 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

A member may qualify if the following criteria are met: membership before July 30,1992, and election of this benefit; completion of five or more years of service; under age 60; and incapacitated for the performance of normal job duties for at least 12 months.

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

A member may qualify if the following criteria are met: membership after July 29,1992, or membership on or before July 29,1992, and election of this benefit; completion of five or more years of service; and incapacitated for the performance of normal job duties for at least 12 months.

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 Benefits

Eligibility

A member may qualify for this benefit 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 a member was eligible for retirement, a spouse or other sole dependent beneficiary may elect to receive Option 1 benefits in lieu of return of contributions. If a member was not eligible for retirement, certain designated beneficiaries may elect to receive dependent-based benefits in lieu of return of contributions (see chart below) or service-based benefits, which provide 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.

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

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.

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.

Partial Lump-Sum Option Plan (PLOP) — A lump-sum payment totaling between six and 36 times the member's monthly retirement benefit value. Lifetime monthly benefit payments then start at a reduced amount to account for the sum taken up front in a single payment.

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, less payments made, are returned to the designated beneficiary.

Cost-of-Living Benefits

The basic benefit is increased each year by 3% of the original base benefit.

Health Care

Retirees, their spouse and dependents have access to a 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: 10% of salary effective July 1, 2003.

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

Summary of Benefit and Contribution Provisions — Combined Plan

Eligibility for Membership

New members hired on or after July 1, 2001, may elect in writing to participate in the Combined Plan.

Service Retirement

Eligibility

Age 60 with five years of service.

Amount

The balance in the member's defined contribution account plus an annual amount equal to 1% of final average salary for the three highest paid years multiplied by years of total Ohio service credit.

Annual salary is subject to a limit of $205,000 as adjusted under Section 401(a)(17).

Vesting

Eligibility

Completion of five years of service for the defined benefit portion. Member contributions and earnings are 100% vested at all times.

Amount

A member who terminates with five or more years of service credit can receive the actuarial equivalent present value of the defined benefit formula. Prior to age 50, a withdrawal must include both the defined benefit and defined contribution portions of the account.

Early Retirement

Eligibility

Before age 60 with five years of service.

Amount

The normal retirement benefit commencing at age 60. At age 50 or after, a member who elects to withdraw the full value of his or her defined contribution account may receive the withdrawal value of the formula benefit in a single sum, or leave the formula benefit on account for a benefit payable at age 60. The member may withdraw the defined benefit portion of the account only if he or she is also withdrawing the defined contribution account.

Late Retirement

Eligibility

After age 60 with five years of service.

Amount

The formula benefit described in the service retirement section based on service credit and final average salary at termination without any actuarial adjustment.

Disability Benefit

Eligibility

Completion of five or more years of service and permanently incapacitated for the performance of duty.

Amount

Members have the option of receiving disability benefits. All contributions and investment gains in the member's defined contribution account are used to fund the benefit. At age 65, the disability benefit converts to a service retirement benefit with a 2.2% formula. Alternatively, the member's defined contribution account is available upon termination of employment.

Survivor Benefits

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

Qualified surviving members have the option of receiving survivor benefits paid as an annuity. All contributions and investment gains in the member's defined contribution account are used to fund the benefit. If a member had 30 years of service, was age 55 with 25 years of service or age 60 with five years of service, the spouse or other sole dependent beneficiary may elect to receive an Option 1 benefit in lieu of return of contributions.

If a member did not meet the eligibility requirements described above, 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

Service-based benefits provide 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.

Alternatively, the member's defined contribution account is available.

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

Optional Forms of Payment of Defined Benefit Portion

A lump sum of the actuarial equivalent of the defined benefit formula benefit. If a member withdraws the defined contribution account prior to age 50, the formula benefit is paid in a lump sum.

Joint and Survivorship Options — Options 1 through 5 described in the Defined Benefit Plan provisions are available, as well as the PLOP. All alternative forms of payment are the actuarial equivalent of the Single Life Annuity benefit payable at age 60.

Optional Forms of Payment of Member's Defined Contribution Account

The actuarial equivalent of the member's defined contribution account can be paid on or after age 50 as a lifetime annuity. Options 1 through 5, described in the Defined Benefit Plan provisions, are also available. The monthly annuity must be $100 or more to receive the member's defined contribution account in the form of an annuity.

The vested amount of the member's defined contribution account upon termination of employment can be paid as a single lump sum. If a member takes a lump sum of the defined benefit formula benefit, the member must simultaneously withdraw the lump-sum value of the member's defined contribution account in a single lump sum.

Cost-of-Living Benefits

Not available on the service retirement benefit. For disability and survivor benefits, the basic benefit is increased by 3% each year.

Health Care

Retirees, their spouse and dependents have access to a 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: 10% of salary is deposited into the member's defined contribution account effective July 1, 2003.

By employers: 13.7% of salaries is used to fund the defined benefit formula and health care; 0.3% of salaries is used to fund administrative expenses for the Defined Contribution Plan.

Summary of Benefit and Contribution Provisions — Defined Contribution Plan

Eligibility for Membership

New members hired on or after July 1, 2001, may elect in writing to participate in the Defined Contribution Plan.

Service Retirement

Eligibility

Termination after age 50.

Amount

The balance in the member's defined contribution account.

Vesting

Eligibility

Employer contributions and earnings on the member's account are vested after the first anniversary of membership. Member contributions and earnings are 100% vested at all times.

Amount

The balance in the member's defined contribution account.

Early Retirement

Eligibility

Termination after age 50.

Amount

The balance in the member's defined contribution account.

Disability Benefit

Not available. However, members who terminate employment may withdraw their account.

Survivor Benefits

Eligibility

Upon death.

Amount

The balance in the member's defined contribution account. A spouse may either continue to manage the member's defined contribution account or withdraw the account.

Optional Forms of Payment

The actuarial equivalent of the member's defined contribution account can be paid on or after age 50 as a lifetime annuity. Options 1 through 5, described in the Defined Benefit Plan provisions, are also available. The monthly annuity must be $100 or more to receive the member's defined contribution account in the form of an annuity.

Cost-of-Living Benefits

Not available.

Health Care

Not available.

Contribution

By members: 10% of salary is deposited into the member's defined contribution account effective July 1, 2003.

By employers: 10.5% of salary is deposited into the member's defined contribution account; 3.5% of salaries is used to amortize the unfunded liability of the Defined Benefit Plan.

Expenses by Type
Years Ending June 30, 1996–2005 (in thousands)

Fiscal Year	Benefits	Refunds	Administration	Total
2005	**$3,827,220**	**$114,551**	**$63,705**	**$4,005,476**
2004	3,534,462	102,194	67,380	3,704,036
2003	3,301,717	77,529	73,919	3,453,165
2002	3,073,240	84,077	77,069	3,234,386
2001	2,855,859	93,868	72,277	3,022,004
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

Revenues by Source
Years Ending June 30, 1996–2005 (in thousands)

Fiscal Year	Member Contributions	Employer Contributions	Net Investment Income	Health Care Premiums	State Appropriations	Other**	Total
2005	**$997,867**	**$1,341,653**	**$6,476,822**	**$188,835**	**$0**	**$20,488**	**$9,025,665**
2004	990,846	1,311,175	8,167,434	156,970	0	20,777	10,647,202
2003	886,931	1,263,457	914,558	103,913	0	21,486	3,190,345
2002	826,910	1,204,715	(4,308,089)	79,590	0	19,985	(2,176,889)
2001	785,009	1,142,440	(3,694,121)	68,582	0	35,000	(1,663,090)
2000	755,146	1,086,125	5,504,137	60,375	1,514	48,676	7,455,973
1999	716,551	1,037,541	6,003,597	47,819	1,780	47,234	7,854,522
1998	697,404	995,925	6,039,679	39,682	2,067	45,292	7,820,049
1997	679,499	953,447	6,143,363*	38,347	2,377	58,188	7,875,221
1996	635,716	918,288	3,664,683	37,224	2,698	90,935	5,349,544

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

**Includes retirement incentive purchases and other Ohio retirement system transfers.

Number of Benefit Recipients by Type, 1996–2005

As of July 1	Service Retirement	Disability Benefits	Beneficiaries Receiving Optional Allowances	Survivor Benefits	Total
2005	**95,843**	**6,514**	**7,314**	**5,724**	**115,395**
2004	92,574	6,531	7,079	5,669	111,853
2003	89,257	6,552	6,885	5,600	108,294
2002	86,666	6,498	6,623	5,513	105,300
2001	83,918	6,449	6,340	5,425	102,132
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

Average Monthly Allowances by Type, 1996–2005

As of July 1	Service Retirement	Disability Benefits	Beneficiaries Receiving Optional Allowances	Survivor Benefits	All Benefit Recipients
2005	**$2,712**	**$2,462**	**$1,633**	**$1,239**	**$2,557**
2004	2,584	2,393	1,574	1,185	2,438
2003	2,462	2,321	1,519	1,141	2,325
2002	2,349	2,241	1,457	1,096	2,221
2001	2,238	2,168	1,396	1,047	2,118
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

Benefit Expenses by Type, 1996–2005 (in thousands)

Fiscal Year Ended	Service Retirement	Disability Benefits	Survivor Benefits	Supplemental Benefit	Health Care	Other	Total
2005	**$3,106,371**	**$187,426**	**$81,589**	**$0**	**$443,615**	**$8,219**	**$3,827,220**
2004	2,840,334	182,889	77,089	0	425,709	8,441	3,534,462
2003	2,588,800	175,620	73,680	0	456,214	7,403	3,301,717
2002	2,395,318	168,704	69,214	0	434,287	5,717	3,073,240
2001	2,203,280	160,775	65,591	50,386	369,354	6,473	2,855,859
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	213,997	6,099	1,718,861

Selected Funding Information, 1996–2005 (dollars in thousands)

As of July 1	Contribution Rate Member	Employer	Interest Assumption	Payroll Growth Assumption	Unfunded Accrued Liability*	Funding Period
2005	**10.00%**	**14.00%**	**8.00%**	**4.50%**	**$20,051,544**	**55.5 Yrs.**
2004	10.00%	14.00%	8.00%	4.50%	17,613,627	42.2 Yrs.
2003	10.00%	14.00%	8.00%	4.50%	17,037,142	42.3 Yrs.
2002	9.30%	14.00%	7.75%	4.50%	14,256,819	39.0 Yrs.
2001	9.30%	14.00%	7.75%	4.50%	5,230,628	27.5 Yrs.
2000	9.30%	14.00%	7.75%	4.50%	4,480,237	23.1 Yrs.
1999	9.30%	14.00%	7.50%	4.50%	5,638,538	16.3 Yrs.
1998	9.30%	14.00%	7.50%	4.50%	7,262,181	24.2 Yrs.
1997	9.30%	14.00%	7.50%	4.50%	7,820,498	26.9 Yrs.
1996	9.30%	14.00%	7.50%	4.50%	8,197,261	28.4 Yrs.

*Excluding health care

Number of Reporting Employers by Type, 1996–2005

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*	Other	Total
2005	**194**	**370**	**60**	**49**	**49**	**37**	**74**	**219**	**9**	**1,061**
2004	194	369	60	49	49	37	76	142	9	985
2003	194	369	60	49	49	37	76	130	8	972
2002	194	369	60	49	49	37	77	101	8	944
2001	194	369	61	49	49	37	80	72	8	919
2000	194	369	61	49	49	37	82	51	8	900
1999	192	371	63	49	49	37	82	16	7	866
1998	192	372	65	49	49	37	82	*	8	854
1997	192	371	73	49	49	37	82	*	8	861
1996	192	371	80	49	49	37	82	*	8	868

*Community schools were added as reporting employers in fiscal 1999.

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State Teachers Retirement System of Ohio
275 E. Broad St., Columbus, OH 43215-3771
614.227.4090 • www.strsoh.org

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