Public Employees Retirement System of Ohio

The Comprehensive Annual Financial Report

To provide retirement, disability, *and* survivor benefit programs *for the* public employees *of* Ohio.

For the Year Ended December 31, 2001

Contents

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT 2001

Introductory SECTION

Certificate *of* Achievement *in* Financial Reporting

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Public Employees Retirement System of Ohio

For its Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2000

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

President

Executive Director

Public Pension Principles Achievement Award

Public Pension Coordinating Council

Public Pension Principles

2000 Achievement Award

Presented to

Public Employees Retirement System of Ohio

In recognition of instituting professional standards for public employee retirement systems as established by the Public Pension Principles.

Presented by the Public Pension Coordinating Council, a confederation of

Government Finance Officers Association (GFOA)

National Association of State Retirement Administrators (NASRA)

National Conference on Public Employee Retirement Systems (NCPERS)

National Council on Teacher Retirement (NCTR)

Michael L. Mory

Michael L. Mory
Chairman

The PERS Board *of* Trustees

(Left to right): Barbara J. Thomas, representing county employees; Charlie Adkins, representing college/university employees; Sharon M. Downs, representing retirees; Ronald C. Alexander, representing state employees; Ken Thomas, representing municipal employees; Gloria L. Gaylord, representing the Auditor of State; C. Scott Johnson, Director of the Ohio Department of Administrative Services; Cinthia Sledz, representing miscellaneous employees; and Richard Moore, representing the Attorney General.

The Board of Trustees is the governing body of PERS, with responsibility for administration and management. Six of the nine members are elected by the groups they represent: retirees; employees of the state; employees of counties; employees of municipalities; non-teaching employees of state colleges and universities; and miscellaneous employees. The Director of Administrative Services, Attorney General, and the Auditor of State are statutory members.

The Retirement Board appoints the Executive Director, an actuary, and other employees necessary for the transaction of business. The Board meets monthly and receives no compensation, but is reimbursed for necessary expenses. By law, the State Treasurer is custodian of the funds of PERS.

Organizational Structure

Advisors

Actuary —
Gabriel, Roeder, Smith & Company
Detroit, Michigan

Investment Policy Advisors To The Retirement Board —
Ennis Knupp & Associates
Chicago, Il

Auditors

Deloitte & Touche LLP
Columbus, Ohio
(Under Contract With The Auditor Of State)

The PERS Executive Staff

(From front, left to right): Laurie Fiori Hacking, Executive Director; Linda L. Lewis, Director-Communications and Planning; Neil V. Toth, Director – Investments; Julie E. Becker, General Counsel; Shelley M. Wilson, Director – Human Resources; Blake W. Sherry, Director – Information Technology; Danny L. Drake, Director – Benefits Administration; and Mark Snodgrass, Director – Finance.

Letter *of* Transmittal

277 East Town Street PERS Columbus, Ohio 43215-4642

Public Employees Retirement System of Ohio
(614) 466-2085 • 1-800-222-PERS (7377)
www.opers.org

April 9, 2002

Dear Chairman and Members of the Board:

It is our privilege to submit to you the Comprehensive Annual Financial Report (CAFR) for the Public Employees Retirement System of Ohio for the year ended December 31, 2001. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of the System. We believe this report reflects a careful stewardship of the System's assets and dedicated service to our members and our retirees.

The State Employees Retirement System was established January 1, 1935 to make available a secure means to provide retirement for employees of the State of Ohio. In 1938 the System expanded to include employees of counties, municipalities, health departments and park and conservancy districts. At that time the name was changed to the Public Employees Retirement System of Ohio (PERS and the System). Membership was made optional for elected officials in 1941. Survivor benefits were made part of the PERS benefit structure in 1951. From 1935 to the present the System has experienced continuous growth and provided benefit enhancements.

Participating employers are divided, for actuarial purposes, into state, local government and law enforcement divisions. A complete description of membership in PERS is contained in the Plan Statement on page 102. PERS provides retirement, disability and survivor benefit protection for thousands of public employees throughout the state. Employees, along with their employers, pay into the system during their working years. PERS, in turn, pays benefits to these members throughout their retirement, and to qualified beneficiaries upon a member or retiree's death. For additional information on benefits available, see the Plan Statement on page 102.

This CAFR is divided into six sections: (1) an Introductory Section, which contains the administrative organization, the Certificate of Achievement for Excellence in Financial Reporting, the Public Pension Coordinating Council Achievement Award and a letter of transmittal; (2) a Financial Section, which contains the report of the Independent Auditors, Management's Discussion and Analysis, the combining financial statements of the System and certain required supplementary information; (3) an Investment Section, which contains a report on investment activity, investment policies, investment results, and various investment schedules; (4) an Actuarial Section, which contains an Actuary's Certification Letter and the results of the annual actuarial valuation; (5) a Statistical Section, which includes significant data pertaining to the System and (6) the System's plan statement.

Major Initiatives and Legislative Changes

PERS exists for the purpose of providing retirement, disability, and survivor benefits to Ohio's public employees. This basic purpose continues to be our central focus.

During 2001, PERS implemented several new initiatives and improvements in it's investment program. These accomplishments are described in detail beginning on page 44 of the Report.

PERS' strategic initiatives continue to focus on improving customer service while maximizing operational efficiencies. In 2001, PERS implemented several service enhancements including the design of a defined contribution plan (DCP). The DCP will provide 401(k) like retirement options to Ohio's governmental employees. There will also be a hybrid option which will combine features of the traditional defined benefit plan with those of the DCP. The defined contribution plan is scheduled to commence on January 1, 2003 and will be made available to new members hired on or after that date as well as members with less than five years of service credit as of year end 2002.

A second customer service initiative was to revamp the 2001 annual statement to provide additional information to members. Some of the additional information includes: detailed service credit by year, benefit estimates using projected service credit and salary and, where the information is available, projected beneficiary benefits.

A third key customer service initiative commenced in 2001 was the implementation of an enhanced call center. We have installed much of the hardware necessary to expand our services and have hired and trained additional staff which are intended to reduce wait times for members and benefit recipients who call into PERS for assistance.

Future services and enhancements expected to be rolled out in 2002 include customer satisfaction surveys, an Interactive Voice Response System (IVR), implementation of process redesign methodologies, full implementation of employer web reporting, and a web based member benefit system. In addition, the Board has given the approval for staff to pursue legislation to implement a Partial Lump Sum Option Plan for benefit payments.

PERS provides health care that is of importance to our benefit recipients, though not a statutorily mandated benefit. PERS is dedicated to providing quality health care to the extent our resources will permit. Managing costs will be a key ingredient for continuing our high standard of health care coverage.

Over the years PERS has implemented a variety of cost containment measures in order to maximize our available health care resources. These measures include: a preferred pharmacy network, two preferred provider networks, individual case management, mail order prescriptions, a patient pre-certification program and the utilization of Medicare Risk health maintenance organizations. We utilize several voluntary health management programs to help our benefit recipients deal with a variety of conditions, including asthma, diabetes, hypertension, high cholesterol, and chronic heart disease.

PERS presently offers three Medicare Plus Choice health maintenance organizations as an alternative to the traditional PERS Health Care Plan. We also offer two commercial HMOs. As of 2002, PERS also began offering AultCare, a preferred provider organization available to members in five counties and six partial counties in Ohio. Nearly 10,000 lives among the persons we insure are covered by these alternative plans, which are fully insured offerings.

In December, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rising cost of health care. The Choices Plan will be the plan offered to all persons newly hired under PERS after December 31, 2002 and with no prior service credit accumulated toward health care coverage. The Choices Plan uses a graded scale to calculate a monthly health care benefit, ranging from ten to thirty years. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. Benefit recipients will be free to select the options that best meet their needs and their monthly benefit. The Plan will also offer a spending account feature, enabling benefit recipients to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

In the coming years PERS will continue to aggressively pursue other innovative ways to control health care costs while attempting to maintain quality health care service.

During the year 2001 PERS was significantly impacted by the enactment of several pieces of important State pension legislation.

House Bill 157 (HB 157) was enacted on November 2, 2001. The law replaces the previous method for calculating cost of living increases (COLAs) using a percentage based on an increase in the Consumer Price Index and replaces it with an annual flat percentage rate of 3 percent. This change becomes effective on February 1, 2002.

House Bill 158 (HB 158) was enacted on November 2, 2001. These changes became effective on February 1, 2002. Under this law:

- A PERS law enforcement officer whose primary duties are to preserve the peace, protect life and property, and enforce the laws within the member's jurisdiction will be eligible to retire with full benefits at age 48 or older and at least 25 years of service as a law enforcement officer.
- The classifications under the law enforcement division were expanded to include all members previously identified under Public Safety except Hamilton county municipal court bailiffs. Hamilton county municipal court bailiffs and law enforcement officers whose primary duties are other than to protect life and property, and enforce the laws within the member's jurisdiction will continue to be eligible for full retirement at age 52 with 25 years of service.
- Regional transit authority police and state highway patrol police officers were added to the law enforcement division.
- The employee contribution rates for law enforcement and public safety are 10.1 percent and 9.0 percent, respectively.
- A qualified survivor of a deceased member who was a law enforcement officer or a Hamilton county municipal court bailiff may be eligible for monthly survivor benefits regardless of the amount of the member's service credit or when it was earned.

Effective April 1, 2001, House Bill 535 (HB 535) authorized PERS and the Cincinnati Retirement System to enter into agreement to transfer service credit between systems. The primary changes in HB 535 authorize the division of PERS benefit payments when marital property is divided due to divorce or dissolution of marriage. The latter change took effect January 1, 2002.

House Bill 84 (HB 84) was enacted as an emergency measure on July 31, 2001. It established re-employment restrictions on elected officials. HB 84 also contains a provision to correct an error made in HB 535 that inadvertently exempted contributions made to alternate retirement plans from municipal income taxes.

House Bill 94 (HB 94) and House Bill 299 (HB 299) eliminated some small General Revenue Fund subsidies for payment of old ad hoc increases enacted by the Legislature and the statutory language that required the PERS Board to certify to the Treasurer of State's Office the amount necessary to pay for the ad hoc increases. HB 94 also modified the amount an institution of higher education must pay to a state retirement system if the institution's employees opt to participate in an alternative retirement system and adds the House sergeant at arms to the PERS law enforcement division. HB 94 was enacted on June 6, 2001 and HB 299 was enacted as an emergency measure on June 29, 2001.

Senate Bill 119 (SB 119) was enacted on November 21, 2001. It established procedures for transferring to a state retirement system a member's current system service credit that was previously transferred between retirement systems (referred to as triple transfers). This change became effective February 20, 2002.

Senate Bill 164 (SB 164) and House Bill 405 (HB 405) provide for the payment of specific compensation to certain public employees called to active duty and modified the PERS definition of earnable salary. SB 164 and HB 405 were enacted as emergency measures on November 20, 2001 and December 13, 2001 respectively.

In June 2001, Congress passed the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) which extends the portability of pension assets. Of interest to PERS are the changes to the law on contribution limits and changes in the rollover provisions. The federal law expands the types of retirement plans from which PERS can accept eligible rollover distributions as well as increasing the types of plans to which PERS can transfer eligible rollover distributions. The rollovers into PERS may be used for the purchase of service credit during employment or at employment termination or may be deposited into the PERS additional annuity program.

In 2001, implementation continued on several measures that were enacted by the State legislature in 2000. These include:

- Senate Bill 190 (SB 190), which was enacted in April 2000, allowed the establishment of a qualified excess benefit arrangement (QEBA) for PERS members whose monthly retirement benefit would be limited by Internal Revenue Code section 415. The Board has authorized a QEBA and PERS awaits a private letter ruling by the IRS.
- House Bill 628 (HB 628) became effective September 2000 and authorized PERS to establish one or more defined contribution plans (DCP) for newly hired employees and those employees with less than five years of service at the time the new plans are established. The PERS Board has approved a plan design that includes a traditional DC plan and a combined (or "hybrid") defined benefit/defined contribution plan. PERS staff are in the process of implementing the new plans, which are scheduled to be in place as of January 1, 2003.

Future Legislative Initiatives

At the federal level, the President's Commission to Strengthen Social Security released its final report in December 2001. The report proposes three reform alternatives for modifying the current social security program. Each of the alternative models developed by the Commission features personal accounts as a central component. The good news for public plans like Ohio PERS is that the report does not include any recommendation for mandatory coverage of newly hired public employees. The Commission's report recommends a period of discussion lasting up to a year before any legislative action is taken. While there will be lots of discussion this year on reforming social security, the likelihood of any real Congressional action on this issue occurring in 2002 is slim.

At the state level, PERS will pursue legislation to offer a partial lump sum option plan for its members. This legislation would allow an age and service retiree to choose to take part of their retirement benefit in a lump sum at the beginning of retirement. If a member chooses to take a lump sum option, the amount of the monthly pension benefit paid to the member would be actuarially reduced so that there are no additional costs to the system. The PERS Board believes that the partial lump sum option plan will provide additional choices to PERS members without adding actuarial costs to the system.

Internal Controls

The management of PERS is responsible for and has implemented systems of internal accounting controls, which are designed to provide responsible assurances for the safeguarding of assets and the reliability of financial records. We believe that the internal accounting controls currently in place are adequate to meet the purpose for which they were intended. We also believe the combining financial statements, supporting schedules and statistical tables to be fairly presented in all material respects.

Accounting System and Reports

The accrual basis of accounting is used in recording financial transactions. Expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Interest earned is accrued on a monthly basis. Accounts receivable at year end, in addition to accrued interest receivable, reflects accrued employer charges and investment proceeds due on sales that have not yet settled. Investments are recorded at fair value. Fixed assets are listed at cost less accumulated depreciation. Under our cash management program, receipts are immediately deposited and are recorded as undistributed deposits until such time as they are allocated to member contributions, employer receivables, employer contributions, and investment income.

Additions to Plan Net Assets

The collection of member and employer contributions, as well as income from investments, provides the reserves needed to finance retirement benefits. Contributions, investment, and other income for fiscal year 2001 totaled $(377,697,548).

	2001	2000	Increase (Decrease) Amount	Increase (Decrease) Percentage
Member Contributions	$ 931,050,640	$ 879,844,987	$ 51,205,653	6%
Employer Contributions	1,408,392,987	1,171,674,955	236,718,032	20%
Net Investment Income	(2,717,806,094)	(443,108,186)	(2,274,697,908)	(513)%
Other	664,919	884,651	(219,732)	(25)%
Total	**$ (377,697,548)**	**$ 1,609,296,407**	**$ (1,986,993,955)**	**(123)%**

Combined member and employer contributions increased by $287,923,685 (14 percent) for the year ended December 31, 2001 and decreased by $115,556,188 (5 percent), for the years ended December 31, 2000. The increase in contributions during 2001 was somewhat misleading do to a one time rollback in employer contributions that took place in 2000. The artificially lowered contributions for the year 2000 created the illusion that 2001 contributions were unusually high (i.e. a 14 percent increase). In fact, the increase, after adjusting for the rollback, reflects only about a 4 percent annual growth rate which is attributable to higher salaries and additional members during the period . The decrease for 2000 was the direct result of a one time rollback in employer contribution rates discussed above. Net investment income decreased in 2001 due to the general downturn in the investment markets.

Deductions to Plan Net Assets

The principal purpose for which the System was created was to provide retirement, disability and survivor benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, refunds of contributions to terminated employees, and the cost of administering the System.

	2001	2000	Increase Amount	Increase Percentage
Benefit Payments	$ 2,574,189,051	$ 2,215,870,453	$ 358,318,598	16%
Refunds	262,681,258	81,830,345	180,850,913	221%
Administrative Expenses	40,081,348	29,642,466	10,438,882	35%
Total	**$2,876,951,657**	**$2,327,343,264**	**$ 549,608,393**	**24%**

Benefit payments for fiscal year 2001 increased 16 percent over fiscal year 2000 expenses due to the growing numbers of benefit recipients and the rate of health care inflation. Health care benefits alone rose by over $133,000,000 from 2000 to 2001. We attribute the increase in refunds to members leaving their funds on deposit until early 2001 to take advantage of the increased payouts provided by SB144 which added interest to refund payments, and in some cases, additional matching funds. The increase in administrative expenses is largely attributable to a variety of strategic customer service initiatives which combined both investments in technology and additional staff. Administrative expenses are detailed in the Financial Section on page 41 of the CAFR.

Funding and Reserves

Funds, derived from the excess of revenues over expenses, are accumulated by the system in order to meet current and future benefit obligations to retirees and beneficiaries. The higher the level of funding, the larger the accumulation of assets, hence, the greater the investment income potential. Continuous improvement in the funding of the system is sought through suitable reserves, higher investment earnings and effective cost containment programs. The latest actuarial valuation, dated December 31, 2000, reflects that the actuarial value of assets slightly exceeds actuarial liabilities. This means that PERS' accumulated assets (and investment earnings thereon) should be sufficient to pay benefits to all current members and retirees based upon service credit established as of year end 2000. The funding value of PERS' assets exceeds actuarial accrued liabilities by $497 million. By pursuing a conscientious management approach, PERS has been able to meet the goals of level funding, thereby holding member and employer contribution rates relatively constant as a percentage of covered payroll.

Investments

The investments of the system are governed by Section 145.11 of the Ohio Revised Code (ORC). This section of the ORC requires a prudent person standard be applied to all investment decisions. The prudent person standard establishes a standard for all fiduciaries, which includes anyone that has authority with respect to the investments of fund. Under the prudent person standard, fiduciaries shall discharge their duties solely in the interest of the fund participants and beneficiaries and with the degree of diligence, care and skill which prudent persons would ordinarily exercise under similar circumstances in a like position. By permitting further diversification of investments within the fund, the prudent person standard may enable PERS to reduce overall risk and increase returns. A summary of the asset allocation can be found on page 45 of this report.

For the year ended December 31, 2001, total loss on investments was 4.60 percent. The annualized rate of return over the past three years was 2.02 percent and 6.62 percent over the past five years. The general downturn in the investment markets over the past two years have significantly reduced PERS' rates of investment return.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Public Employees Retirement System of Ohio for its CAFR for the fiscal year ended December 31, 2000. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents meet or exceed program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for only one year. We believe our current report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA.

Public Pension Principles Achievement Award

The Public Employees Retirement System of Ohio was awarded the Public Pension Coordinating Council's Public Pension Principles 2000 Achievement Award. This award recognizes the achievement of high professional standards in the areas of benefits, actuarial valuations, financial reporting, investments and disclosures to members.

Professional Services

Professional services are provided to the Public Employees Retirement System of Ohio by consultants appointed by the Board to aid in efficient and effective management of the System. Actuarial services are provided by Gabriel, Roeder, Smith & Company, Detroit Michigan. The investment advisor to the Board is Ennis Knupp & Associates, Chicago Illinois. The financial records of the System were audited by Deloitte & Touche LLP, Certified Independent Public Accountants, Columbus, Ohio, under contract with the Auditor of the State of Ohio.

Acknowledgments

The preparation of this report reflects the combined efforts of the System's staff under the direction of the board. Our sincere appreciation is extended to all who assisted in and contributed towards the completion of this document.

The purpose of this report is to provide complete and reliable information as a basis for making management decisions, as a means for determining compliance with the legal provisions, and as a means for determining responsible stewardship over the assets held in trust for the members of this System.

This report is being mailed to all employer units of the System, each state legislator, and other interested parties.

Respectfully submitted,

Laurie Fiori Hacking

LAURIE FIORI HACKING
Executive Director

Mark Snodgrass

MARK SNODGRASS, CPA
Director – Finance

MARK SNODGRASS, CPA
Director – Finance

LAURIE FIORI HACKING
Executive Director

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT 2001

Financial SECTION

Independent Auditor's Report

Deloitte & Touche LLP
155 East Broad Street
Columbus, Ohio 43215-3611

Tel: (614) 221-1000
Fax: (614) 229-4647
www.us.deloitte.com

Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Public Employees Retirement System of Ohio:

We have audited the accompanying combining statements of plan net assets of Public Employees Retirement System of Ohio (the "System") as of December 31, 2001 and 2000, and the related combining statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining; on a test basis, evidence supporting the amounts and disclosures in the combining 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 combining financial statements referred to above present fairly, in all material respects, the financial status of the System as of December 31, 2001 and 2000, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the combining financial statements, in 2001, the System adopted Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* GASB Statement No 37, *Basic Financial Statements and Management's Discussion and Analysis/or State and Local Governments: Omnibus,* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures.*

Management's discussion and analysis is not a required part of the combining financial statements, but is supplementary information required by the GASB. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte
Touche
Tohmatsu

Our audits were performed for the purposes of forming an opinion on the basic combining financial statements of the System taken as a whole. The schedules of administrative expenses and summary of investment expenses for the years ended December 31, 2001 and 2000 are presented for the purposes of additional analysis and are not a required part of the basic financial statements. This additional information is the responsibility of the System's management. Such additional information has been subjected to the auditing procedures applied to our audit of the basic financial statements for the years ended December 31, 2001 and 2000 and, in our opinion, is fairly stated in all material respects when considered in relation to the basic combining financial statements taken as a whole.

The statistical data on pages 93 - 99 is presented for the purpose of additional analysis and is not a required part of the basic combining financial statements of the System. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic combining financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards,* we have also issued our report dated April 5, 2002, on our consideration of the System's internal control structure and on its compliance with laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

April 5, 2002

Management's Discussion *and* Analysis

As MANAGEMENT of the Public Employees Retirement System of Ohio (PERS and the System), we offer readers of the System's financial combining statements this narrative overview of the financial activities of PERS for the year ended December 31, 2001. This narrative is intended to supplement the Retirement System's financial combining statements, and we encourage readers to consider the information presented here in conjunction with these statements, which begin on page 24.

Overview of the Financial Statements

The following discussion and analysis are intended to serve as an introduction to PERS' combining financial statements. The basic financial statements are:

1) Combining Statement of Fiduciary Net Assets
2) Combining Statement of Changes in Fiduciary Net Assets
3) Notes to the Financial Combining Statements

This report also contains the following schedules as "Required Supplementary Information" to the basic financial statements themselves.

1) Schedule of Funding Progress
2) Schedule of Employer Contributions
3) Notes to the Required Supplementary Information

Expenses associated with administering the retirement system are presented immediately following the Notes to the Required Supplementary Information in the following schedules:

1) Administrative Expenses
2) Schedule of Investment Expenses
3) Schedule of Payments to Consultants

The basic financial statements contained in this Comprehensive Annual Financial Report are described below.

- The Combining Statements of Fiduciary Net Assets is a point in time snapshot of account balances at fiscal year-end. It reports the assets available for future payments to retirees, and any current liabilities that are owed as of the statement date. The resulting Net Asset value (Assets – Liabilities = Net Assets) represents the value of assets held in trust for pension and post-employment health care benefits.
- The Combining Statements of Changes in Fiduciary Net Assets, displays the effect of pension fund transactions that occurred during the fiscal year, where Additions – Deductions = Net Increase (or decrease) in Net Assets. This Net Increase (or Decrease) in Net Assets reflects the change in the net asset value of the Statement of Plan Net Assets from the prior year to the current year. Both statements are in compliance with Governmental Accounting Standard Board (GASB) Pronouncements.
- The Notes to the Combining Financial Statements are an integral part of the financial statements and provide additional information that is essential for a comprehensive understanding of the data provided in the financial statements. These notes describe the accounting and administrative policies under which PERS operates, and provide additional levels of detail for selected financial statement items. (See Notes to the Combining Financial Statements on pages 26 of this report.)

Because of the long-term nature of a defined benefit pension plan, financial combining statements alone cannot provide sufficient information to properly reflect the ongoing plan perspective. Therefore, in addition to the combining financial statements explained above, this financial report includes two additional "Required Supplementary Information" schedules with historical trend information.

- The Schedule of Funding Progress (page 38) includes actuarial information about the status of the plan from an ongoing, long-term perspective, and the progress made in accumulating sufficient assets to pay pension benefits when due. Valuation Assets in excess of Actuarial Accrued Liabilities indicate that sufficient assets exist to fund the future pension benefits of the current members and benefit recipients.
- The Schedule of Employer Contributions (page 38) presents historical trend information regarding the value of total annual contributions required to be paid by employers, and the actual performance of employers in meeting this requirement.
- The Notes to Required Supplementary Information provide background information and explanatory detail to aid in understanding the required supplementary schedules.

The administrative expense schedules which follow the Required Supplementary Information display the operating costs of managing the retirement system. These expenses include costs for investment and consultant services, which are detailed in the accompanying schedules.

Financial Highlights

- The fiduciary net assets of PERS exceeded its liabilities at the close of year 2001, with $53,972,730,346 in net assets held in trust for pension and post employment health care benefits.
- Fiduciary net assets decreased by $3,254,649,205 or 5.7 percent during 2001, primarily due to declines in the investment market.
- PERS' funding objective is to meet long-term benefit obligations, and to the extent possible, fund health care benefits. As of December 31, 2000, the date of the latest actuarial valuation, the funded ratio of PERS was 101 percent. In general, this means that for every dollar of pension benefits due, PERS has approximately $1.01 of net assets available for payment.
- Revenues (additions to plan net assets) for the year 2001 were a negative $377,697,548, which includes member and employer contributions of $2,339,443,627, and net losses from investment activities totaling $2,717,806,094.
- Expenses (deductions to plan net assets) increased from $2,327,343,264 during 2000 to $2,876,951,657 in 2001 or about 23.6 percent. Most of the increase relates to increases in pension benefit and healthcare payments. However, refunds of member contributions (including interest and some matching employer funds) also showed significant increases during 2001.

Analysis of Financial Activities

PERS' funding objective is to meet long-term benefit obligations through investment income and contributions. Accordingly, the collection of employer and member contributions, and the income from investments provide the reserves needed to finance future retirement benefits.

Member and employer contributions continue to rise as salaries and the number of members increases. However, declining financial markets produced the second straight year of negative returns on PERS' investments. Net assets held in trust for pension and health care benefits declined by $3,254,649,205 in 2001, in addition to the $718 million decline experienced in 2000. Since these net assets are used to meet ongoing benefit obligations to plan

PERS' Net Assets (Table 1)
As of December 31, 2001 and 2000

	2001	2000	Increase (Decrease) Amount	Increase (Decrease) Percentage
Current and Other Assets	$ 1,347,104,562	$ 2,165,187,305	$ (818,082,743)	(37.8)%
Investments at Fair Value	55,914,172,674	59,246,263,810	(3,332,091,136)	(5.6)%
Fixed Assets (Net of Dep.)	87,472,883	43,952,298	43,520,585	99.0%
Total Assets	57,348,750,119	61,455,403,413	(4,106,653,294)	(6.7)%
Current Liabilities	3,376,019,773	4,228,023,862	(852,004,089)	(20.1)%
Total Liabilities	3,376,019,773	4,228,023,862	(852,004,089)	(20.1)%
Net Assets	**$53,972,730,346**	**$57,227,379,551**	**$(3,254,649,205)**	**(5.7)%**

participants and their beneficiaries, back to back years of negative returns have somewhat deteriorated PERS funding status.

Although member and employer contributions continue to rise due to wage inflation and an expanding workforce, they have remained fairly level over time as a percent of payroll. As the years roll forward, and total assets and liabilities grow, PERS' investment income will play a more significant role in funding future retirement benefits - eventually providing 80 to 90 percent of the necessary funds. Therefore, investment return over the long-term, is critical to the funding status of the retirement system.

In spite of a second straight year of investment losses, PERS continues to be soundly funded. It is important to remember that a retirement system's funding is based on a long time horizon, where temporary ups and downs in the market are expected. The more critical factor is that PERS be able to meet an expected earnings yield of, on average, 8 percent annual return on investments. Even with the last two years losses included, PERS' 10 and 20 year returns have been 7.57 percent and 10.74 percent, respectively.

Based upon our latest actuarial valuation for the year ended December 31, 2000, the System's actuarial value of assets exceeds its actuarial value of liabilities by $497 million. This means that assuming future actuarial financing assumptions are met, PERS had accumulated sufficient assets as of December 31, 2000, to fund the pension liabilities of its current members and benefit recipients.

Rising healthcare costs continue to be a concern. Health care expenses rose from $560 million in 2000 to $693 million in 2001, an increase of over 24 percent. Non-healthcare inflation for the same period rose by only about 3 percent. Continued healthcare inflation in excess of general wage inflation may necessitate fundamental changes in the healthcare benefits PERS provides its benefit recipients.

Financial Analysis - Summary

As previously noted, net assets viewed over time may serve as a useful indication of PERS' financial position (see Table 1 above). At the close of calendar year 2001, the assets of PERS exceeded its liabilities, with $53,972,730,346 in net assets held in trust for pension and post employment healthcare benefits. The net assets are available to meet PERS' ongoing obligation to plan participants and their beneficiaries.

Despite variations in the stock market, management and PERS' actuary concur that PERS remains in a sound financial position to meet its obligations to the plan participants and beneficiaries. The current financial position is the result of a successful investment program and prudent management practices in place for many years.

Capital Assets

As of December 31, 2001, PERS' investment in capital assets totaled $87,472,883 (net of accumulated depreciation and amortization). This investment in capital assets includes equipment, furniture, the home office complex and construction in progress.

PERS invested over $43 million in capital assets during 2001. The major capital investment project during this period was the continued construction of PERS' new office facility. This facility will accommodate the increased staff needed to support the rapidly growing number of benefit recipients, and provide space for the additional service personnel necessary to improve support services to employers, members and retirees alike. The new office facility is targeted for completion around the end of 2003.

Reserves

PERS' reserves are established from employer and member contributions, and the accumulation of investment income, net of investment and administrative expenses and benefit payments.

State statute requires that the "Annuity and Pension Reserve Fund" and the "Survivor's Benefit Fund" be fully funded. These two funds hold reserves set aside to pay benefits to retired members and their survivors. This statute ensures that priority is first given to setting aside funds necessary to pay benefits to those who have already retired and to their beneficiaries. Once these pension obligations have been met, reserves are accumulated to fund the future pension benefits of active members. As of December 31, 2000, the date of our latest actuarial valuation, PERS had not only accumulated sufficient assets to fund retirees and their beneficiaries, but had also provided sufficient reserves to fund pensions for active members, based on service credit earned through year-end 2000. Given that 2001 provided a second straight year of investment losses, it is possible that the actuarial review for the year ended December 31, 2001 may indicate that actuarial liabilities now exceed the actuarial value of assets.

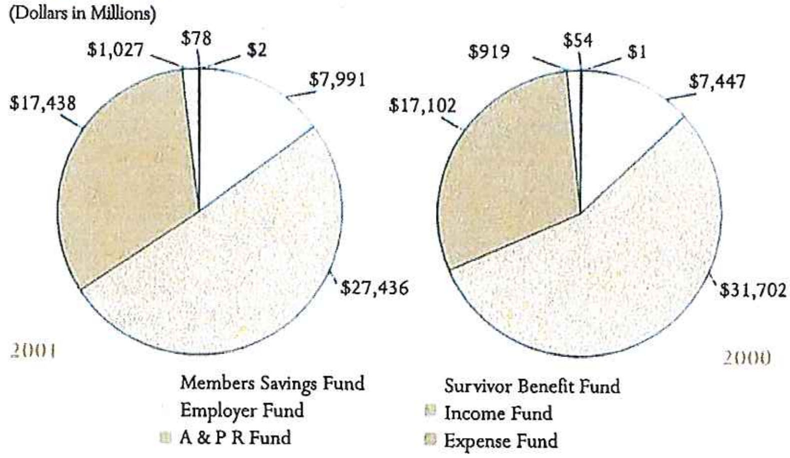
PERS' Reserves (Table 2)

As of December 31, 2001 and 2000

	2001	2000
Members Savings Fund	$ 7,991,271,196	$ 7,447,696,499
Employer Fund	27,435,948,587	31,702,819,858
A & P R Fund	17,438,484,109	17,102,441,704
Survivor Benefit Fund	1,027,255,264	918,982,217
Income Fund	77,946,292	54,086,167
Expense Fund	1,824,898	1,353,106
Total Reserves at Fair Value	**$ 53,972,730,346**	**$ 57,227,379,551**

PERS' Reserves

(Dollars in Millions)



Revenues - Additions to Fiduciary Net Assets

As noted above, the reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments (net of investment expense). Revenues for the year ended December 31, 2001, totaled a negative $377,697,548.

Revenues for 2001 decreased by $1,986,993,955, or 123.5%, from the prior year primarily due to investment losses. The investment section of this report summarizes the results of investment activity for the year ended December 31, 2001.

Revenues - Additions to Fiduciary Net Assets (Table 3)

For the Year Ended December 31, 2001 and 2000

	2001	2000	Increase (Decrease) Amount	Increase (Decrease) Percentage
Employer Contributions	$1,408,392,987	$ 1,171,674,955	$ 236,718,032	20.2%
Members Contributions	931,050,640	879,844,987	51,205,653	5.8%
Net Investment Income	(2,717,806,094)	(443,108,186)	(2,274,697,908)	(513.4)%
Misc. Income	664,919	884,651	(219,732)	(24.8)%
Total	$ (377,697,548)	$1,609,296,407	$(1,986,993,955)	(123.5)%

Expenses - Deductions from Fiduciary Net Assets

PERS was created to provide retirement, survivor and disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments as designated by the plan, (elective) refunds of contributions to employees who terminate employment with a participating employer, and the cost of administering the system.

Expenses for the year ended December 31, 2001 totaled $2,876,951,657, an increase of 23.6 percent over 2000. The increase in benefits paid resulted primarily from an increase in the number of retirees receiving benefits, an increase in retiree healthcare expenses and a significant increase in refunds of contributions. The increase in refunds is a direct result of Senate Bill 144 which added interest and, in instances when members had accumulated five or more years of service credit, additional matching funds. Deductions from plan net assets of $2,876,951,657 exceeded additions to plan net assets of negative $377,697,548 by $3,254,649,205 for the year ended December 31, 2001. PERS has consistently managed within its Administrative Expense Budget, with no material variances between planned and actual expenditures.

Expenses - Deductions in Fiduciary Net Assets (Table 4)

For the Year Ended December 31, 2001 and 2000

	2001	2000	Increase Amount	Increase Percentage
Benefit	$ 2,574,189,051	$ 2,215,870,453	$ 358,318,598	16.2%
Administrative Expenses	40,081,348	29,642,466	10,438,882	35.2%
Refunds of Contributions	262,681,258	81,830,345	180,850,913	221.0%
Total	$2,876,951,657	$2,327,343,264	$549,608,393	23.6%

Fiduciary Responsibilities

The retirement board and senior management is fiduciaries of the pension trust fund. Fiduciaries are charged with the responsibility of assuring that the assets of PERS are used exclusively for the benefit of plan participants and their beneficiaries.

Request for Information

This financial report is designed to provide the Retirement Board, our membership, taxpayers, investment managers, and creditors with an overview of PERS' finances and accountability for the money received. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Public Employees Retirement System of Ohio
Director – Finance
277 East Town Street
Columbus, Ohio 43215-4642

Mark Snodgrass

Mark Snodgrass
Director – Finance

Combining Statements of Fiduciary Net Assets

(As of December 31, 2001 and 2000)

	2001			2000		
	Pensions	Post-employment Healthcare	Total	Pensions	Post-employment Healthcare	Total
Assets:						
Cash and Short-Term Investments (Note 3)	$ 669,981,977	$152,283,582	$822,265,559	$1,258,987,132	$299,551,036	$1,558,538,168
Receivables:						
Employers'	118,681,412	26,975,696	145,657,108	87,904,726	20,915,187	108,819,913
Retirement Incentive Plan	29,808,248	6,775,267	36,583,515	15,641,433	3,721,569	19,363,002
Investment Sales Proceeds	62,677,062	14,246,185	76,923,247	111,242,238	26,467,886	137,710,124
Accrued Interest and Dividends	128,780,682	29,271,211	158,051,893	196,761,976	46,815,613	243,577,589
Total Receivables	339,947,404	77,268,359	417,215,763	411,550,373	97,920,255	509,470,628
Investments, at fair value (Note 3):						
Global Bonds	5,593,427,658	1,271,358,373	6,864,786,031	8,971,083,780	2,134,491,585	11,105,575,365
Mortgage & Mortgage Backed	3,331,836,403	757,309,894	4,089,146,297	6,277,210,902	1,493,537,925	7,770,748,827
Equities	20,901,354,249	4,750,774,185	25,652,128,434	16,184,222,502	3,850,714,985	20,034,937,487
Real Estate	4,254,402,062	967,004,493	5,221,406,555	4,399,152,974	1,046,691,262	5,445,844,236
Private Equity	56,901,324	12,933,389	69,834,713	70,327,521	16,733,040	87,060,561
International Securities	8,810,895,610	2,002,672,885	10,813,568,495	8,598,383,329	2,045,814,900	10,644,198,229
Total Investments	42,948,817,306	9,762,053,219	52,710,870,525	44,500,381,008	10,587,983,697	55,088,364,705
Collateral on Loaned Securities	2,610,050,591	593,251,558	3,203,302,149	3,358,750,897	799,148,208	4,157,899,105
Fixed Assets:						
Land	3,043,126	691,687	3,734,813			
Building and Building Improvements	54,500,234	12,387,633	66,887,867	3,016,982	717,831	3,734,813
Furniture and Equipment	31,093,253	7,067,342	38,160,595	25,287,098	6,016,564	31,303,662
	88,636,613	20,146,662	108,783,275	22,516,302	5,357,308	27,873,610
Accumulated Depreciation	(17,363,708)	(3,946,684)	(21,310,392)	50,820,382	12,091,703	62,912,085
Total Fixed Assets	71,272,905	16,199,978	87,472,883	(15,315,716)	(3,644,071)	(18,959,787)
Prepaid Expenses and Other	87,691,416	19,931,824	107,623,240	35,504,666	8,447,632	43,952,298
TOTAL ASSETS	46,727,761,599	10,620,988,520	57,348,750,119	49,643,674,876	11,811,728,537	61,455,403,413
Liabilities:						
Undistributed Deposits	27,774,945	6,313,108	34,088,053	2,007,549	477,657	2,485,206
Medical Benefits Payable		72,859,185	72,859,185		41,684,800	41,684,800
Investment Commitments Payable	45,560,072	10,355,578	55,915,650	17,903,169	4,259,704	22,162,873
Accrued Administrative Expenses (Notes 5)	8,029,639	1,825,097	9,854,736	3,063,079	728,799	3,791,878
Obligations Under Securities Lending	2,610,050,591	593,251,558	3,203,302,149	3,358,750,897	799,148,208	4,157,899,105
TOTAL LIABILITIES	2,691,415,247	684,604,526	3,376,019,773	3,381,724,694	846,299,168	4,228,023,862
Net assets held in trust for pension and post-employment healthcare benefits	$44,036,346,352	$9,936,383,994	$53,972,730,346	$46,261,950,182	$10,965,429,369	$57,227,379,551

(A schedule of funding progress is presented on page 38.)
See Notes to Financial Combining Statements

Combining Statements of Changes in Fiduciary Net Assets

(As of December 31, 2001 and 2000)

	2001			2000		
	Pensions	Post-employment Healthcare	Total	Pensions	Post-employment Healthcare	Total
Additions:						
Contributions:						
Members'	$ 931,050,640		$ 931,050,640	$ 879,844,987		$ 879,844,987
Employers'	977,289,237	431,103,750	1,408,392,987	718,807,713	452,867,242	1,171,674,955
Total Contributions	1,908,339,877	431,103,750	2,339,443,627	1,598,652,700	452,867,242	2,051,519,942
Investment Income						
From Investing Activities:						
Net Depreciation in Fair Value of Investments	(2,969,058,721)	(1,396,124,511)	(4,365,183,232)	(2,007,657,004)	(546,918,282)	(2,554,575,286)
Bond Interest	584,202,235	361,752,777	945,955,012	1,028,061,381	284,384,050	1,312,445,431
Dividends	211,640,138	130,998,066	342,638,204	327,377,776	90,565,240	417,943,016
Real Estate Operating Income, net	222,643,642	137,855,938	360,499,580	298,749,874	82,658,021	381,407,895
Total Investment Income	(1,950,572,706)	(765,517,730)	(2,716,090,436)	(353,467,973)	(89,310,971)	(442,778,944)
Less: Investment Management Expenses	(10,732,816)	(2,439,516)	(13,172,332)	(8,279,036)	(1,969,832)	(10,248,868)
Net Income from Investing Activities	(1,961,305,522)	(767,957,246)	(2,729,262,768)	(361,747,009)	(91,280,803)	(453,027,812)
From Security Lending Activities:						
Security Lending Gross Income	76,370,260	47,293,017	123,663,277	137,769,705	37,328,394	175,098,099
Less: Security Lending Activity Expenses:						
Security Lending-Agent Fees	(1,483,346)	(918,577)	(2,401,923)	(1,575,998)	(427,013)	(2,003,011)
Security Lending-Broker Rebates	(67,811,659)	(41,993,021)	(109,804,680)	(128,388,802)	(34,786,660)	(163,175,462)
Total Security Lending Expense	(69,295,005)	(42,911,598)	(112,206,603)	(129,964,800)	(35,213,673)	(165,178,473)
Net Income from Security Lending Activity	7,075,255	4,381,419	11,456,674	7,804,905	2,114,721	9,919,626
Total Net Investment Income	(1,954,230,267)	(763,575,827)	(2,717,806,094)	(353,942,104)	(89,166,082)	(443,108,186)
Other Income	664,919		664,919	884,651		884,651
TOTAL ADDITIONS	(45,225,471)	(332,472,077)	(377,697,548)	1,245,595,247	363,701,160	1,609,296,407
Deductions:						
Benefits	1,880,704,941	693,484,110	2,574,189,051	1,656,264,159	559,606,294	2,215,870,453
Refunds of Contributions	262,681,258		262,681,258	81,830,345		81,830,345
Administrative Expenses	36,992,160	3,089,188	40,081,348	27,763,712	1,878,754	29,642,466
TOTAL DEDUCTIONS	2,180,378,359	696,573,298	2,876,951,657	1,765,858,216	561,485,048	2,327,343,264
Net Decrease	(2,225,603,830)	(1,029,045,375)	(3,254,649,205)	(520,262,969)	(197,783,888)	(718,046,857)
Net assets held in trust for pension and post-employment healthcare benefits Balance, Beginning of Year	46,261,950,182	10,965,429,369	57,227,379,551	46,782,213,151	11,163,213,257	57,945,426,408
BALANCE, END OF YEAR	$44,036,346,352	$9,936,383,994	$53,972,730,346	$46,261,950,182	$10,965,429,369	$57,227,379,551

See Notes to Combining Financial Statements

Notes *to* Combining Financial Statements

1. DESCRIPTION OF PERS

a. Organization — The Public Employees Retirement System of Ohio (PERS and the System) System is a cost-sharing multiple-employer public employee retirement system for all public employees in Ohio except those covered by one of the other state or local retirement systems in Ohio. PERS is administered in accordance with Chapter 145 of the Ohio Revised Code (ORC). 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. PERS does not have financial accountability over any entities.

PERS is not part of the state of Ohio financial reporting entity. Responsibility for the organization is vested in the System's Retirement Board, there is no financial interdependency with the state of Ohio, nor does the state of Ohio have financial accountability for the System. The Retirement Board is the governing body of PERS, with responsibility for administration and management. Six of the nine members are elected by the groups they represent: retirees; employees of the state; employees of counties; employees of municipalities; non-teaching employees of state colleges and universities; and miscellaneous employees. The Auditor of State, Attorney General, and the Director of Administrative Services are statutory members.

The Retirement Board appoints the Executive Director, an actuary and other consultants necessary for the transaction of business. The Retirement Board meets monthly and receives no compensation, but is reimbursed for necessary expenses.

Employer, employee and retiree data as of December 31, 2000 and 1999 (our latest available actuarial data) follows:

	2000	1999
Employer Units		
State group	318	332
Local government group	3,233	3,232
Law enforcement group	232	233
Employee Members and Retirees		
Retirees and beneficiaries currently receiving benefits	132,603	129,656
Terminated employees not yet receiving them	62,930	43,869
Active Employees		
State group	113,099	112,761
Local government group	245,831	240,005
Law enforcement group	8,045	7,766

All public employees, except those covered by another state retirement system in Ohio or the Cincinnati Retirement System, are required to become contributing members of PERS when they begin public employment unless they may be exempted or excluded. For actuarial purposes, vested employees represent those employees who have earned sufficient service credit (5 years or 60 contributing months) to be entitled to a future benefit from PERS.

b. Benefits — All benefits of the System and any benefit increases are established by the legislature pursuant to Ohio Revised Code Chapter 145. Chapter 145 provides the Retirement Board with the authority to provide healthcare benefits.

- *Age and Service Benefits* — Benefits are calculated on the basis of age, final average salary, and service credit. Members are eligible for retirement benefits at age 60 with 5 years or 60 contributing months of service credit, at age 55 with 25 or more years of service credit, or at any age with 30 or more years of service credit. The annual benefit is based on 2.2 percent of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5 percent for years of service in excess of 30 years. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts. Upon reaching minimum retirement age, benefits are vested at the time of eligibility for monthly benefits.
- *Law Enforcement Officers' Benefits* — Effective January 1, 2001, HB 416 divided the PERS law enforcement program into two separate divisions - Law Enforcement and Public Safety. Both groups of officers, as defined in ORC Chapter 145, are eligible for special retirement options. Law enforcement officers may file an application for retirement benefits at age 48 or older with 25 or more years of credited service. In 2001, those members classified within the public safety group were eligible for retirement at age 52 with 25 or more years of credited service. As of February 1, 2002, only those with service as a Hamilton County Municipal Court Bailiff remain in the public safety group. Annual benefits under both plans are calculated by multiplying 2.5 percent of final average salary by the actual years of service for the first 25 years of service credit and 2.1 percent of final average salary for each year of service over 25 years. These options also permit early retirement under qualifying circumstances as early as age 48.
- *Early Retirement Incentive Plan* — Employers under PERS may establish an early retirement incentive plan utilizing the purchase of service credit. To be eligible, employees must be able to retire under existing plan provisions after the purchase of the additional credit. Electing employers must contribute all such additional costs as are actuarially determined to fund the benefit. Such a plan, if adopted by an employer, must be offered to a minimum of 5 percent of covered employees and provide for the purchase not to exceed five years credit, limited to a maximum of 20 percent of total service credit.
- *Disability Benefits* — PERS administers two disability plans. Members on the rolls as of July 29, 1992 could elect, by April 7, 1993, coverage under either the original plan or the revised plan. All members who entered the System after July 29, 1992 are automatically covered under the revised plan. A member who becomes disabled before age 60 and has completed 60 contributing months is eligible for a disability benefit under the original plan. The revised plan differs in that a member who becomes disabled at any age with 60 contributing months will be eligible for disability benefits until a

determined age. After the disability benefit ends, the member has an opportunity to apply for a service retirement benefit, or a refund of contributions which are not reduced by the amount of disability benefits received. Law enforcement officers are immediately eligible for disability benefits if disabled by an on-duty illness or injury.

- *Survivor Benefits* — Dependents of deceased members may qualify for survivor benefits if the deceased employee had at least 18 months of service credit with at least three months of credit within the two and one-half years immediately preceding death. ORC Chapter 145 specifies the dependents and the conditions under which they qualify for survivor benefits.

- *Healthcare Benefits* — The ORC permits, but does not require, PERS to offer healthcare benefits. The System currently provides comprehensive healthcare benefits to retirees with 10 or more years of qualifying service credit and offers coverage to their dependents on a premium deduction basis. Coverage includes hospitalization, medical expenses, prescription drugs, and reimbursement of monthly Medicare premiums. The System determines the amount, if any, of the associated healthcare costs that will be absorbed by the System. The System attempts to control costs by utilizing managed care, HMOs, case management, disease management, and other programs.

- *Other Benefits* — Once a benefit recipient has received benefits for 12 months, an annual cost-of-living adjustment is provided to benefit recipients in each year the Consumer Price Index (CPI) shows an increase. The adjustment is the lesser of 3 percent or the actual CPI increase. A death benefit of $500-$2,500, determined by number of years of service credit of the retirant, is paid to the beneficiary of a deceased retirant or disability benefit recipient.

- *Money Purchase Annuity* — PERS age and service retirees who become re-employed in a PERS-covered position must contribute to the System. SB 144, which was effective in December 2000, simplified the rules for re-employed retirees. SB 144 requires all re-employed retirees to contribute toward a money purchase annuity. Prior to SB 144, all re-employed retirees, including elected officials, could elect to either: 1) have their retirement allowance suspended for the re-employment period and contribute toward a formula benefit, or 2) continue to receive their retirement allowance and contribute toward a money purchase annuity. The money purchase annuity is based on the calculation of employee contributions for the period of re-employment plus allowable interest, multiplied by two.

- *Refunds* — New legislation was enacted in December 2000 allowing PERS to pay refunding members interest and an employer match, if qualified, on contributions made to PERS. Upon their termination of employment, a member may withdraw their accumulated contributions, interest earned, and any qualifying employer match. The law requires a three-month waiting period after service termination before the refund may be paid. The acceptance of a refund cancels the individual's rights and benefits in PERS. Employer contributions to PERS are not refundable.

c. Contributions — PERS' funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, which, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial funding method. This formula determines the amount of contributions necessary to fund: (1) the current service cost, which represents the estimated amount necessary to pay for benefits earned by the employees during the current service year; and (2) the prior service cost for service earned prior to plan inception and subsequent benefit increases. These contributions represent the amount necessary to fund accrued liabilities for retirement allowances and survivor benefits over a period of time.

As of December 31, 2000, the date of the last actuarial study, both the state and local government divisions were fully funded. The necessary funding periods for the public safety and law enforcement divisions are 16 years and 19 years, respectively.

As of December 31, 1999, the state government division was fully funded. The funding periods for the local government and law enforcement divisions were 2 years and 21 years, respectively.

	Employee Rate		Employer Rate	
	2001	2000	2001	2000
State group	8.5%	8.5%	13.31%	10.65%
Local government group	8.5%	8.5%	13.55%	10.84%
Law enforcement group	10.1%	9.0%	16.70%	15.70%
Public safety group	9.0%	NA	16.70%	NA

The rates above fall within the ranges set by the Ohio Revised Code.

A portion of each employer's contribution to PERS is set aside for the funding of post-retirement healthcare. For 2001, the total employer contribution rate for state employers was 13.31 percent of covered payroll; local employers, 13.55 percent of covered payroll; and law enforcement and public safety employers, 16.70 percent of covered payroll. The Retirement Board made a one-time employer contribution rate rollback for calendar year 2000. The total contribution rate for state employers was 10.65 percent of covered payroll; local employers 10.84 percent of covered payroll; and law enforcement employers, 15.70 percent of covered payroll. The percentage of the employer contribution rate used to fund healthcare, for all divisions, was 4.3 percent for both calendar years 2001 and 2000.

Health care costs have risen in excess of assumed levels over the past few years. Continued unfavorable experience in the retiree health plan over an extended period of time could produce a need to modify plan design and or increase health care contributions to the fund.

ORC Chapter 145 assigns authority to the Retirement Board to amend the funding policy. As of December 31, 2000 the Retirement Board adopted all contribution rates as recommended by the Actuary.

d. Litigation — PERS is a party in various litigation relating to plan benefits. 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 PERS' financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies followed by PERS:

a. Basis of Accounting — The financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

Pursuant to the GASB Statement No. 20: *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting,* the System follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

The accounting and reporting policies of PERS conform to generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement No. 26, *Financial Reporting for Post-employment Healthcare Plans Administered by Defined Benefit Pension Plans* require that plan assets be split between pension and healthcare. To meet this requirement, plan assets and liabilities not specifically identifiable to a plan were proportionately allocated to the pension and post-employment healthcare plans.

In June 1999 the GASB issued Statement No. 34, *Basic Financial Statements—Management's Discussion and Analysis—for State and Local Governments (GASB 34).* In June 2001 the GASB issued Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus,* which amended certain provisions of GASB 34. Although not required to implement GASB 34 until fiscal year end 2002, PERS elected to adopt the new pronouncement, as amended, for the year ended December 31, 2001. The adoption of GASB 34 required the presentation of PERS Management's Discussion and Analysis (MD&A). The MD&A is considered to be required supplementary information and precedes the financial statements. The adoption of GASB 34 did not have any impact on the net assets of PERS' funds.

b. Investments — PERS is authorized by ORC Section 145.11 to invest under an investment policy established by the Retirement Board under a prudent person standard. The prudent person standard requires the Retirement Board "to discharge their duties with respect to the funds solely in the interest of the participants and beneficiaries and defraying reasonable expenses of administering the System; with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims; and by diversifying the investments of the system so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so."

Plan investments are reported at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. All investments, with the exception of real estate and private equity, are valued based on closing market prices or broker quotes. The fair value of real estate and private equity investments is based on estimated current values and independent appraisals.

Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost plus sales of investments at fair value. Investment expense consists of those administrative expenses directly related to PERS' investment operations and a proportional amount of all other administrative expenses allocated based on a ratio of PERS' investment staff to a total PERS staff.

c. Securities Lending — PERS maintains a securities lending program. The Retirement Board uses its own discretion to determine the type and amount of securities lent under the program. Under this program securities are loaned to brokers. In return, PERS receives cash collateral and agrees to return the collateral for the same securities in the future. Cash collateral from securities loaned is, simultaneous to the loan, reinvested in repurchase agreements (repos) and short-term securities with a final maturity of one year or less. Securities loaned and repos are collateralized at a minimum of 102 percent of the market value of loaned securities. Collateral is marked-to-market daily. PERS does not have the ability to pledge or sell collateral securities absent a broker default. If the market value of the collateral held falls below 102 percent of the market value of securities loaned, additional collateral is provided. The maturity of the repo is always identical to the maturity of the securities loaned. Further, there is always a positive spread between the cost of funds raised from a securities loan and the income earned from the associated repo. At year end PERS had no credit risk exposure to borrowers because the fair value of collateral PERS held exceeded the fair value of securities loaned.

As of December 31, 2001, the fair values of loaned securities and associated collateral (repo agreements and short-term investments) were $3,113,247,914 and $3,203,302,149, respectively.

As of December 31, 2000, the fair value of loaned securities and associated collateral (repo agreements and short-term investments) were $3,999,067,835 and $4,157,899,105, respectively.

Net security lending income is composed of three components: gross income, broker rebates, and agent fees. Gross income is equal to earnings on cash collateral received in a security lending transaction. A broker rebate is the cost of using that cash collateral. Agent fees represent the fees paid to the agent for administering the lending program. Net security lending income is equal to gross income less broker rebates and agent fees.

Net income from securities lending was $11,456,674 and $9,919,626 in 2001 and 2000, respectively.

d. Derivatives — Derivatives are generally defined as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate or index. PERS has classified the following as derivatives:

- *Mortgage and Asset-Backed Securities* — As of December 31, 2001 and 2000, the System held the following mortgage and asset-backed securities which may be categorized as derivative securities:

- GNMA, FNMA, and FHLMC pass-throughs with amortization terms of 15 years, 30 years, and 30-year amortization/7-year balloons.
- Collateralized mortgage obligation securities (CMOs) backed by FNMA and FHLMC 15 and 30-year pass throughs.
- Commercial mortgage backed securities (CMBS) backed by commercial mortgages and leases on a variety of property types such as office, retail, hotel, self-storage, warehouse, and industrial.
- Asset-backed securities (ABS) backed by auto loans, credit card receivables, home equity loans, home improvement loans, and electric-utility receivables.

The overall return or yield on mortgage-backed securities depends on the amount of interest collected over the life of the security and the change in the market value. Although the System will receive the full amount of principal, if prepaid, the interest income that would have been collected during the remaining period to maturity, net of any market adjustments, is lost. Accordingly, the yields and maturities of mortgage-backed securities generally depend on when the underlying mortgage loan principal and interest are repaid. If market rates fall below a mortgage loan's contractual rate, it is generally to the borrower's advantage to repay the existing loan and obtain new lower financing. The fair value of mortgage and asset-backed securities was $4,089,146,297 and $7,770,748,827 as of December 31, 2001 and December 31, 2000, respectively.

- *Forward Currency Contracts* — The System enters into various forward currency contracts to manage exposure to changes in foreign currency exchange rates on its foreign portfolio holdings. The System may also enter into forward currency exchange contracts to provide a quantity of foreign currency needed at a future time at the current exchange rates, if rates are expected to change dramatically. A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risk associated with such contracts includes movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. The contracts are valued at forward exchange rates, and the changes in value of open contracts are recognized as net appreciation/depreciation in the statement of changes in plan net assets. The realized gain or loss on forward currency contracts represents the difference between the value of the original contracts and the closing value of such contracts and is included as net appreciation/depreciation in the combining statement of changes in fiduciary net assets. As of December 31, 2001 and December 31, 2000, the fair values of forward currency contracts held by the System were $13,242,314 and $581,540,268, respectively.
- *Foreign Stock Index Futures Contracts* — The System enters into various foreign stock index futures contracts to manage exposure to changes in foreign equity markets and to take advantage of foreign equity index movements on an opportunistic basis. A foreign stock index future is a futures contract that uses a stock index as its base, and which is settled by cash or delivery of the underlying stocks in the index. Futures contracts differ from forward contracts by their standardization, exchange trading, margin requirements, and daily settlement (marking to market). Risk associated with foreign stock index futures contracts includes adverse movements in the underlying stock index. As of December

31, 2001, there were no foreign stock index futures contracts. At December 31, 2000, the fair value of foreign stock index futures contracts was $3,820.

e. International Investments — The Retirement Board has authorized investment in various instruments including international securities. In November 1994, PERS executed an investment management agreement to take advantage of expected favorable long-term trends in the global forest products industry by making specialized investment in offshore forest products companies. In fiscal 1996, PERS began investing in international equity investments through the use of outside money managers. It is the intent of PERS and the money managers to be fully invested in non-cash equivalent international securities, however, cash and short-term fixed income investments are often held. PERS also invests in forward currency contracts (see Note 2d).

The allocation and fair value of international investments held at December 31, 2001 and 2000 are:

	2001	2000
Cash	$ 53,344,679	$ 76,360,361
ADR	342,215,621	299,396,054
GDR	60,726,448	26,526,985
Cash Equivalents	137,357,294	214,862,968
Netted Receivable/(Payable) Interest	254,272	(607,687,999)
Netted Receivable/(Payable) Currency Contracts	13,242,314	581,540,268
International Stock	4,024,722,201	5,423,048,985
Convertible Bonds	1,879,065	4,109,946
Stock Index Futures Contracts		3,820
Stock Index Funds	6,017,263,184	4,431,007,467
Private Equity	162,563,417	195,029,374
Total International Investments	**$10,813,568,495**	**$10,644,198,229**

f. Fixed Assets — Fixed assets are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. The range of estimated useful lives is as follows:

	Years
Buildings and building improvements	50
Furniture and equipment	3-10

g. Undistributed Deposits — Cash receipts are recorded as undistributed deposits until such time as they are allocated to employers' receivables, members' contributions, or investment income.

h. Federal Income Tax Status — PERS is a qualified plan under Section 401(a) of the Internal Revenue Code and is exempt from federal income taxes under Section 501(a).

i. Funds — In accordance with state statute, various funds have been established to account for the reserves held for future and current benefit payments. Statutory funds are as follows:

- *The Employees' Savings Fund* represents members' contributions held in trust pending their refund or transfer to a benefit disbursement fund. Upon an employee's refund or retirement, such employee's account is credited with an amount of interest (statutory interest) on the employee's contributions based on a rate of 3 to 4 percent. Employees eligible for a refund also receive an employer match, if qualified. The ORC Chapter 145 requires statutory interest to be compounded annually.

- *The Employers' Accumulation Fund* is used to accumulate employers' contributions to be used in providing the reserves required for transfer to the Annuity and Pension Reserve Fund as members retire or become eligible for disability and healthcare benefits and to the Survivors' Benefit Fund for benefits due dependents of deceased members.
- *The Annuity and Pension Reserve Fund* is the fund from which annuity, disability, and healthcare benefits are paid. This reserve was fully funded according to the latest actuarial study dated December 31, 2000, and accordingly, there are sufficient assets available in this fund to pay the vested benefits of all retirees and beneficiaries as of the valuation date.
- *The Survivors' Benefit Fund* is the fund from which benefits due dependents of deceased members of the System are paid. This fund also was fully funded as of December 31, 2000.
- *The Income Fund* is the fund which is credited with all investment earnings and miscellaneous income. The balance in this fund is transferred to other funds to aid in the funding of future benefit payments and administrative expenses.
- *The Expense Fund* provides for the payment of administrative expenses with the necessary monies allocated to it from the Income Fund.

Fund balances at December 31, 2001 and 2000 are as follows:

	2001	2000
Employees' Savings Fund	$ 7,991,271,196	$ 7,447,696,499
Employers' Accumulation Fund	27,435,948,587	31,702,819,858
Annuity & Pension Reserve Fund	17,438,484,109	17,102,441,704
Survivors' Benefit Fund	1,027,255,264	918,982,217
Income Fund	77,946,292	54,086,167
Expense Fund	1,824,898	1,353,106
Total Fund Balance	**$53,972,730,346**	**$ 57,227,379,551**

j. Risk Management — PERS is exposed to various risks of loss related to theft of, damage to, and destruction of assets; injuries to employees; and court challenges to fiduciary decisions. To cover these risks PERS maintains commercial insurance and holds fidelity bonds on employees. There were no reductions in coverage nor were there any settlements exceeding insurance coverage for the past three years. As required by state law, PERS is registered and insured through the state of Ohio Bureau of Workers' Compensation for injuries to employees. PERS is self-insured with relation to employee healthcare coverage. The only outstanding liabilities at the end of 2001 and 2000 were related to the employee healthcare coverage (see Note 8).

3. CASH AND INVESTMENTS

At December 31, 2001 and 2000, the carrying amount of PERS' cash deposits was $(806,972) and $1,331,743, respectively, and the bank balance was $34,226,597 and $31,076,690, respectively. Of the bank balance, $100,000 was insured by the Federal Deposit Insurance Corporation (Category 1 as defined by the Government Accounting Standards Board). The remaining bank balance cash deposits were uninsured and uncollateralized and were held in the name of PERS' pledging financial institution, as required by the ORC (Category 3).

A summary of short-term securities and investments held at December 31, 2001 and 2000 is as follows:

	2001 Fair Value	2000 Fair Value
Short-term Securities:		
Commercial Paper	$ 344,401,541	$ 723,881,905
U.S. Treasury Obligations:	478,670,990	833,324,520
Total Short-term Securities	**$ 823,072,531**	**$ 1,557,206,425**
Other Investments:		
Corporate Bonds:		
Not on securities loan	$4,764,746,998	$6,579,183,346
On securities loan	146,211,502	146,835,601
U.S. Government and Agencies:		
Not on securities loan	639,447,079	1,260,504,101
On securities loan	1,314,380,452	3,119,052,317
Mortgage & Mortgage backed		
Not on securities loan	3,937,066,297	7,770,748,827
On securities loan	152,080,000	
Equities:		
Not on securities loan	24,849,998,673	19,330,073,029
On securities loan	802,129,761	704,864,458
Real Estate:		
Not on securities loan	5,168,706,127	5,417,528,777
On securities loan	52,700,428	28,315,459
Private Equity	69,834,713	87,060,561
International Securities:		
Not on securities loan	10,167,819,725	10,644,198,229
On securities loan	645,748,770	
Collateral on loaned securities	3,203,302,149	4,157,899,105
Total Other Investments	**$55,914,172,674**	**$ 59,246,263,810**

a. Fair Value — If available, quoted market prices have been used to value investments as of December 31, 2001 and 2000. Securities not having a quoted market price have been valued based on yields currently available on comparable securities of issuers with similar credit ratings. The fair values of real estate and private equity are based upon estimated current values and independent appraisals.

GASB Statement No. 3, *Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements,* requires governmental entities to categorize investments to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered for which the securities are held by PERS or by its agent in the name of PERS. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the name of PERS. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in PERS' name.

All investments of PERS meet the criteria of Category 1 except real estate, venture capital and securities on loan, which by their nature are not required to be so categorized. Investments are held in the name of PERS or its nominee by the Treasurer of the state of Ohio as custodian.

4. LEASES

PERS leases equipment with lease terms of one year or less. Total lease expense was $404,348 and $415,104 for the years ended December 31, 2001 and 2000, respectively.

5. VACATION AND SICK LEAVE

As of December 31, 2001 and 2000, $3,419,751 and $2,745,083, respectively, were accrued for unused vacation and sick leave for PERS' employees. Employees who resign or retire are entitled to full compensation for all earned unused vacation. Unused sick leave pay is lost upon termination. However, employees who retire are entitled to receive payment for a percentage of unused sick leave.

6. DEFERRED COMPENSATION PLAN

PERS does not sponsor a deferred compensation program. PERS employees are eligible to participate in the deferred compensation plan sponsored by the state of Ohio. The state sponsored plan was created in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all PERS employees, permits them to defer a portion of their salary until future years. Deferred compensation assets are not available to employees until termination, retirement, death or unforeseeable emergency.

IRC Section 457 requires that the amount of compensation assets deferred under a plan, all property and rights, and all income attributable to those amounts, property, or rights be held in trust for the benefit of the participants. This insulates 457 benefits from the claims of an employer's general creditors. Accordingly, the employer does not include the deferred compensation assets or liabilities in its financial statements.

7. PERS' SCHEDULE OF REQUIRED CONTRIBUTIONS

All employees of the System are eligible for membership in PERS. The System's annual required contributions for the year ended December 31, 2001 and for each of the five preceding years is as follows:

Year Ended December 31	Annual Required Contribution	Percentage Contributed
1996	$1,443,673	100%
1997	1,537,037	100
1998	1,700,572	100
1999	1,783,233	100
2000	1,766,772	100
2001	3,078,282	100

8. SELF-INSURED EMPLOYEE HEALTHCARE

PERS is self-insured under a professionally administered plan for general health and hospitalization employee benefits. PERS maintained specific stop loss coverage per employee for medical benefits in the amount of $250,000 for both 2001 and 2000. PERS also maintained a lifetime maximum stop loss coverage per employee for medical benefits in the amount of $1,000,000 for both 2001 and 2000.

The summary of changes in incurred but unreported claims for the years ended December 31, 2001 and 2000 follows:

	General Health Insurance
Claims Liability as of December 31, 1999	$ 19,668
Claims Incurred	1,960,617
Claims Paid	(1,971,387)
Claims Liability as of December 31, 2000	8,898
Claims Incurred	2,539,415
Claims Paid	(2,519,063)
Claims Liability as of December 31, 2001	**$ 29,250**

Required Supplementary Information

Schedule of Funding Progress**

(Dollar Amounts in Millions)

Valuation Year	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Unfunded Active Member Payroll	UAAL as of % of Active Member Payroll
1991	$22,027	$18,108	$3,919	82%	$ 6,651	59%
1992	23,961	20,364	3,597	85	6,889	52
1993	26,056	23,063	2,993	89	7,236	41
1994	28,260	25,066	3,194	89	7,625	42
1995	30,556	27,651	2,905	90	7,973	36
1996	32,631	30,534	2,097	94	8,340	25
1997	34,971	33,846	1,125	97	8,640	13
1998	37,714	38,360	(646) *	102	9,017	(7) *
1999	43,070	43,060	10	100	9,477	0
2000	46,347	46,844	(497) *	101	10,192	(5) *

** The amounts reported in this schedule do not include assets or liabilities for post-employment healthcare benefits.
* At December 31, 1998 and 2000, valuation assets were in excess of AAL.

Schedule of Employer Contributions*

Year Ended December 31	Annual Required Contributions	Percentage Contributed
1996	$ 777,781,045	100%
1997	811,485,028	100
1998	886,684,170	100
1999	935,429,954	100
2000	718,807,713	100
2001	977,289,237	100

The Board adopts all contribution rates as recommended by the Actuary.
* The amounts reported in this schedule do not include contributions for post-employment healthcare benefits.

See Notes to Supplementary Schedules

Notes to Required Supplementary Information

1. DESCRIPTION OF SCHEDULE OF FUNDING PROGRESS

Each time a new benefit is added which applies to service already rendered, an "unfunded actuarial accrued liability" is created. Laws governing PERS require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to unfunded actuarial accrued liability.

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amounts resulting in unfunded actuarial accrued liabilities increasing in dollar amounts, all at a time when the actual value of these items, in real terms, may be decreasing. Looking at just the dollar amounts of unfunded actuarial accrued liabilities can be misleading. Unfunded actuarial accrued liabilities divided by active employee payroll provides an index which adjusts for the effects of inflation. The smaller, the ratio of unfunded actuarial accrued liabilities to active member payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

2. ACTUARIAL ASSUMPTIONS AND METHODS

Funding Method — An entry age normal actuarial cost method of valuation is used in determining benefit liabilities and normal cost. Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. Unfunded actuarial accrued liabilities for pension benefits are amortized over a period of time to produce payments which are level percents of payroll contributions based on an open amortization period.

As of December 31, 2000, the date of the last actuarial study, both the state and local government divisions were fully funded. The necessary funding periods for the public safety and law enforcement divisions are 16 years and 19 years, respectively.

As of December 31, 1999, the state government division was fully funded. The funding periods for the local government and law enforcement divisions were 2 years and 21 years, respectively.

Asset Valuation Method — For actuarial purposes, assets are valued utilizing a method which recognizes book value plus or minus realized and unrealized investment gains and losses amortized on a straight line basis over a four year period.

Significant actuarial assumptions employed by the actuary for funding purposes as of December 31, 2000, the date of the latest actuarial study, and 1999 include:

Investment Return — 7.75 percent, compounded annually, for all members, retirants, and beneficiaries.

Salary Scale — As of December 31, 2000 and 1999, the active member payroll is assumed to increase 4.75 percent annually, which is the portion of the individual pay increase assumption attributable to inflation and overall productivity. Also assumed are additional projected salary increases ranging from .54 percent to 5.1 percent per year at December 31, 2000 and 1999, depending on age, attributable to seniority and merit.

Benefit Payments — Benefit payments are assumed to increase 3 percent per year after retirement.

Multiple Decrement Tables:

Death — For determination of active and inactive members' mortality, the 1960 Basic Group Mortality Table was used. For retirants' mortality, the 1971 Group Annuity Mortality Male and Female Tables, projected to 1984 were used.

Disability — Based on PERS' experience.

Withdrawal — Based on PERS' experience.

Healthcare Benefits — Healthcare benefits are financed through employer contributions and investment earnings thereon. Employer contributions, equal to a fixed percent of member covered payroll, are used to fund healthcare expenses. The contributions allocated to retirant healthcare, along with investment income on allocated assets and periodic adjustments in healthcare provisions are expected to be sufficient to sustain the program indefinitely.

The portion of employer contributions used to fund healthcare expenses was 4.3 percent of member covered payroll in 2001 and 2000, respectively.

PERS' actuarial valuation is calculated separately for retirants and beneficiaries and for active and inactive members.

The actuarial present value of benefits to be paid retirants and beneficiaries currently receiving benefits and deferred survivor beneficiaries, whose benefits have been determined, is calculated using the assumptions noted above. The reserves in the Annuity and Pension Reserve Fund and the Survivors' Benefit Fund together with interest credited thereon from the Income Fund are compared to the actuarial accrued liability for the remaining lifetimes of the retirees and beneficiaries, and any deficiency is then funded by a transfer from the Employers' Accumulation Fund. Consequently, all such determined benefits are fully funded.

The actuarial accrued liability for active and inactive members is calculated using the entry age normal actuarial cost method. The assets of the Employees' Saving Fund, Employers' Accumulation Fund, and the market value adjustment are subtracted from this present value to arrive at the unfunded actuarial accrued liability.

The unfunded actuarial accrued liability based upon the two most recent annual actuarial valuations is as follows:

Present value of actuarial accrued liability for active and inactive accounts	$11,273,322,938	$15,881,311,678	$ 185,378,211	$990,038,492	$28,330,051,319	$26,020,823,859
Less:						
Employers' Accumulation Fund*	6,829,005,505	9,410,207,681	119,856,683	604,518,937	6,963,588,806	15,794,869,037
Employees' Savings Fund	2,930,913,793	4,259,900,889	43,099,874	213,781,943	7,447,696,499	6,944,789,161
Market Value Adjustment	1,798,226,247	2,461,300,509	16,958,669	139,010,716	4,415,496,141	3,270,547,437
Unfunded/ (Assets in excess of) actuarial accrued liability**	**$ (284,822,607)**	**$ (250,097,401)**	**$ 5,462,985**	**$ 32,726,896**	**$ (496,730,127)**	**$ 10,618,224**

* Amounts shown reflect transfers out of the Employers' Accumulation Fund to fully fund the Annuity and Pension Reserve Fund and Survivors' Benefit Fund.
**At December 31, 2000, valuation assets were in excess of unfunded actuarial accrued liabilities.

Administrative Expenses*

For The Years Ended December 31, 2001 and 2000

	2001	2000
Personal Services:		
Salaries and Wages	$ 24,229,818	$ 16,921,920
Retirement Contributions	3,110,386	1,765,789
Insurance	3,270,230	2,897,124
Bureau of Employment Services	362	1,694
	30,610,796	21,586,527
Supplies:		
Office Supplies & Equipment	652,488	669,478
Printing and Publications	432,598	391,520
Dues and Subscriptions	130,911	93,939
	1,215,997	1,154,937
Other Services and Charges:		
Professional Services:		
Auditing	173,372	53,757
Actuarial and Technical	1,455,624	1,563,399
Investment	3,048,807	2,157,855
Treasurer of State Charges	3,808,000	3,393,629
Medical	1,305,323	1,456,094
Investigation Services(Pension Review)	29,848	22,057
Employee Training	442,892	250,243
Data Processing Contract	65,745	81,288
Retirement Awareness & Employer Outreach	487,240	347,025
Communication:		
Telephone	366,660	308,183
Postage & Contract Mailings & Shipping	1,971,788	1,655,678
Transportation and Travel	638,762	602,826
Utilities	382,835	365,428
Rental and Maintenance:		
Equipment & Facilities	2,956,972	1,647,739
Building	527,772	474,988
Microfilm	9,250	13,375
Retirement Study Council	292,793	314,009
Miscellaneous	284,681	280,779
	18,248,364	14,988,352
Depreciation On:		
Building	435,803	434,810
Equipment and Fixtures	2,742,720	1,726,708
	3,178,523	2,161,518
TOTAL ADMINISTRATIVE EXPENSES	**$53,253,680**	**$39,891,334**

* Includes investment-related administrative expenses

Schedule of Investment Expenses

(For the Years Ended December 31, 2001 and 2000)

	2001	2000
Investment Services	$ 3,048,807	$ 2,268,562
Investment Staff Expense	5,356,144	4,291,539
Investment Legal Services	20,388	17,616
Allocation of Administrative Expenses (See Note 2b)	4,746,993	3,671,151
TOTAL INVESTMENT EXPENSES	**$13,172,332**	**$ 10,248,868**

Schedule of Payments To Consultants

PERS paid the following investment consultants in 2001:

Capital Market Risk Advisors	$ 5,084
Capital Resource Advisors	49,250
Cooper Consultants Corp	73,050
Cost Effective Measures	15,000
Ennis Knupp & Associates	460,278
Global Trend Alert	10,000
Independent Fiduciary Services	208,000
Macroeconomic Advisors LLC	27,875
McLagan Partners	73,547
Mellon Capital Management	40,000
TOTAL	**$ 962,0849**

Schedule of Fees and Commission Payments to Brokers presented on page 81.

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT 2001

Investment SECTION

Investment Report

Dear Members

It is an honor and privilege to present to you the Investment Section of the Comprehensive Annual Financial Report for the year ending December 31, 2001. Last year was one of significant change and development for the Investment Division. We undertook and completed numerous initiatives that establish a foundation upon which we will continue to build a world-class investment management group devoted to meeting the organization's mission – *to fund and provide quality retirement, disability, survivor and health care benefits and services to our members.*

The following are a few of our major achievements last year:

- In a difficult year in the financial markets, we achieved a return that exceeded our composite benchmark. The System's assets returned a –4.60 percent in 2001 as compared to a –4.68 percent for our composite benchmark.
- We ended the year as the 18th largest public pension plan in the world according to the magazine Pensions and Investments annual survey of the top 1,000 pension funds. In the prior year's survey, PERS was ranked 19th in the world.
- As we committed to you in last year's report, we completed a significant restructuring of our asset mix, increasing our target exposure to US equities to 47 percent of the fund and reducing our commitment to Global Bonds to 23 percent. The restructuring raises the expected long-term annual return of our portfolio to 8.44 percent as compared to 8.09 percent for the previous asset mix. The restructuring was executed on favorable terms, taking advantage of the weakness in the stock market and the strength in the bond market last year.
- We broadened our holdings in US stocks and bonds by adopting new benchmark indexes and repositioning our investments. In US stocks, we adopted the Russell 3000 Index as the benchmark measure of performance, and transitioned our domestic stock holdings to reflect the composition of the index. In the Global Bond area, we adopted the Lehman Universal Index as the benchmark measure of performance, and transitioned our global bond holdings to reflect the composition of that index.
- We hired and funded a total of thirteen external investment managers in 2001. These managers will help us achieve performance in excess of benchmark returns in the years ahead and will serve as a resource to our internal investment staff.
- As we committed to you last year, we facilitated the board's hiring of a full retainer investment consultant to advise the board on investment matters and to help guide the strategies and actions of the Investment Division in the years ahead. We are pleased to announce our partnership with the consulting firm of Ennis Knupp + Associates of Chicago, Illinois. They have provided a separate letter to you in this report.
- We formed a Private Equity unit within the Investment Division, hired a seasoned manager for this unit, and selected the consulting firm of Pacific Corporate Group of La Jolla, California to assist us in developing and executing our private markets strategies and investments.

I wish to use the remainder of my letter to expand upon the bullet point discussion of the restructuring of the asset mix. The move to increase the portfolio's exposure to stocks represents a significant shift in our investment profile, and it comes at a time of concern over the outlook for financial markets here and abroad.

As discussed in last year's report, the Investment Division initiated in mid-2000 a comprehensive review of our investment performance and strategies. The review began with an examination and subsequent redrafting of our investment objective statement. In late 2000, the PERS' Board of Trustees adopted the statement of Investment Objectives.

Importantly, the statement acknowledges a goal to earn an investment return that will allow for periodic improvement in retiree benefits over time, and that will maintain reasonable rates for those contributing to the retirement system – employers and employees.

The trustees, working in conjunction with our investment advisor, Ennis Knupp + Associates, proceeded to conduct a formal asset-liability study. Such a study facilitates a probabilistic look into the future funded status of the retirement system under various assumptions involving the growth rate of liabilities and the return on various asset mixes. From that study, it was determined that the optimal long-term mix of assets to achieve the investment objective was one with a higher allocation to equities, yet still possessing suitable diversification among asset types. The previous and revised asset mixes are displayed in the following table:

PERS' Policy Allocation Targets

Previous and Revised

Asset Class	Benchmark	Previous Target Allocation	Revised Target Allocation	Allowable Range
Domestic Equity	Russel 3000	35%	44%	+/-3%
Global Bonds	Lehman Universal	35%	23%	+/-3%
International Equity	MSCI ACWIFxUS	18%	20%	+/-3%
Real Estate	Custom Composite	11%	9%	+/-4%
Private Equity	S&P 500	0%	4%	+/-4%
Cash	90-Day U.S. T-bill	1%	0%	NA
Total		100%	100%	

Over the long-term, stocks have achieved rates of return substantially in excess of the return on more conservative investments such as bonds, and are expected to continue to do so. This is so because stocks represent equity ownership, and as such, benefit from the growth in corporate profits and the overall economy.

The increase in long-term expected return, however, is not without consequence. As the allocation to equities increases, the variability of return (risk) also increases. In plain terms, this means that the range of expected returns for the investment portfolio in any given year is now wider. When markets are falling, we can expect to show lower returns, and when markets are favorable, we can expect to show stronger results.

As mentioned in the bullet point discussion, the expected long-term annual return on our revised asset mix is 8.44 percent as compared to 8.09 percent for the previous mix. This increase in expected annual return of about 35/100ths of one percent equates to annual incremental investment gain of almost $200 million on an investment portfolio of our size. Over a long-term interval of time such as ten years, the compound effect of such an increase in expected return, if it is realized, is dramatic, amounting to an increase in wealth to the portfolio of over three billion dollars. The expected increase in portfolio wealth is necessary for us to meet the statement of Investment Objectives.

Some may be concerned that the shift to a higher equity component in the investment portfolio comes at a time when the outlook for financial markets is uncertain. It is a fact that the equity markets have enjoyed strong gains over the past decade. In turn, some argue that the markets are entering a period of more modest returns. Others argue, however, that the strong gains witnessed in the past will resume.

Where do we stand? We stand on what we know. What many investors have learned, often the hard way, is that predicting the near-term future of the financial markets is virtually impossible. As a public pension plan, we are a perpetual investor. We have the longest investment horizon of any institutional investor class in the financial markets, and have an almost unique ability to withstand the ups and downs of the marketplace. As a perpetual investor, we can best influence our long-term returns by aligning our investment actions and structures to play to our strengths and characteristics. That means maintaining a higher allocation to equities over the long term while employing suitable diversification, holding a broad representation of the various markets, and periodically re-balancing our asset mix when market fluctuations cause it to deviate materially from prescribed targets.

Investing is a long-term endeavor for individuals and institutions alike. A short-term focus can sometimes lead to swift gains, but more often results in losses. Last year was a year of negative returns for our portfolio, the second in a row. We took advantage of the declining markets to better position the portfolio for the long term. From my perspective, we have never had a more appropriate Statement of Investment Objectives for the Investment Division, nor been better positioned to achieve strong performance over the long term. I am proud of the investment foundation that the Board and staff have built in the past year and look forward to reporting to you next year.

This Investment Report, along with all information contained within the Investment Section of the CAFR, with the exception of the Letter from Investment Consultant located on page 47, were prepared by the management of PERS of Ohio.

Sincerely yours,

Neil V. Toth

Director of Investments

April 15, 2002

Letter *from* Investment Consultant

ENNISKNUPP

4.15.02

Board of Trustees
Public Employees Retirement System of Ohio
277 East Town Street
Columbus, OH 43215-4642

As independent investment advisor to the Board of Trustees of Public Employees Retirement System of Ohio ("PERS"), we comment on the reporting of PERS investment results, PERS investment policy and the Board's oversight of System investments.

PERS investment results, as presented in this report, fairly represent, in our opinion, the investment performance of PERS assets. All measurements and comparisons have been made using standard performance evaluation methods, and results are presented in a manner consistent with the Performance Presentation Standards of the Association for Investment Management and Research.

PERS assets are managed under well-articulated policies, which, in our opinion, are appropriate to the circumstances of PERS. Investment policy is progressive, yet prudent. The policies ensure diversification and exhibit attention to risk control generally. Throughout the year the Board, Executive Director and Investment Officer have taken appropriate measures to ensure that investments have conformed with the Board's policies.

While delegating day-to-day investment management responsibility to its staff, the Board retains the responsibility to monitor all aspects of investment. In our opinion, the Board has established and executed an appropriately comprehensive process for overseeing the management of assets. Through regular reviews by the Board, quarterly performance appraisals by an independent firm, and the day-to-day oversight activities of the staff, the Board has achieved a high degree of awareness and critical oversight of PERS investments.

Very truly yours,

Richard Ennis

Richard M. Ennis, CFA
Principal

G:\OPERS\Wp\Letters\Board of Trustees.doc

Ennis Knupp + Associates
10 South Riverside Plaza, Suite 700
Chicago, Illinois 60606-3709

vox 312 715 1700
fax 312 715 1952
www.ennisknupp.com

2001 Economic Review

This report was prepared by Macroeconomic Advisors, L.L.C., for the Public Employees Retirement System of Ohio

The Recession-ette of 2001

One of the two main events that defined the US economy in 2001 actually occurred early in 2000 when investors reached a fundamental re-assessment of the potential profitability of owning and producing hi-tech capital equipment and software. There were two immediate and important consequences. First, in early 2001, business demand for equipment and software, already softening after a Y2K-related surge, suffered its sharpest slump on record. Second, an asset-price bubble that had expanded in the technology sectors of the stock market exploded, destroying more than $5 trillion of equity wealth. With a predictable lag, adverse "wealth effects" slowed consumer spending. The global economy, also buffeted by the "technology shock", slowed in lockstep with the US even as a persistently strong dollar undermined our competitive position in global markets. Consequently, the nation's current account deficit deteriorated to a record share of GDP.

By the second quarter of 2001, growth of final sales, which only a year earlier was nearly 4 percent, had stalled. Because the deceleration of demand was unexpected, businesses began accumulating unwanted inventories. In this era of "just in-time" inventory management, the developing excess was quickly recognized, and by the fall of 2000, the US manufacturers began slashing production. The contraction of industrial output continued unabated throughout all of 2001: from December of 2000 through December of 2001, industrial production declined 5.9 percent. Employment also began contracting, and by August of 2001, the unemployment rate had risen to 5 percent, up a full percentage point from just a year earlier.

Economists referred to this episode as "manufacturing recession" because it was not broad enough to qualify as a bona fide recession. And, by late summer, there were early indications that a turnaround was brewing. The inventory correction seemed well along. Energy prices, which, on the backside of the "Asian Crisis" had risen sharply in 2001, were easing. The stock market had rebounded from the lows reached in March. Early in the year, the Federal Reserve embarked on a series of cuts in interest rates that with a lag could be expected to boost activity in the interest-sensitive sectors of the economy. And the newly elected Bush Administration steered through Congress a substantial tax cut that included "advance refund," most of which were mailed out during the summer,

Then, of course, came the other defining moment for the economy in 2001: September 11, when terrorists used our own commercial airliners to destroy the World Trade Center in New York City and inflict substantial damage on the Pentagon in Washington. In the immediate aftermath of the attacks, consumer confidence faltered, the stock market sank, retail sales and business orders slumped, and the unemployment rate quickly surged to 5.8 percent. The hit was particularly brutal in the travel and related industries, where a full recovery ultimately will require the restoration of public confidence in airport security. It seemed that the consequence of the attacks would be to extend the slide already underway in the manufacturing sector. Furthermore, the shock waves emanating from September 11 moved out into the service sector. Accordingly, the Dating Committee of the National Bureau of Economic Research declared that the episode was both long and now broad enough to qualify as an official recession that began in April of 2001. And GDP did contract during the third quarter at a 1.3 percent rate.

Immediately after the terrorist attacks, the economic outlook was clouded with uncertainty, and it was easy to imagine the worst: failure of our political and military leaders to prevent additional attacks on Americans or American economic interests by terrorists that might be hidden in "sleeper cells" around the world. Many forecasters expected these uncertainties to keep consumers and businesses off balance for months, so that the economy would contract during the fourth quarter even faster than it did during the third quarter.

Uncertainties remain, but so far the worst fears have proved ungrounded. The Bush Administration proved adept at handling the crisis, forging new security alliances around the world, while prosecuting an effective military campaign in Afghanistan. The response of economic policymakers was reassuring as well. The Fed quickly cut short-term interest rates further to the lowest levels in 40 years, while Congress and the Administration worked together to push through emergency spending for disaster aid and relief as well as for extra security. Domestic auto producers, partly in response to the monetary easing, offered generous financial incentives that dramatically boosted auto sales during the fourth quarter, when initially it seemed sales might fall. The aggressive response of consumers to these incentives suggested households weren't as shell-shocked as initially feared. In fact, consumer confidence has recovered steadily since late September, as has the stock market. Air travel began recovering, and faster than many expected. Orders for capital goods have turned up, too. Indeed, in the high-tech sector, which seemed so beleaguered in the fall, inflation-adjusted orders have regained the previous peak. Boosted by the substantial gains in real wages that come with a strong underlying rate of productivity, the tax cuts, and declining energy prices, consumer income, and hence consumer spending, have held up remarkably well. Housing starts, which usually decline sharply heading into a recession, remained near recent highs thanks to falling mortgage and rising prices that make real estate appear like a good investment again. Initial unemployment claims, which skyrocketed after the attack, peaked in early October, and since then, have retreated. The latest data from the Department of Labor indicates that the unemployment rate, which fell from 5.8 percent in November to 5.6 percent in December, may already have peaked.

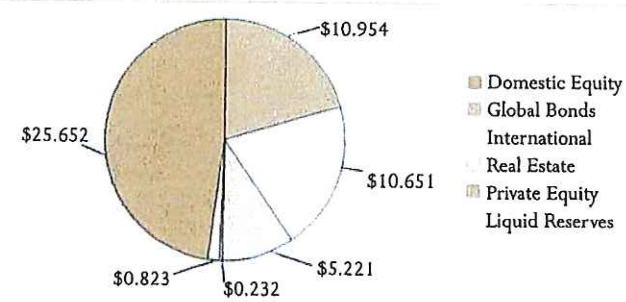
Immediately after the terrorist attacks, a typical forecast called for GDP to contract by a rate of 2 percent to 3 percent during the fourth quarter. As data accumulated to contradict that view, forecasts were revised up — but not enough. When the Bureau of Economic Analysis reported its "advance" estimate of the National Income and Product Accounts, it showed the economy actually grew modestly during the last three months. If the estimate sticks, this episode would not meet the lay definition of a recession, i.e., two consecutive quarterly declines in GDP. Perhaps "recessionette" would be a better description. Furthermore, the composition of GDP during the fourth quarter — strong final sales coupled with a record decline in inventories, clearly points towards stronger growth in the new year, 2002.

By early in 2001, the Federal Open Market Committee of the Federal Reserve Board had recognized the gathering signs of the slowdown, and on January 3, implemented the first of the year's 11 monetary easing that by December pushed the target federal funds rate down to 1.75 percent. In addition, immediately after the terrorist attacks, the Fed pumped huge amounts of liquidity into the domestic financial system, and quickly established reciprocal dollar-denominated accounts with foreign central banks in order to assure adequate global liquidity as well. Over the year, yields on long-term instrument barely moved. For example, the yield on 10-year Treasury notes now is around 5 percent, not much different than a year ago. This has led some to argue that monetary policy has been ineffective during this cycle of easing. This is a mistaken judgment. Businesses borrowing at the prime rate saw their interest obligations fall, and low short-term interest rates certainly made it easier for domestic automakers to offer "0 percent financing" and other incentives schemes that proved so successful in bolstering vehicle sales in the fall. More important, financial markets came to anticipate the easing, so long-term yields and mortgage rates fell in 2000, not 2001. The anticipatory decline in yields cushioned the economy in 2001 by, for example, preventing the usual sharp cyclical drop in interest-sensitive housing sales and starts.

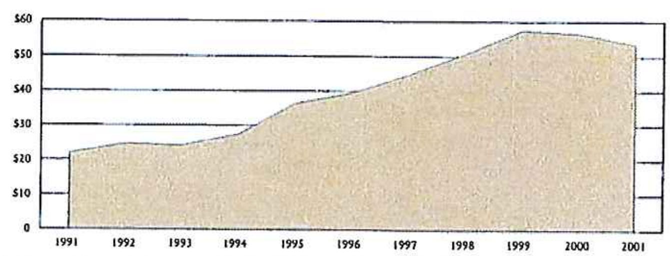
Overseas, Argentina defaulted on its sovereign debt as that nation's economy and its political institutions fell into chaos. Fortunately, the global fallout has been limited. The Eurozone prepared for the final full conversion to the euro in January of 2002 — it went well — and Japan's economy, the world's second largest, remained mired in recession. More generally, with hindsight, it has become clearer now that the "technology shock" buffeting the US economy was really a global event that helped produce an almost perfectly synchronized deceleration of economic growth in all parts of the world. Composite real GDP across 36 countries outside the United States, which over 2000 was almost 4 percent, showed no growth in the second half of 2001. The weakening global economy, coupled with the persistently strong exchange value of the dollar, prevented the usual counter-cyclical improvement in our nation's trade balance. Consequently, the current account deficit remained at near-record levels, a potentially threatening imbalance that might portend a currency devaluation, higher interest rates, or both.

Facts At A Glance[1]

2001 Actual Asset Allocation
(Dollars in Billions)



Year-End Fair Values
(Dollars in Billions)



	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Ending Fair Values	21.956	24.651	24.135	27.370	36.241	39.347	44.621	50.688	57.487	56.646	53.533

[1] Returns presented in the Investment Section of the 2001 CAFR are calculated based on total portfolio value in compliance with AIMR standards. Fair/Market dollar values are reported without accruals.

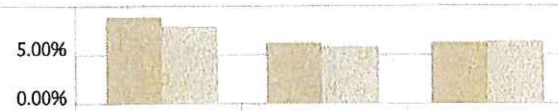
PERS' Investment Return
Annual Rates of Return

	1-year	3-year	5-year
PERS	-4.60%	2.02%	6.62%
Policy Benchmark Return	-4.68%	2.21%	8.10%

Domestic Equity Returns
Annual Rates of Return

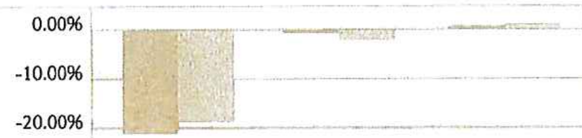
	1-year	3-year	5-year
PERS	-10.14%	-1.26%	8.80%
Custom Benchmark Return	-10.64%	-0.01%	11.38%

Global Bond Returns
Annual Rates of Return



	1-year	3-year	5-year
PERS	9.11%	6.40%	7.35%
Lehman Agg/Comp Benchmark Return	8.71%	6.36%	7.47%

International Equity Returns
Annual Rates of Return

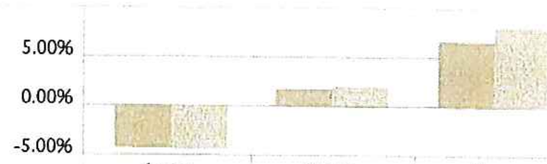


	1-year	3-year	5-year
PERS	-20.41%	-1.39%	0.87%
MS ACWIxUS Benchmark Return	-19.74%	-3.73%	1.65%

Real Estate Returns
Annual Rates of Return

	1-year	3-year	5-year
PERS	6.47%	9.99%	9.92%
Custom Benchmark Return	8.57%	9.62%	9.43%

PERS' Investment Returns
Annual Rates of Return



	1-year	3-year	5-year
PERS	-4.60%	2.02%	6.62%
Policy Benchmark Return	-4.68%	2.21%	8.10%

Total Fund

Investment Returns

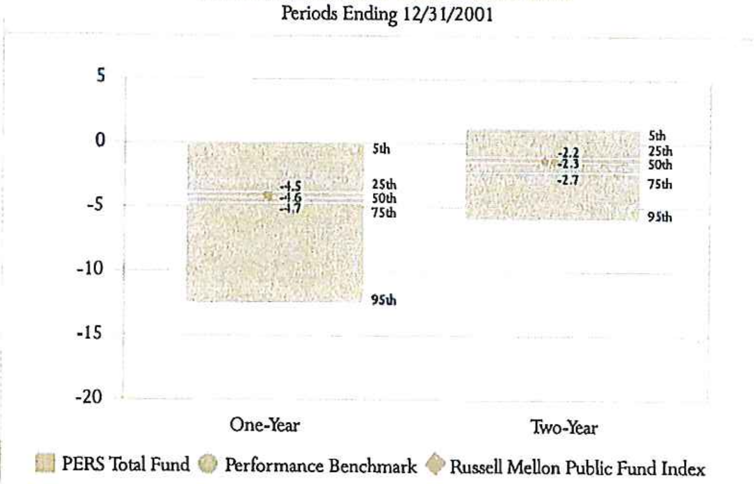
The PERS' investment portfolio returned -4.60 percent in 2001. We compare our overall portfolio return to a composite benchmark return that could be achieved by a portfolio that is passively invested in the broad market, with percentage weights allocated to each asset class as specified in PERS' Statement of Investment Objectives and Polices. The return of the composite benchmark for 2001 was -4.68 percent. The historical returns for the investment portfolio and composite benchmark are displayed in the accompanying chart.

Comparative Performance

In addition to measuring the portfolio's performance relative to the composite benchmark, the Board compares the performance of the portfolio over time to the returns achieved by a universe of comparable public pension plan portfolios. The analysis facilitates a percentile ranking of our performance relative to the universe. In this type of analysis, a lower score is more favorable than a higher score. For example, a rank of 25 would indicate that our portfolio outperformed 75 percent of all the funds contributing to the survey.

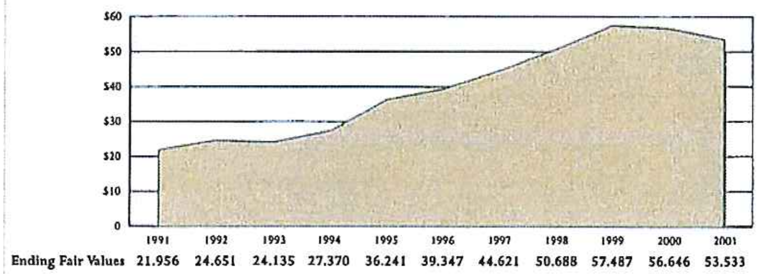
In 2001, PERS' investment performance ranked 38 in a universe of public plans, indicating that our results were better than 62 percent of the plans contributing to the survey. Our cumulative two-year results have achieved a ranking of 44, indicating that we performed better than 56 percent of the plans contributing to the survey over this period.

Russell/Mellon Public Fund Universe Rank
Periods Ending 12/31/2001

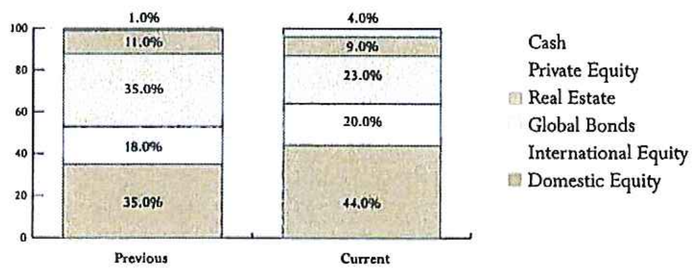


The accompanying chart displays our one-year and cumulative two-year ranking (an analysis of longer time intervals is inappropriate due to the conservative orientation of the PERS' portfolio prior to 2000). The bars in the chart represent the performance distribution of funds contributing to the survey, and are divided

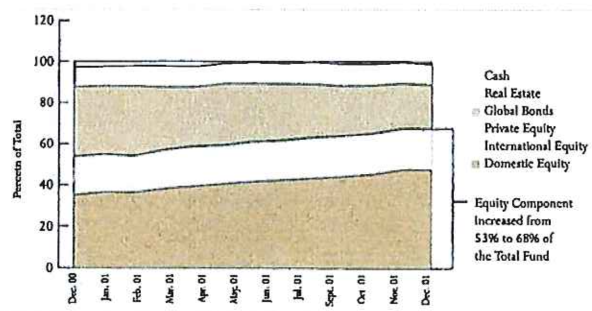
Year-End Fair Values
(Dollars in Billions)



Policy Targets
Previous & Current



Changing Asset Mix by Month
2001



Long Term Assumptions

Capital Market Assumptions	Long Term Return Expectations	Risk[1]
Domestic Equity	9.0%	16.3%
Global Bonds	6.8%	8.1%
International Equity	8.9%	19.7%
Real Estate	8.1%	14.7%
Private Equity	10.5%	31.2%
Expected Return on Portfolio	8.4%	12.5%
Price Inflation	3.0%	-

[1]Risk is defined as the standard deviation of expected return. For example, we expect that 2/3rds of the time, the range of outcomes for Domestic equity will be between -7.3% (9% - 16.3) and 25.3% (9%+16.3%).

into quartiles. In the one and cumulative two-year bars, it is evident that PERS' investment performance has scored in the top half of the distribution.

Growth of Portfolio

The accompanying chart displays the growth of the portfolio since 1991. We ended the year with assets of $53.533 billion, down from a level of $56.646 billion at the end of 2000.

Policy Asset Allocation

In December of 2000, the Board of Trustees adopted a revised policy asset allocation. The revised policy asset allocation was phased-in over the course of 2001. The accompanying chart displays the previous policy allocation that was in effect for 2000, and the revised policy allocation reached in December of 2001, which will be in effect for 2002 and beyond.

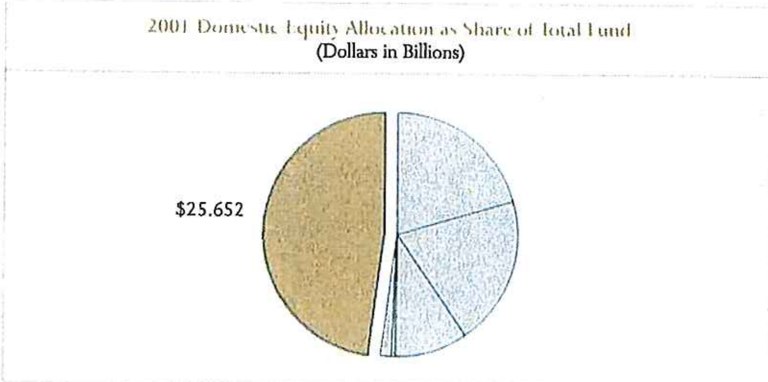
Actual Asset Allocation

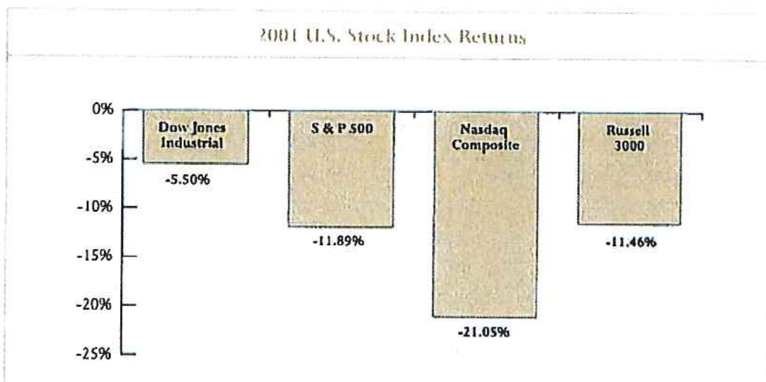
As the revised policy asset allocation was phased-in throughout 2001, the investment staff correspondingly altered the actual asset allocation to mirror the revised policy allocation. The accompanying chart displays the shift in the actual asset allocation throughout the year.

Long Term Assumptions

The policy asset allocation is arrived at through a formal asset-liability study conducted by our external investment advisor, Ennis Knupp. Such a study facilitates a probabilistic look into the future funded status of the retirement system under various assumptions involving the growth rate of liabilities and the return on various asset mixes. A key input into the study is the expected long-term rate of return of major asset classes and the expected rate of inflation. The key investment assumptions used in the asset-liability study are displayed in the accompanying table.

Asset Class Reviews





Domestic Equity

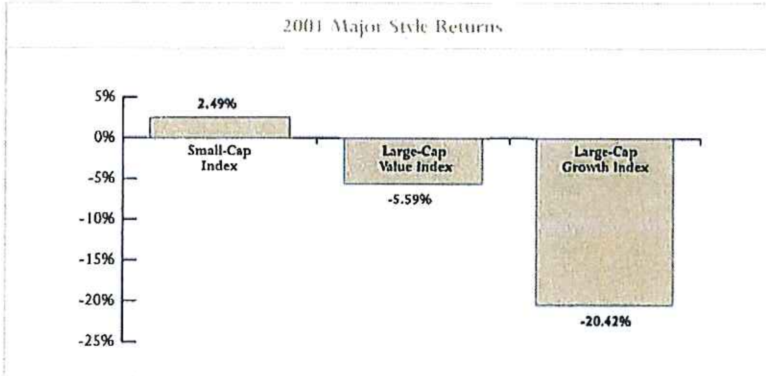
Fair Value

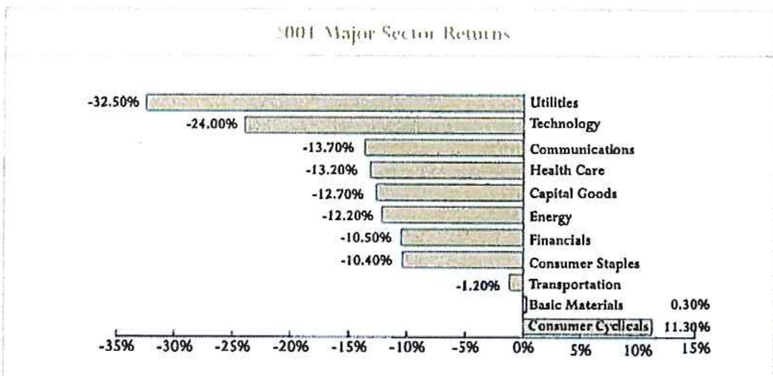
As of December 31, 2001, the domestic equity portfolio had a Fair Value of $25.652 billion. This represented 47.9 percent of the total PERS fund. During the year, the purchases equaled $12,252,090,960, while sales totaled $4,316,397,358. Portfolio turnover was 18.9 percent versus 30.4 percent in 2000. The PERS portfolio generated total dividend income of $293,848,771 versus $220,749,946 in 2000.

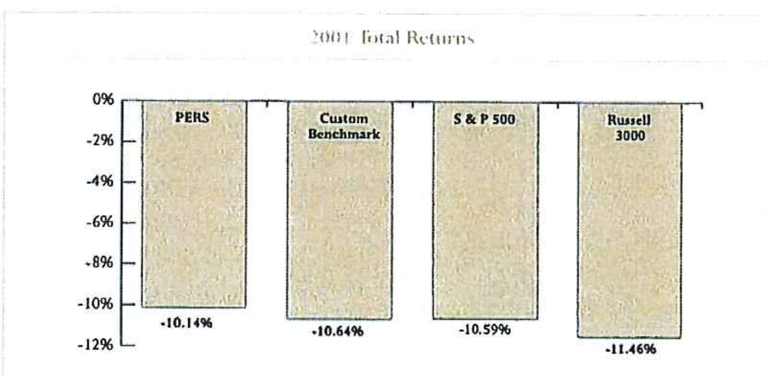
Market Overview

U.S. stocks declined for the second year in a row. The Dow Jones Industrial Average ended 2001 at the 10,021.50 level, falling 5.50 percent. The Standard & Poor's 500 stock index (S&P 500) delivered a total return of –11.89 percent, ending the year at a level of 1148. The years 2000 and 2001 marked the worst two-year period for the S&P 500 since 1973-74, with the index losing 19.81 percent over this time period. The NASDAQ Composite Index closed the year at 1950.40, falling 21.05 percent, its fourth biggest loss since its inception in 1971. A broader stock index measure, the Russell 3000 Index2, finished the year with a total return of –11.46 percent.

The year will be remembered for the September 11th terrorist attacks and the U.S. economy slipping into a recession. The attacks forced the suspension in stock trading for four business days. The suspension was the longest since the Great Depression the early 'thirties. According to the National Bureau of Economic Research, the U.S. economy had fallen into a recession in April. The Department of Commerce reported that gross domestic product (GDP) declined at an annual rate of 1.3 percent in the third quarter. Stock prices and investor confidence would bottom in the wake of the September 11th terrorist attacks. Late in September, U.S. stocks staged a significant recovery and delivered a fourth quarter rally. The







NASDAQ Composite Index, heavily represented with technology stocks, climbed 30.13 percent during the last three months of the year, while the S&P 500 index regained 10.67 percent.

For the second year in a row, small stocks outperformed their larger cap brethren, and value stocks beat the growth category. The small-cap market, as measured by the Russell 2000 Index, finished 2001 as the only major index with a gain. For the year, the Russell 2000 delivered a total return of 2.49 percent. The Russell 1000 Value Index was down 5.59 percent, sharply better than the –20.42 percent return generated by the Russell 1000 Growth Index.

Despite eleven interest rate cuts by the Federal Reserve during the year and the backdrop of a slumping economy, the utility sector turned in the worst performance during calendar year 2001. Historically, these conditions (declining interest rate environment and investors looking for "safety") would be very conducive for utility stocks to outperform their Index. Instead, the S&P 500 Utility sector fell 32.5 percent in 2001. The collapse of Enron Corporation cast a pall over the natural gas and power producer industries. The Technology sector finished second to last by declining 24.0 percent in 2001. The only two sectors with positive results in 2001 were also the best performers for the year. Consumer Cyclicals gained 11.3 percent and the Basic Materials sector eked out a 0.3 percent gain.

PERS' Results

The total return for the PERS' domestic equity portfolio in 2001 was –10.14 percent versus a total return of –10.64 percent for the Custom Benchmark. For reference purposes, the Standard & Poor's Super Composite 1500 stock index had a total return of –10.59 percent, and the Russell 3000 Index (R3000), as stated earlier, delivered a total return of –11.46 percent.

Strategy & Composition

The PERS' domestic equity portfolio began the year benchmarked to the Standard & Poor's Super Composite 1500 stock index (S&P 1500). One of the major initiatives to be completed in calendar year 2001 was to transition the domestic equity portfolio over to its new benchmark, the Russell 3000 Index. In addition, approximately $8 billion needed to be invested in the domestic equity portfolio as part of the change in asset allocation. In discussions with our consultant, Ennis Knupp + Associates, it was decided that a "blended" benchmark consisting of both the S&P 1500 and the Russell 3000 Index would be a more appropriate metric to use in 2001 to gauge our performance.

For the first six months of the year, we executed the asset allocation process by getting exposure, solely, to our new benchmark, the Russell 3000 Index. To help facilitate this process, we purchased the Russell 2000 and Russell 3000 iShares[2] to fulfill part of the R3000 exposure requirements. In addition to utilizing iShares, we gained exposure to the Russell 1000 and Russell 3000 Index in the more traditional way – buying all the securities represented in these two indexes.

In the third quarter, we folded the third major initiative into our transition process, the hiring and funding of five external active money managers.

The simultaneous implementation of the three major initiatives allowed for greater cost savings. It was estimated that the direct cost savings resulting from the simultaneous implementation would approximate $5.3 million. We retained the services of Frank Russell Securities, Inc. to help analyze and trade the U.S. equity portfolio during this process. The "expected" implementation shortfall[3] for a transition of this magnitude, as computed by Frank Russell Securities prior to the commencement, was 0.11 percent (11 basis points) or approximately $27.5 million. The actual performance of the domestic equity portfolio during this time period was 10 basis points (0.10 percent) better relative to expectations. This equates to an implied savings of over $25 million. During this same transition period, the PERS' domestic equity portfolio not only outperformed the expected transition performance, but also the Russell 3000 and the S&P 1500 stock indexes.

By December, the five external active managers were all funded and on the "performance clock". With the exception of Invesco, all of the managers handily beat their respective benchmarks in their first month of managing assets for PERS. Also in December, we hired and funded the new external R3000 index manager, Barclays Global Investors.

2001 Major Initiatives

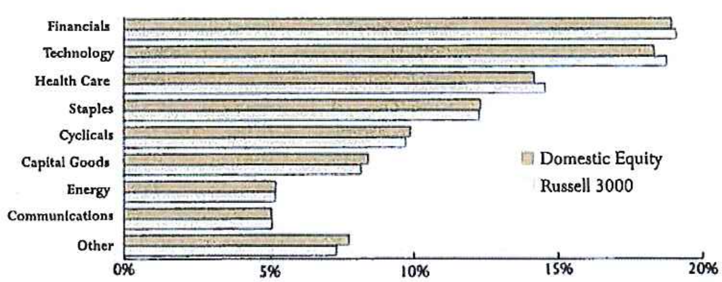
Three major initiatives within the Domestic Equity asset class were completed during 2001. These initiatives resulted from the recommendations made by Ennis Knupp + Associates during the Comprehensive Investment Review conducted during the previous year. The first initiative was to increase the asset allocation in Domestic Equities to 47 percent from a starting level of 35 percent. As a result, nearly $8 billion (net) was invested in Domestic Equities during the course of 2001. The second initiative was to adopt a broader benchmark (Russell 3000 Index) for the Domestic Equity asset class. This index "transition" required the assistance of Frank Russell Securities. We realigned the domestic equity portfolio from the old benchmark (Standard & Poor's 1500) to the new benchmark (Russell 3000). The third major initiative was to incorporate external management into the portfolio mix within the asset class. Five new external active managers and one external passive manager were identified and funded in 2001.

[2]iShares are exchange-traded funds (ETFs) that represent an interest in a basket of securities.

[3]Implementation shortfall is the expected cost to transition from one index to another, expressed in basis points of performance.

The PERS' Domestic Equity portfolio ended the year with eight new portfolios. Ninety percent of the Domestic Equity portfolio is passively managed and ten percent is actively managed. The passive component consists of three portfolios: two internally managed and one externally managed. Barclays Global Investors, the external passive manager, will be benchmarked to the Russell 3000 Index. The active component consists of five portfolios, all externally managed. Two of the external managers, Wellington Management and AllianceBernstein, are benchmarked to the Large Cap Russell 1000 Index. The remaining three external active managers, Capital Guardian, Invesco and Fidelity Management Trust Co, are benchmarked to the Small Cap Russell 2000 Index. The table on the following page provides year-end Fair Values of assets under management by portfolio/manager, their respective benchmark, mandates, and the individual portfolio weightings.

2001 Sector Allocation



Sector Allocation

The allocation of the Russell 3000 index and PERS' portfolio to the major sectors of the stock market is displayed in the accompanying table. At year-end 2001, about 90 percent of our equity holdings were passively invested to the Russell 3000 Index. Our sector exposures, therefore, were very much index-like as shown in the chart.

Schedule of Managers – Domestic Equity Portfolio

(As of December 31, 2001)

Portfolio/Manager	Assets Under Management	% of Domestic Equity	Fees	Benchmark	Mandate
Active External					
Alliance Bernstein	$ 1,022,411,606	3.99%	N/A	Russell 1000	Large Cap Core
Wellington	995,460,546	3.88	N/A	Russell 1000	Large Cap Core
Capital Guardian	177,985,420	0.70	N/A	Russell 2000	Small Cap Core
Fidelity	170,241,153	0.66	N/A	Russell 2000	Small Cap Core
Invesco	174,814,453	0.68	N/A	Russell 2000	Small Cap Core
Total Active	2,540,913,178	9.91	N/A		
Passive Internal					
Russell 3000 Passive	16,717,970,867	65.17	N/A	Russell 3000	Index
Russell 1000 Passive	5,116,011,842	19.94	N/A	Russell 1000	Index
Passive External					
Barclays	1,277,232,547	4.98	N/A	Russell 3000	Index
Total Passive	23,111,215,256	90.09	N/A		
Total Domestic Equity	**$ 25,652,128,434**	**100.00%**	**N/A**	**Russell 3000**	

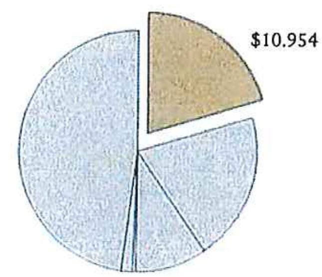
(1) Market Values do not include accrued income.
(2) No Fees paid in 2001 because accounts were established in fourth quarter

Domestic Equity Top Ten Portfolio Holdings

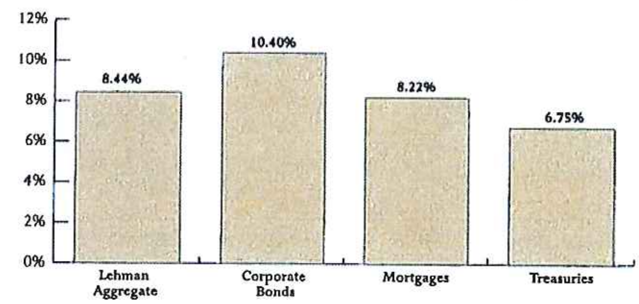
Ten Largest Holdings December 31, 2001	Fair Value	% of Total U.S. Equity	Ten Largest Holdings December 31, 2000	Fair Value	% of Total U.S. Equity
General Electric	$ 873,859,992	3.41%	General Electric	$ 735,875,380	3.67%
Microsoft Corp.	655,331,088	2.55	Exxon Mobil Co.	468,795,498	2.34
Citigroup Inc.	602,275,568	2.35	Pfizer Inc.	449,096,712	2.24
Exxon Mobil Co.	579,027,650	2.26	Cisco Systems Inc.	425,263,959	2.12
Pfizer Inc.	549,784,986	2.14	Citigroup Inc.	398,427,718	1.99
Intel Corp.	449,156,886	1.75	Wal-Mart Stores	368,018,497	1.84
IBM Corp.	436,345,661	1.70	Microsoft Corp.	357,298,049	1.78
American Int'l Group	405,081,094	1.58	American Int'l Group	354,748,910	1.77
Johnson & Johnson	381,196,655	1.49	Merck & Company	334,165,133	1.67
Wal-Mart Stores	361,953,474	1.41	Intel Corporation	312,137,013	1.56
Total	**$5,294,013,054**	**20.64%**	**Total**	**$ 4,203,826,869**	**20.97%**

Asset Class Reviews

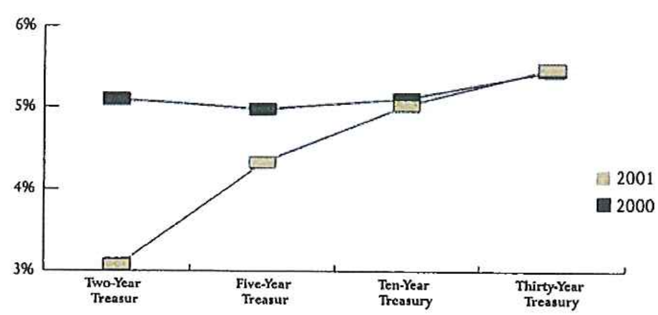
2001 Global Bond Allocations as Share of Total Fund
(Dollars in Billions)



2001 Global Bond Returns



Treasury Yields (%)



Global Bonds

Fair Value

As of December 31, 2001, the global bond portfolio had a Fair Value of $10.954 billion. This represented 20.5 percent of the total PERS fund.

Market Overview

Three major events impacted the bond market during 2001. All three were intertwined and led to a sharp steepening of the yield curve as interest rates fell sharply. First, the economy was very weak throughout the year. According to Macroeconomic Advisers, GDP growth slowed from a 2.8 percent pace in 2000, to an estimated 0.4 percent in 2001. Second, the terrorist attacks in September led to a quick drop in economic activity, ensuring that the U.S. economy would enter its first recession since 1991-92. Third, Federal Reserve Chairman Alan Greenspan and his colleagues at the Federal Reserve Bank, responded to these events by reducing the Fed Fund rates eleven times, from a rate of 6.50 percent at the start of the year to 1.75 percent by year's end.

The weak economy led to falling interest rates and strong returns in the bond market, with the Lehman Aggregate Index posting a total return of 8.44 percent. Corporate bonds posted the strongest performance with a return of 10.40 percent. Mortgages posted a return of 8.22 percent. Treasuries under-performed the spread sectors with a return of 6.75 percent.

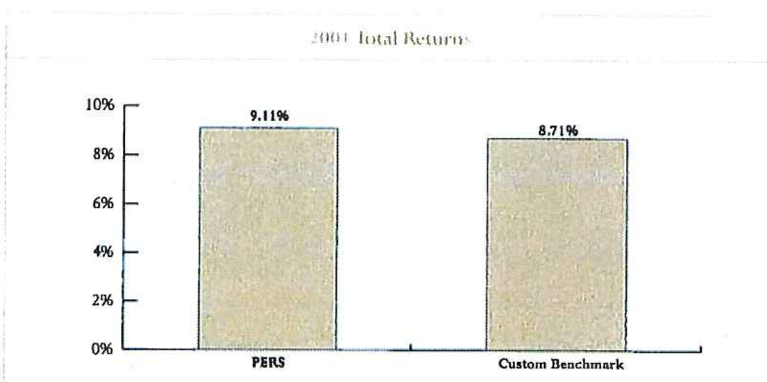
With the huge reduction in the overnight Fed Funds rate, the short-end of the treasury curve fell much more than the long end. Two-year treasury notes fell a total of 205 bps, and five-year notes fell 65 bps. However, 10-year notes fell just 8 bps and 30-year bonds actually rose 3 bps in yield for the year.

The performance of the corporate sector got off to a phenomenal start early in the year as the market reacted to the January rate easing, the first of many to come. In January, corporates posted an excess return[4] of 171 bps, marking one of the best months ever for the corporate bond market. For the year, the corporate sector posted an excess return of 252 basis points.

The mortgage sector suffered as rates fell and mortgages were refinanced at rates as low as 6.25 percent for a thirty-year mortgage. The refinancing boom resulted in a negative excess return of 69 bps for the sector during the year.

PERS' Results

PERS' global bond holdings returned 9.11 percent for the year, compared to a return of 8.71 percent for the custom benchmark. The excellent performance of the portfolio is primarily a reflection of the strong returns of the corporate sector as a whole. We maintained an over-weighted position in corporate bonds throughout the year, based on the belief that monetary stimulus and federal tax cuts would boost economic growth and lead to a restoration of corporate profits as the year progressed. While we were early on the improvement of the economy, the corporate sector nonetheless outperformed.



[4]Excess return for corporates and mortgages is defined as the return over similar duration treasury securities.

Strategy & Composition

The objective of the global bond portfolio in 2001 was to outperform the Lehman Aggregate Index[3] by 25 bps. Based on the attractive valuations of the spread sectors (corporates, mortgages, and agencies) at the beginning of the year, we continued to overweight those sectors overall. We focused our efforts on monitoring and evaluating individual positions within the spread sectors, always seeking more attractive securities.

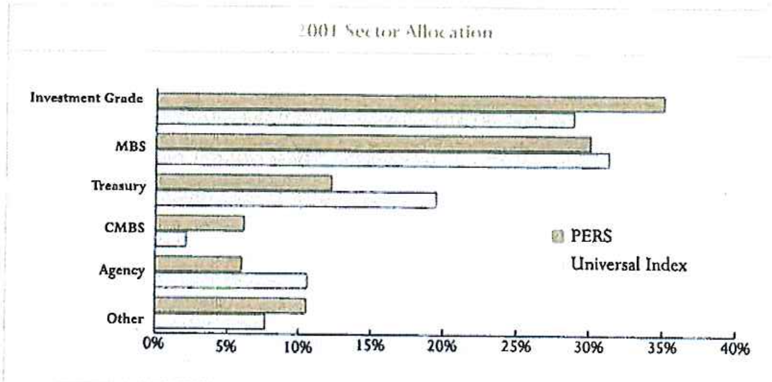
We kept the duration of the global bond portfolio fairly close to that of the Index. We continue to believe in this strategy as the additional yield offered by the spread sectors provides a more predictable way to meet our performance objectives. In addition, we believe that our internal expertise is better suited for adding value through security and sector selection than through anticipating changes in interest rates.

2001 Major Initiatives

The past year was one of great change in the management of PERS' global bond assets. First, the change in PERS' asset allocation, implemented throughout the course of the year, caused global bond target exposure to decline from 35 percent to 23 percent of the total fund. With the reduction in the allocation to global bond assets, the portfolio shrunk from $19.096 billion at the beginning of 2001, to $10.954 billion by year's end.

The second major change was the adoption of a new benchmark index, the Lehman Universal Index. The Lehman Universal Index is a broad market index designed to capture the entire "choice set" of global bond securities denominated in U.S. dollars. PERS gradually shifted the composition of its global bond investments throughout the year to mirror the Lehman Universal Index.

The third major change entailed the hiring of external managers to augment our internal management capabilities. We hired external



managers specializing in high yield and emerging markets. These are areas that are included in the Lehman Universal Index but where we have no internal management expertise. We also hired two managers with a Lehman Universal Index ('core plus') mandate that will be benchmarked against the Lehman Universal Index. We believe that by aligning ourselves with these top tier managers we can gain excess return and continue to refine our internal management capabilities.

Sector Allocation

PERS uses an active approach to the management of its global bond holdings. Our strategy for the past few years has been to hold more in the so-called "spread" sectors – corporates and mortgages – and less in lower-yielding US Treasury and agency securities.

Schedule of Managers – Global Bonds Portfolio

(As of December 31, 2001)

Portfolio/Manager	Assets Under Management(1)	% of Domestic Bonds	Fees	Benchmark	Mandate
PERS Internal Staff	$ 9,404,106,808	85.85%	N/A	Lehman Aggregate Index	Core
Morgan Stanley	559,657,677	5.11%	N/A	Lehman Universal Index	Core Plus
Metropolitan West	476,189,461	4.35%	N/A	Lehman Universal Index	Core Plus
Shenkman Capital	179,476,325	1.64%	N/A	Lehman High Yield Index	High Yield
W.R. Huff	64,223,465	0.58%	N/A	Lehman High Yield Index	High Yield
Capital Guardian Trust	146,924,797	1.34%	N/A	Lehman Emerging Market Debt Index	Emerging Market Debt
Salomon	123,353,795	1.13%	N/A	Lehman Emerging Market Debt Index	Emerging Market Debt
Total Global Bonds	**$10,953,932,328**	**100.00%**	**N/A**		

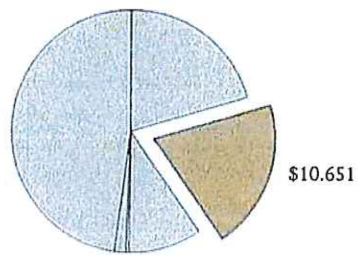
(1) Market Values do not include accrued income.
(2) No Fees paid in 2001 because accounts were established in fourth quarter

Global Bonds Top Ten Portfolio Holdings

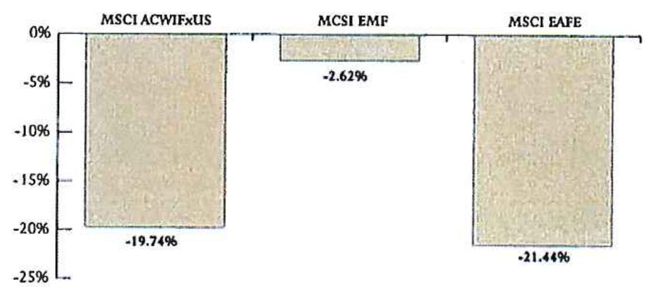
Ten Largest Holdings December 31, 2001	Coupon	Maturity	Cusip	Par Value	Fair Value
FNMA Single Family 15yr	6.500%	15-Year	31385HX49	$ 227,370,895	$ 231,961,513
FNMA Benchmark Notes	7.125%	02/15/2005	31359MFH1	200,000,000	218,376,000
US Treasury TIPS	3.500%	01/15/2011	9128276R8	164,500,000	163,934,120
GNMA Single Family 30yr	6.500%	30-Year	36225A3W8	146,198,021	147,040,122
US Treasury Notes	3.625%	08/31/2003	9128277C0	144,197,000	146,224,410
FNMA Single Family 30yr	7.000%	30-Year	31374TV63	136,129,856	139,224,088
FNMA Single Family 30yr	8.000%	30-Year	31384VMH2	129,373,190	135,900,067
GNMA Single Family 30yr	6.500%	30-Year	36225A4H0	129,058,905	129,932,806
US Treasury Principal Strips	NA	05/15/2005	912803AD5	131,000,000	114,338,110
US Treasury TIPS	3.875%	01/15/2009	9128274Y5	100,000,000	110,835,720
Total				**$1,507,827,867**	**$1,537,766,956**

Asset Class Reviews

2001 International Equity Allocation as Share of Total Fund
(Dollars in Billions)



2001 Major Index Returns



International Equity

Fair Value

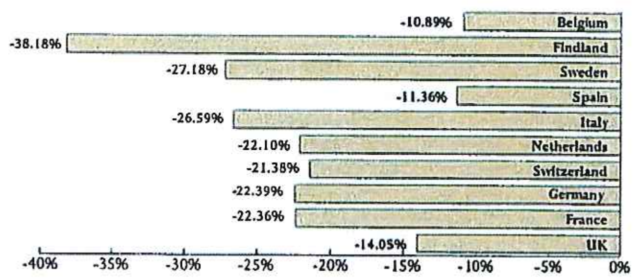
As of December 31, 2001, the international equity portfolio had a Fair Value of $10.651 billion. This represented 19.9 percent of the total PERS fund.

Market Overview

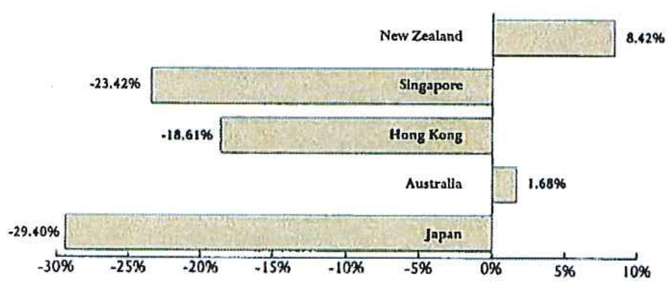
International equities posted a second straight year of declines, with the broad MSCI ACWIFxUS Index losing -19.74 percent in 2001. This international index trailed U.S. markets, as measured by the S&P 500, by 669 bps. Emerging markets, however, represented one bright spot in the world of international investing with the MSCI EMF index returning a –2.62 percent, out-performing the S&P 500 by 1,042 basis points. For emerging markets, the post-September 11th rally in technology was by far the biggest contributor to returns, although strong performance was also found in sectors tied to a global economic rebound, such as metals and mining.

The developed world slowed in 2001, as the three largest economies in the world—Japan, U.S., and the European Union—were in recession. While the U.S. embraced aggressive fiscal and monetary polices to combat the slowdown, the European Central Bank (ECB) proved reticent to cut interest rates. When the ECB finally eased short-term rates by 50 basis points, conflicting statements from ECB officials left markets confused. By the end of the year, the Eurozone had slowed considerably as the region's two largest economies, Germany and France, reported higher unemployment and falling business confidence. This poor performance, coupled with weakness in Japan, was reflected in the MSCI EAFE (Europe, Australasia, Far East) Index –21.44 percent decline.

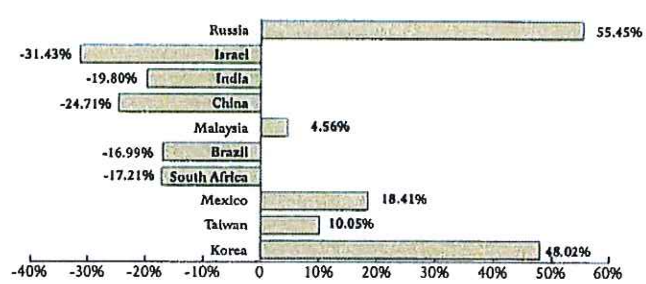
2001 MSCI Europe Index Return



2001 MSCI Pacific Index Return



2001 Emerging Market Returns



Developed Markets

In global developed markets, the MSCI Europe Index declined –19.90 percent while the MSCI Pacific Index posted a –25.40 percent loss. The best performing European countries were Ireland and Austria, two small economies posting a return of –2.80 percent and –5.65 percent, respectively. Two of the worst performing countries in the MSCI Europe Index were Finland (-38.18 percent) and Sweden (-27.18 percent). Finland's returns, in particular, were dragged down by the telecom company Nokia's abysmal performance during the year. Nokia declined by –43.61 percent in 2001.

The lower return of the MSCI Pacific Index versus the MSCI Europe Index was solely due to Japan. When Japan is excluded from the Pacific Index, European markets underperformed their Pacific brethren by 1,002 basis points; as the MSCI Pacific ex Japan Index declined -9.88 percent. Japan continued to battle its third recession in 11 years, falling - 29.40 percent. For the year, this nation's industrial production declined a dramatic -14.3 percent; unemployment rose to near post-WWII highs; corporate bankruptcies were at record levels; and the Tankan survey of business confidence posted a sharp decline. The weakness of the Japanese economy was also shown when Japan's local currency debt was downgraded three times by international credit agencies. Outside of Japan, the economies of Australia and New Zealand continued to buck the global recessionary trend throughout 2001 by posting positive returns of 1.68 percent and 8.42 percent, respectively.

Emerging Markets

On a regional basis, MSCI Asia EMF Index was the best performer among emerging markets, gaining 5.87 percent. Despite Argentina's debt default, the MSCI Latin America EMF Index was the second best performer, losing only –0.64 percent, followed by the MSCI Europe/Middle East EMF Index losing –16.31 percent.

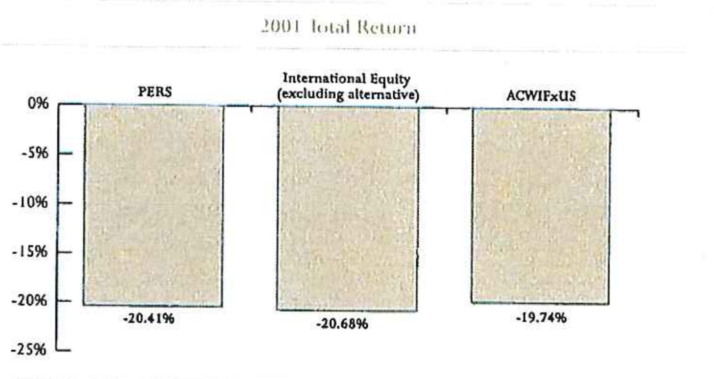
The strength of the MSCI Asia EMF Index was a bright spot in international investing. Within this index, Korea was the top performer, posting a 48.02 percent gain, as firms beyond the nation's technology sector were aided by lower interest rates stimulating domestic demand. Other countries posting strong returns were Sri Lanka (43.01 percent), Taiwan (10.05 percent) and Thailand (5.01 percent). Laggards in the index were Pakistan (-25.67 percent), China (-24.71 percent) and India (-19.80 percent). Pakistan and India's stock market suffered from increased tension between these two nuclear-armed neighbors. India also had a stock scandal plaguing its largest mutual fund, the Unit Investment Trust. China's export driven economy suffered from slumping demand in developed markets. Nevertheless, China now looms as a stronger competitor for foreign direct investment following its long awaited acceptance into the World Trade Organization.

The second best performing region, the MSCI Latin America EMF Index's return of -0.64 percent was fueled by the strong performance of Columbia (45.14 percent), Peru (19.92 percent) and Mexico (18.41 percent). Mexico, whose economy was officially in recession, continued to attract investors due to the nation being regarded as one of the safest emerging markets. The market's view of Mexico's soundness was officially acknowledged in 2001, when Moody's and Fitch credit rating agencies upgraded the nation's debt to investment grade. Dragging down this region was Argentina, which posted a –19.65 percent return following its default on $132 billion in debt and the removal of its 10-year currency peg to the U.S. dollar. This country also faced a political crisis, as rioting in the streets following a government-imposed limit on bank account withdrawals brought down the De la Rua government.

The MSCI Europe/Middle East EMF Index posted negative returns primarily due to Turkey's February banking crisis and its decision to abandon the currency peg system (-32.84 percent). In addition, the Egyptian economy (-41.30 percent) weakened from a decline in tourism following the September 11th attacks. However, this region saw some countries post exceptional returns. Russia, for instance, was up 55.45 percent for the year due to its new role as a coalition partner in the U.S.-led war on terrorism and due to stronger economic fundamentals attracting more investors.

Overall, two primary factors contributed to the losses experienced in international markets last year:

- Political uncertainty dominated international investing in the wake of the September 11th attacks. As would be expected, many stock markets around the world reacted negatively to the U.S. being at war. In addition, the U.S. reported its worst economic performance since 1991. Slower growth in the world's largest market translated into weakness for most of the world's economies, which rely heavily on exporting to the United States.
- International returns in U.S dollars were negatively impacted by the relative strength of the U.S. dollar vis-à-vis other currencies throughout the year. For example, the MSCI EMF Index lost –2.62 percent in dollar terms during 2001. However, in local currency terms, the index's performance was 7.64 percent. In terms of the world's two other major currencies, the yen and the euro, the dollar gained 13.14 percent and 5.94 percent, respectively. The dollar's continued strength throughout most of 2001 was fueled by investors' faith that the U.S. would rebound more quickly than the rest of the world.



PERS' Results

2001 was a disappointing year for our international equity portfolio, in both relative and absolute terms. For the year, the PERS' international portfolio returned -20.41 percent versus the MSCI All Country World Index Free ex U.S. (ACWIFxUS) benchmark's return of –19.74 percent. Thus, we under-performed by 67 basis points. Excluding international alternative investments, PERS' international holdings produced a slightly worse return of –20.68 percent, trailing the ACWIFxUS benchmark by 94 basis points.

The predominant factor that led to the portfolio's under-performance during the year was the below-par performance of our growth-oriented portfolios. These portfolios and their respective returns for the year are as follows: Driehaus (-32.25 percent), TT International (-28.94 percent), Nicholas-Applegate (-27.88 percent), Marvin & Palmer (-27.86 percent), and Oechsle (-25.08 percent). Although our value-oriented, emerging market, and alternative investment portfolios all performed relatively well versus their respective benchmarks, their strong relative performance was not enough to overcome the under-performance of our growth holdings.

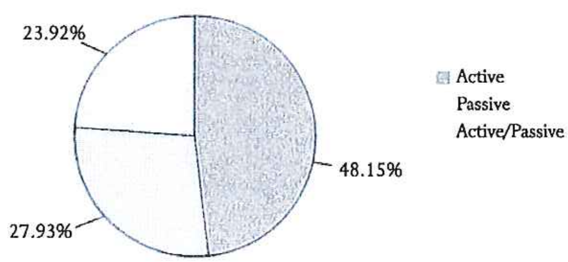
During the year, our growth portfolios were hampered by the continuation of the extreme divergence between growth and value stocks that began with the "tech wreck" in early 2000 and continued through the third quarter of 2001. Although the differentiation between growth and value stocks on an international basis is not as clearly discernable as on a domestic basis, it is nonetheless interesting to note the disparate performance between growth and value indices over the last two years. For the past two years ending December 31, 2001, value stocks as measured by the MSCI ACWIFxUS Value Index produced a –19.95 percent return in U.S. dollar terms. Conversely, growth stocks as measured by the MSCI ACWIFxUS Growth Index produced a return of –42.50 percent. This divergence among international styles was the most extreme in the past quarter century. In fact, the divergence was a three standard deviation event; this indicates that, statistically, there was only a one-percent chance of such a wide gap between growth and value occurring during this period.

As mentioned above, the portfolio's under-performance was contained by strong relative performance among our non-growth managers. Additionally, the performance shortfall was contained by good country/regional allocations. Specifically, the factors listed below highlight the positive impact geographic allocation had on the international portfolio during 2001:

- The portfolio was underweight the ACWIFxUS Index in Japan throughout the year and finished the year 3.0 percent under the index weighting of 18.8 percent. This underweight position was significant, as Japanese equities declined nearly 29.4 percent in dollar terms during 2001 versus the ACWIFxUS decline of 19.75 percent.
- The portfolio was overweight in Asia excluding Japan throughout 2001, and finished the year 0.4 percent above the index weighting of 5.5 percent. This overweight position was additive to relative performance, as this region fell by only 9.9 percent in dollar terms during the year.

- The portfolio was overweight in the United Kingdom throughout the year and finished the year 1.6 percent over the index weighting of 19.6 percent. The overweight position in the U.K. was additive to relative performance as U.K. equities lost only 14.1 percent in dollar terms during 2001.

- The portfolio moved to an underweight position in Europe excluding U.K. early in the year and finished 2001 at 3.5 percent under the index weighting of 41.5 percent. This underweight position in this region was additive to relative performance as Europe ex. U.K. equities lost 22.4 percent in dollar terms during 2001.



- The portfolio moved to an overweight position in emerging markets in the latter half of 2001 and finished the year 1.3 percent over the index weighting of 10.3 percent. This overweight position in the emerging markets was additive to relative performance as emerging market equities performed especially well during 2001, losing only 2.6 percent in dollar terms.

For 2001, International private equity results are captured within the International Equity asset class. At year-end 2001, we internally transferred these assets to PERS' Private Equity unit. For 2002 and beyond, international private equity performance and holdings will be reflected within the Private Equity asset class.

Strategy & Composition

As of December 31, 2001, the Ohio PERS' international equity stock portfolio had a Fair Value of $10.651 billion, representing approximately 19.8 percent of the total fund. As of December 31, 2001, 48.2 percent of the portfolio was managed on an active basis, 23.9 percent on an active/passive basis, and 27.9 percent on a passive basis. Moreover, approximately 83.2 percent of the portfolio was allocated among the developed non-U.S. markets (i.e. the EAFE countries), 12.2 percent to the emerging markets, and 4.6 percent to cash. All portfolios were managed on an external basis throughout the year.

Our strategy during the past year is similar to our current strategy. Specifically, it was and remains centered on the following objectives:

- Performance Objective: The objective of the International Equity Asset Class is to outperform the Morgan Stanley Capital International – All Country World Index Free ex. U.S. (MSCI ACWI x US) by 75 basis points per annum on a three-year rolling basis.

- Style Neutrality: The portfolio is managed to maintain style characteristics that are relatively similar to the benchmark.

Significant deviations from the benchmark will be made only when warranted by market conditions.

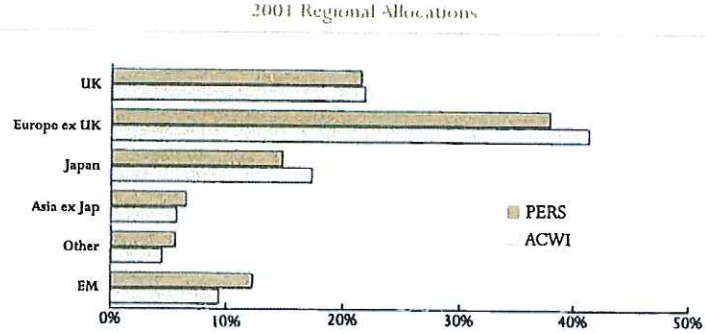
- Emerging Market Neutrality: The portfolio is managed in such a way so as to maintain an emerging markets exposure that is relatively close to the benchmark weighting.
- Active Risk Objective: The portfolio is maintained in such a way that the level of active risk is no greater than the level of risk that is allocated to the asset class. Specifically, the portfolio's target tracking error is 175 basis points.
- Small Cap Exposure: The portfolio's small cap exposure is maintained at a level close to the benchmark.

2001 Major Initiatives

Several major initiatives within the International asset class were completed during 2001. Many of these initiatives resulted from the recommendations that resulted from Ennis Knupp and Associates' Comprehensive Investment Review that was conducted during the latter part of 2000:

- First, one of the most significant initiatives was to increase the passive component of the international portfolio to reduce the portfolio's risk profile and management costs. By the fourth quarter of 2001, approximately 25 percent of the total international exposure were held in a pure index portfolio.
- A second initiative that was completed during the year was to raise our emerging markets exposure to approximate the benchmark weighting. This was accomplished by funding our third dedicated emerging markets manager (Babson-Stewart Ivory) with $100 million at the end of June 2001.
- A third initiative that was completed during the year was to research and fund a dedicated international small cap portfolio. This initiative was accomplished by funding two new international small cap managers with $25 million each (Harris Associates and Nicholas-Applegate).
- A fourth initiative that was accomplished during 2001 was the development of a formalized policy and procedures manual for the department.
- A fifth initiative was to research and produce preliminary reports on currency overlay programs and on portfolio internalization. Both of these reports were completed by year-end.
- A sixth initiative was to refine our risk management processes. During the year, we accomplished this initiative by increasing our utilization of various analytical tools (e.g. BARRA, Vestek) in the portfolio management process.
- A final initiative we accomplished during the year was to increase the professional staffing level within the department. This initiative was accomplished by hiring two international analysts during 2001.

2001 Regional Allocations



Country Allocation

The allocation of our international equity holdings by country / region is shown in the accompanying table.

Schedule of Managers – International Equity Portfolio

(As of December 31, 2001)

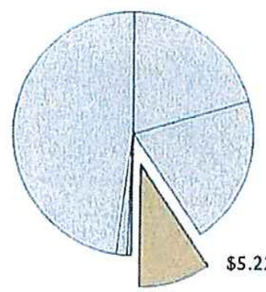
Portfolio Manager	Assets Under Management	% of Int'l Equity	Fees	Benchmark	Mandate
Active					
Cap Guardian	$ 983,105,537	9.23%	$ 3,848,132	MSCI ACWIFxUS	EAFE+
Brandes	$ 685,332,802	6.43%	$ 3,764,704	ACWIFxUS	EAFE+
Marvin & Palmer	$ 548,588,069	5.15%	$ 2,893,425	ACWIFxUS	EAFE+
Bk of Ireland	$ 509,808,968	4.78%	$ 1,557,959	ACWIFxUS	EAFE+
TT Int'l.	$ 412,984,254	3.87%	$ 1,389,274	ACWIFxUS	EAFE+
Nicholas-App.	$ 416,013,841	3.90%	$ 1,884,172	ACWIFxUS	EAFE+
Oechsle	$ 395,722,401	3.72%	$ 1,776,390	ACWIFxUS	EAFE+
JP Morgan	$ 325,437,460	3.06%	$ 1,094,781	MSCI EAFE	EAFE
Driehaus	$ 321,338,323	3.02%	$ 1,186,723	ACWIFxUS	EAFE+
Lazard	$ 220,834,753	2.07%	$ 835,234	MSCI EMF	Emerging Mkts
Scudder	$ 160,580,964	1.51%	$ 953,593	MSCI EMF	Emerging Mkts
Babson	$ 98,669,970	0.93%	$ 342,352	MSCI EMF	Emerging Mkts
Nicholas-App.	$ 25,310,767	0.24%	$ 6,310	MSCI WorldxUS Small Cap	Int'l Small Cap
Harris Assoc.	$ 25,282,866	0.24%	$ 7,015	MSCI WorldxUS Small Cap	Int'l Small Cap
Total Active	$ 5,129,010,975	48.15%	$ 21,540,064		
Enhanced					
Barclays Enhcd.	$ 1,280,579,875	12.03%	$ 1,833,734	ACWIFxUS	EAFE+ Enhanced
Baring	$ 1,266,887,335	11.89%	$ 1,982,127	MSCI ACWIFxUS	EAFE+ Enhanced
Total Enhanced	$ 2,547,467,210	23.92%	$ 3,815,861		
Passive					
Barclays Index	$ 2,974,526,893	27.93%	$ 648,945	ACWIFxUS	EAFE+ Index
Total Passive	$ 2,974,526,893	27.93%	$ 648,945		
Total Int'l Equity	**$10,651,005,078**	**100.00%**	**$ 26,004,870**		

International Equity Top Ten Portfolio Holdings

Ten Largest Holdings December 31, 2001	Fair Value	% of Total Int'l Equity	Ten Largest Holdings December 31, 2000	Fair Value	% of Total Int'l Equity
Vodafone - U.K.	$ 120,905,843	1.14%	Mannesmann AG*	$ 143,531,800	1.35%
Sanofi-Synth. - France	$ 77,413,869	0.73%	Murata Mfg Co	$ 129,670,925	1.22%
Nokia - Finland	$ 66,018,722	0.62%	Nokia Corp	$ 104,393,685	0.98%
Total Fina - France	$ 60,522,605	0.57%	NTT Mobile Comm	$ 94,792,958	0.89%
ENI - Italy	$ 56,485,456	0.53%	Sony Corp	$ 85,630,367	0.80%
Marks & Spencer - U.K.	$ 53,581,336	0.50%	ST Microelectronics	$ 72,694,573	0.68%
UBS - Switzerland	$ 51,769,150	0.49%	Softbank Corp	$ 72,237,691	0.68%
Lloyds TSB - U.K.	$ 49,605,945	0.47%	Koninklijke	$ 64,503,837	0.61%
Aventis - France	$ 47,719,361	0.45%	Ericsson	$ 59,719,924	0.56%
Glaxosmithkline - U.K.	$ 43,298,181	0.41%	Rohm Co	$ 58,284,876	0.55%
Total	**$ 627,320,468**	**5.91%**	**Total**	**$ 885,460,636**	**8.32%**

*Name changed to Vodafone effective November 8, 2001.

2001 Real Estate Allocation as Share of Total Fund
(Dollars in Billions)



Real Estate

Fair Value

As of December 31, 2001, the real estate portfolio had a Fair Value of $5.221 billion. This represented 9.8 percent of the total PERS fund.

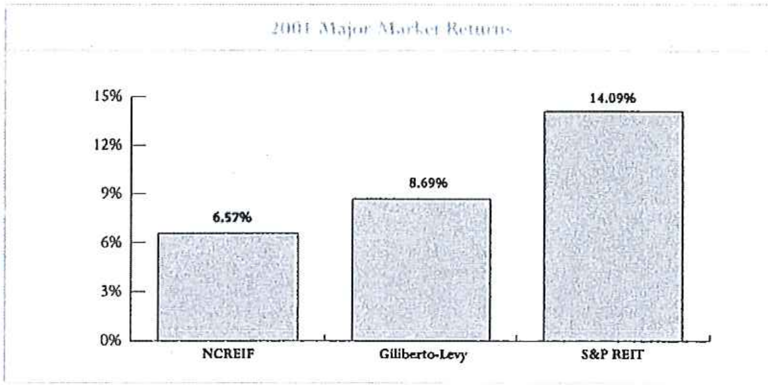
Market Overview

Real estate investors entered 2001 preparing for what most experts were calling a "soft landing". This was reflected in each asset type's return through the second quarter, with all sectors seeing an increase in vacancy rates and a deceleration in growth of new lease rates. The deceleration was especially noticeable in the office and industrial sectors. By the third quarter, though, the soft landing turned into a crash landing. Already suffering from three straight quarters of negative absorption in the office sector, as well as similar performance with industrial assets, the real estate market witnessed one of the most dramatic reversals in the past decade. Heading into the fourth quarter, the outlook was not much brighter as the real estate market continued to be impacted by corporate layoffs, bankruptcies, and production declines. The nation's unemployment rate increased to 5.8 percent.

Rising unemployment and falling consumer confidence led the retail sector to post an additional quarter of negative returns. These factors, coupled with a nation's fear of travel, brought a heavy toll on hotels. Although some of the downturn stemming from the traumatic events of September 11 has been reversed, hotel property valuations remain below levels reported prior to September 11, 2001. In contrast, apartments were best suited to weather the economic storm in 2001. Even though apartment sector returns are below that of 2000, the sector nonetheless provided positive appreciation last year and remains well positioned to provide a steady return over the long run.

For many institutional investors, 2001 was the year of the "denominator" effect. Declining values in the domestic and international equities market, particularly in funds with heavy allocations to equities, caused overall fund sizes (the "denominator" in the equation) to dip. Because the real estate markets did not fall concurrently with the equities market, and real estate assets are not valued daily, many investors appeared to be over-allocated to real estate. Acquisition activity slowed to a standstill as capital flowing into the real estate market dipped dramatically. Normally, such a shortage of capital would lead to lower expected sales prices. Many investors decided that, rather than sell into a declining market, they would reduce their exposure to real estate by increasing the amount of leverage on their properties, taking advantage of the positive spread between property yields and borrowing costs. As a result, the acquisition opportunities that a contrarian investor such as PERS would expect in such a downturn were conspicuously absent.

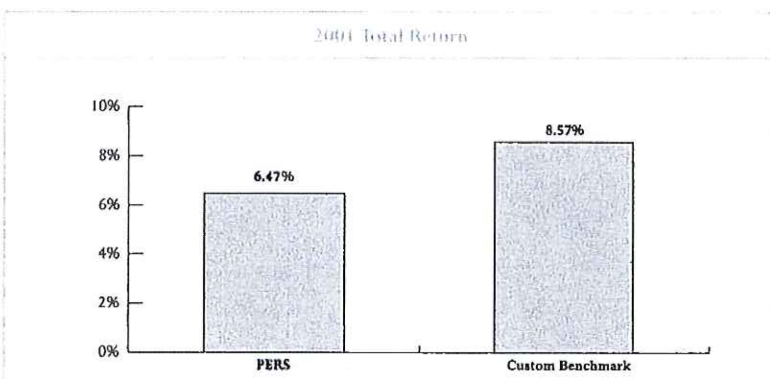
The direct equity market (direct ownership of real estate assets), as tracked by the NCREIF Property Index, produced a 6.57 percent return for 2001, net of fees.



The mortgage market, as measured by the Giliberto-Levy Index, returned an 8.69 percent, net of fees for the year ending December 31, 2001. While third quarter posted an unusually high return of 5.60 percent net of fees; fourth quarter lost 0.14 percent net of fees. This sudden retreat was due to interest rates, which had declined significantly in the third quarter, rapidly shifting in November and December, eliminating third quarter's price appreciation.

For the second year, REIT stocks outperformed both the Dow Jones Industrial Average ("DJIA") and the S&P 500. S&P REIT Index had a return of 14.09 percent for the year. The total return for the DJIA and S&P 500 for the year was –5.50 percent and –11.90 percent, respectively.

REIT stocks, with their attractive dividend yields, performed well throughout the year even as real estate and REIT fundamentals started to deteriorate. In addition, for the first time, certain larger REIT stocks were included in the S&P Indices.



PERS' Results

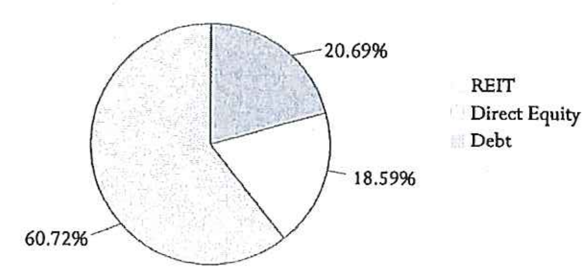
PERS' real estate portfolio generated positive returns in 2001 due to strong performance by the REIT and debt portfolios, however, the total portfolio was hurt by the performance of the direct holdings. PERS' return for 2001 was 6.47 percent, while the return of the custom benchmark was 8.57 percent. The PERS' portfolio return was comprised of the debt portfolio's return of 12.22 percent, the equity portfolio's return of 2.42 percent, and the REIT portfolio return of 14.58 percent.

The income component of the return was 7.33 percent, and appreciation was -0.96 percent. The decline in the value of the portfolio reflects write-downs in the carrying value of our hotel and outlet mall portfolios, as well as adjustments to the carrying value of certain office properties. In all, PERS wrote down the value of its direct real estate holdings by an estimated net amount of $101 million in 2001.

Our debt portfolio contributed to the overall return with the strong performance of our Five Arrows program managed by Rothschild. Five Arrows had a total return of 13.26 percent. This was comprised of strong dividend yield, which contributed to its 7.95 percent income return, and a 5.31 percent return from appreciation. Liberty Lending Services and Huntoon Hastings also contributed, with total returns of 7.69 percent and 8.67 percent, respectively. The AFL-CIO Housing Investment Trust also had strong performance, with a total return of 8.04 percent. This was due to a strong income return and appreciation of the portfolio.

Our direct equity holdings bore the brunt of the market downturn, returning just 2.42 percent for the year. Our direct equities were mainly affected by the hotel and retail investments. The apartment sector had the best performance, benefiting from income returns and the unrealized appreciation in apartment properties, with a total return of 10.21 percent.

2001 Real Estate Sector Allocation



The total return on the REIT portfolio for the year ending December 31, 2001 was 14.87 percent. The REIT portfolio outperformed the S&P REIT Index by 78 basis points. Due to investors' desire for yield, REIT shares offering fat dividend yields in the mortgage and healthcare sectors substantially outperformed the larger, more liquid REIT sectors. The performance of the PERS' active REIT portfolio was aided by exposure to these higher-returning sectors and through some well timed sales during the year.

Strategy & Composition

At year-end 2001, our real estate portfolio was comprised of 18.59 percent in REIT investments, 60.72 percent in direct equity investments, and 20.69 percent in debt investments. This compares to year-end 2000 figures of 24.93 percent in REIT investments, 60.31 percent in direct equity investments, and 14.93 percent in debt investments. Effective January 1, 2001, certain capital market investments were reclassified from equity to debt; the allocations equaled 19.57 percent, 69.85 percent, and 10.58 percent for REIT, direct equity and debt investments, respectively.'

PERS manages its REIT investments internally. All externally managed assets are managed through fiduciary advisors in separate accounts, with the exception of our investment in the AFL-CIO Housing Investment Trust, which is a commingled fund.

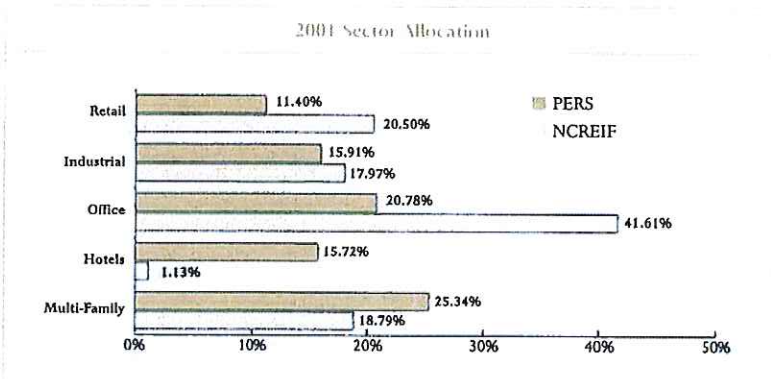
During the year, we invested $278.9 million, and recouped $293.5 million through sales and mortgage pay-downs. We ended the year with a portfolio valued at an $5.221 billion. In an effort to reduce our allocation, we were net sellers in 2001.

We have been anticipating a cooling in the real estate markets for the past several years and have gradually shifted the composition of our holdings to a more defensive posture. Our weightings in apartments and industrial served us well as the market began to turn down. While we had reduced our weighting in hotels in recent years, the sharp decline at the end of 2001 was more severe than we had anticipated, resulting in a write-down of carrying values. While we expect the softness in the hotel sector to be temporary, we do not anticipate any real strength in this sector until the end of 2003.

2001 Major Initiatives

During the year, the Real Estate group focused on several key initiatives.

- We recommended that the Board retain a Real Estate Consultant, hired Cooper Consultants to conduct a search, and issued a Request for Proposal for Real Estate Consulting Services.
- In conjunction with Internal Audit, we began Best Practices Reviews of our advisors.
- We prepared an International Real Estate Investments Research Report.
- We prepared an analysis of Outlet Mall Disposition Alternatives.
- We prepared a Private Market Manager Selection Process.
- We reviewed the portfolio insurance coverage, and developed a plan for cutting costs and enhancing coverage in the future.
- Working with Ennis Knupp + Associates, we recommended, and the board approved, a revised REIT Benchmark.
- We liquidated much of the debt portfolio with Huntoon Hastings.



Sector Allocation

The allocation of the NCREIF property index and PERS' portfolio holdings to major property sectors is shown in the accompanying table. Certain major property sectors where PERS has exposure, such as Hotels, are not included in the NCREIF index, resulting in the deviations shown in the chart.

Schedule of Managers – Real Estate Portfolio

(As of December 31, 2001)

Portfolio Manager	Assets Under Management	% of Real Estate	Estimated Fees	Mandate	Sector
REITS	$ 970,438,826	18.59%	$ 172,087	REIT	Hotel, Residential, Commercial
AFL-CIO	$ 73,774,886	1.40%	$ 299,016	Debt	Residential
Bristol	$ 695,881,872	13.33%	$ 3,891,387	Direct Equity	Commercial
Faison	$ 361,227,475	6.92%	$ 2,371,170	Direct Equity	Commercial
Great Point	$ 71,365,700	1.37%	$ 307,325	Debt/Direct Equity	Commercial
Huntoon Hastings	$ 30,304,730	0.58%	$ 389,898	Debt	Residential
Legg Mason	$ 57,926,208	1.11%	$ 268,286	Debt/Direct Equity	Commercial
Liberty	$ 241,848,632	4.63%	$ 1,336,047	Debt	Residential, Commercial
Lowe	$ 656,735,283	12.58%	$ 3,111,824	Debt/Direct Equity	Hotel, Commercial
Rothschild	$ 953,677,799	18.26%	$ 6,053,347	Debt/Direct Equity	Retail, Commercial
Sentinel	$ 598,155,452	11.46%	$ 3,527,046	Direct Equity	Commercial, Residential
TGM	$ 510,069,692	9.77%	$ 2,270,420	Direct Equity	Residential
Total Real Estate	**$ 5,221,406,555**	**100.00%**	**$23,997,853**		

Real Estate Top Ten Properties by Current Investment

Property	Advisor	Property Type	Current Investment
Hotel del Coronado	Lowe Enterprises	Hotel	$ 202,575,000
Argent Hotel	Lowe Enterprises	Hotel	159,100,000
1055 West Seventh	Bristol Group	Office	123,701,499
DC Telecom	Bristol Group	Industrial	83,308,422
Monarch Hotel	Lowe Enterprises	Hotel	66,105,750
LA Center Studios	Bristol Group	Movie Studio	46,677,604
Volusia Mall	Faison Group	Retail	41,234,431
Alii Place	Bristol Group	Office	36,486,767
Honey Creek Mall	Faison Group	Retail	35,169,406
Westbrook Factory Stores	Rothschild Realty	Retail	35,009,269
Total			**$ 829,368,148**

Real Estate Top Ten Tenants by Gross Rent

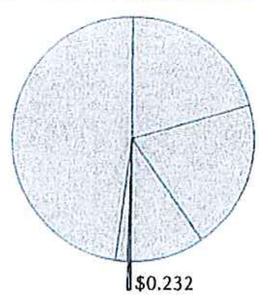
Tenant	Tenant Industry	Property Occupied	Square Feet Advisor	Gross Rent Occupied	Total Annual Per Sq Ft	Gross Rent
Sanmina Corp	Telecom	Collins Tech	Faison	$ 322,200	$14.65	$ 4,720,230
Teleglobe USA	Telecom	Union Station	Bristol	141,458	24.90	3,522,961
Bank of America	Financial Services	Interstate Tower	Faison	162,414	19.26	3,128,111
ExxonMobil	Energy Services	Poydras	Faison	194,703	14.64	2,850,452
Goodsill Anderson Quinn	Professional service	Alii Place	Bristol	72,732	38.47	2,798,000
The GAP, Inc.	Retail	Outlet Malls	Rothschild	177,891	14.75	2,623,837
Performance Team	Distribution/Warehouse	South Bay (DH)	Bristol	482,073	5.04	2,429,584
Phillips Van Heusen	Retail	Outlet Malls	Rothschild	149,019	15.11	2,251,771
Duke Engineering	Energy	Solomon Pond - Land	Bristol	116,800	15.20	1,775,360
Global Crossing	Telecom	Union Station	Bristol	67,572	25.56	1,727,011
Total				**$5,684,673**		**$ 68,490,203**

Asset Class Reviews

REIT Top Ten Portfolio Holdings

Ten Largest Holdings December 31, 2001	TKR	Shares	Market Price	Fair Value	% of Total REIT's
Simon Property Group	SPG	3,182,675	$29.33	$ 93,347,858	9.60%
Equity Office Properties	EOP	3,073,181	30.08	92,441,284	9.51%
Apartment Investors	AIV	1,299,967	45.73	59,447,491	6.12%
Camden Properties	CPT	1,600,344	36.70	58,732,625	6.04%
Duke Weeks Realty	DRE	2,305,823	24.33	56,100,674	5.77%
AMB Property	AMB	2,094,298	26.00	54,451,748	5.60%
Home Properties	HME	1,602,392	31.60	50,635,587	5.21%
Liberty Properties	LBY	1,639,421	29.85	48,936,717	5.03%
Colonial Properties	CLP	1,414,720	31.15	44,068,528	4.53%
Gables Residential	GBP	1,466,644	29.60	43,412,662	4.47%
Total		**19,679,465**		**$ 601,575,174**	**61.89%**

2001 Private Equity Allocation as Share of Total Fund
(Dollars in Billions)



Private Equity

Fair Value

As of December 31, 2001, the private equity portfolio had a Fair Value of $232 million, representing 0.4 percent of the total PERS fund. This is based on Fair Values through September 30, 2001 and cash flows through December 31, 2001, where K1's were not available.

Market Overview

Private equity investors spent much of their time during 2001 analyzing existing portfolio companies and their ability to adjust to economic conditions much more severe than their recent business plans projected. Earlier stage companies financed with venture capital were affected more severely than established companies financed with buyout capital.

Deal closings were down substantially from 2000, but despite the difficult economic environment, preliminary figures indicate private equity financings and acquisitions were completed at 1999 levels. The supply of senior and high yield debt was constrained as lenders required higher rates of return, leading to record high equity capitalization requirements.

Fundraising was difficult throughout the year, but early figures suggest approximately $100 billion was raised in 2001. While this is still a substantial amount, the market place for newer entrants is challenging as investors have migrated to established firms. Fundraising in 2002 may also be dampened as there is a substantial amount of available capital in the market.

PERS' Results

The private equity portfolio ended the year with a fair value of $232 million. This represents 0.43 percent of the total PERS Fund. Note that the international private equity investments that were previously managed by Non-US Equity were transferred to Private Equity in 2001.

Private Equity investments provided a total return of –13.68 percent for the nine months ended September 30, 2001. Consistent with industry practice, private equity returns are reported with a quarter lag. Private equity returns are inherently volatile in the short-term, affected by factors including the stage of investment, macro and micro-economic conditions, public markets, vintage and geographic exposure. PERS is a long-term investor and expects that long-term risk-adjusted returns will favorably impact the total Fund returns.

International private equity results for 2001 are captured within International Equity. However, international private-equity asset values were transferred to the Private Equity asset class as of December 31, 2001.

Strategy & Composition

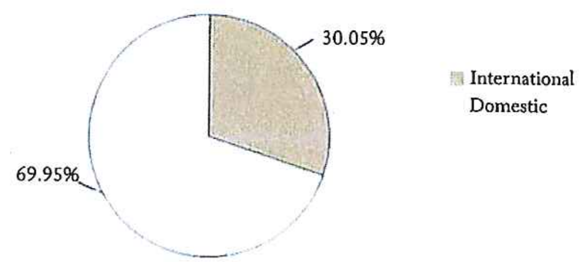
PERS established a 4 percent allocation to private equity in December 2000. While critical steps were taken to build a foundation for the new allocation, no new commitments were made to private equity in 2001. During 2001, PERS funded commitments of $18.7 million and received distributions of $9.5 million for private equity investments approved in prior years.

2001 Major Initiatives

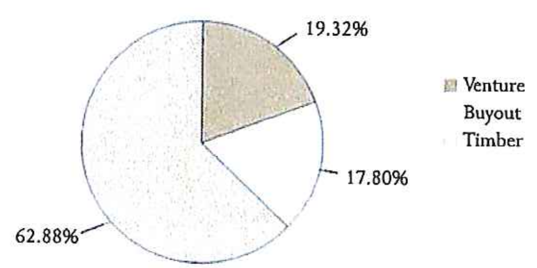
The formal organization of our dedicated private equity asset class was initiated with the hiring of a new asset class head in August 2001. The foundation of the program is being formed with the identification and

Asset Class Reviews

2001 Private Equity Geographic Sector



2001 Private Equity Type Sector Allocation



selection of a private equity advisor followed by development of strategy, policy and procedures. PERS will begin making material capital commitments to private equity in 2002.

Geographic and Sector Allocation
The allocation of PERS' private equity investments is shown in the accompanying charts. The top chart displays the allocation between domestic and international investments. The lower chart displays our allocation by type of investment. Presently, PERS' private market investments are dominated by our holdings in Xylem Fund I and II. The Xylem investments are in international forest and forest products companies. As we expand our private equity exposure in the years ahead, the portfolio will gain increased diversification by geography, sector, and investment type.

Schedule of Managers – Private Equity Portfolio

(As of December 31, 2001)

Portfolio Manager	Assets Under Management	% of Private Equity	Type	Vintage
International				
AIG Global Emerging Markets Fund	$ 16,434,740	7.07%	Buyout	1997
Xylem Fund I	$ 117,837,298	50.71%	Timber	1994
Xylem Fund II	$ 28,291,379	12.17%	Timber	1997
Total International	$ 162,563,417	69.95%		
Domestic				
Blue Chip Capital I	$ 3,430,594	1.48%	Venture	1992
Blue Chip Capital II	$ 9,324,297	4.01%	Venture	1997
Blue Chip Capital III	$ 11,828,824	5.09%	Venture	1999
Blue Chip Capital IV	$ 2,888,370	1.24%	Venture	2000
Linsalata Capital Partners Fund III	$ 13,662,239	5.88%	Buyout	1998
Linsalata Capital Partners Fund IV	$ 4,394,014	1.89%	Buyout	2000
MCM Capital Partners	$ 6,862,774	2.96%	Buyout	1998
Northwest Ohio Venture Fund	$ 1,798,123	0.77%	Venture	1992
Primus Capital Fund II	$ 224,046	0.10%	Venture	1987
Primus Capital Fund III	$ 1,881,596	0.81%	Venture	1993
Primus Capital Fund IV	$ 9,535,887	4.10%	Venture	1997
Primus Capital Fund V	$ 4,003,949	1.72%	Venture	2000
Total Domestic	$ 69,834,713	30.05%		
Total Private Equity	**$ 232,398,130**	**100.00%**		

Corporate Governance

The Board of the Public Employees Retirement System of Ohio believes that it is in the economic interest of the organization to exercise its rights as a shareholder in companies held within investment portfolios. Proxies are voted solely in the interests of the System's participants and beneficiaries.

PERS considers voting on proposals presented to shareholders through the proxy solicitation process an integral part of our investment responsibility. PERS recognizes that certain proposals, if approved, may have a substantial impact on the market valuation of portfolio securities; therefore, the right to vote is viewed as an asset to be accorded the same fiduciary care and responsibility as our investments.

In general, PERS usually votes with management on issues because the System's long-term interests and management's long-term interests are typically aligned. However, PERS generally votes against proposals that may have a negative effect on the stock price and / or reduce shareholder rights. Similarly, PERS generally votes against issues that appear to be takeover defenses.

The brief following list of policy positions is provided to give the reader a sense of PERS' general voting positions on some key corporate governance issues. PERS supports proposals in favor of:

- Redeeming poison pills;
- Repealing classified boards;
- Confidential voting;
- Restoring shareholders' rights to call a special meeting;
- Restoring shareholders' rights to act by written consent;
- Anti-greenmail policies;
- Eliminating golden parachutes;
- Eliminating super-majority voting requirements;
- Indemnifying and limiting liability of directors.

During 2001, PERS voted on a variety of proxy issues, including financial, corporate governance and social issues, casting 6,661 votes on proxy issues of over 2,600 corporations whose shares were owned in the Investment Portfolio.

Some of the major issues voted in 2001 are summarized below:

1. **Election of Directors:** PERS generally votes in favor of directors unless the proxy statement shows circumstances contrary to policy. Examples of such circumstances are: greater than 40 percent board representation by company executives, potential conflict of interest due to financial or other ties to the company as reported in the proxy statement.
   Number Voted: 2,447
   For: 1,045 Withhold: 1,402
2. **Selection of Auditors/Accountants:** PERS generally votes in favor on the independent auditors and accountants recommended by management.
   Number Voted: 1,562
   For: 1,562 Against: 0
3. **Compensation Plans:** (Stock Options, Incentive Stock Options, Employee Stock Purchase Plans, etc.) Corporations provide a variety of compensation plans to retain executives, employees and non-employee directors.
   Number Voted: 1,434
   For: 462 Against: 970 Abstain: 2
4. **Corporate Actions/Corporate Governance Issues:** These are issues related to mergers, acquisitions, stock issuance, stock splits and incorporation. PERS generally votes in favor of these proposals.
   Number Voted: 613
   For: 441 Against: 94 Abstain: 78
5. **Social Issues:** PERS has a comprehensive proxy policy that addresses recurring social issues that are brought before publicly traded corporations. PERS votes all social issues in the best financial interests of the System's participants and beneficiaries.
   Number Voted: 139
   For: 3 Against: 116 Abstain: 20

Schedule *of* Investment Results

	2001	Rolling 3-Year	Rolling 5-Year
Total Portfolio	-4.60	2.02	6.62
Custom Benchmark	-4.68	2.21	8.10
Equity Portfolio	-10.14	-1.26	8.80
Composite S&P 1500/Russell 3000 Stock Index	-10.64	-0.01	11.38
Global Bonds Portfolio	9.11	6.40	7.35
Lehman Aggregate/Composite Benchmark	8.71	6.36	7.47
Real Estate Portfolio	6.47	9.99	9.92
Custom Real Estate Index	8.57	9.62	9.43
Private Equity Portfolio	-19.74	14.71	22.35
Standard & Poor 500	26.62	2.04	10.22
International Portfolio	-20.41	-1.39	0.87
MSCI ACWIF x US	-19.74	-3.73	1.65
Short-Term Portfolio	3.91	5.21	5.38
90 Day Treasury Bill	4.22	5.14	5.20

Footnotes for Schedule of Investment Results

1 **Customized benchmark** - performance data is calculated based upon the asset allocation targets and implementation schedules as specified by the Investment Policy in effect for each year. The asset allocation targets and associated time intervals these targets were in effect are displayed in the following table:

Asset Class	Full Year 1998	Full Year 1999	Full Year 2000	Full Year 2001
Domestic Equity	30.50%	35.00%	35.00%	47.00%
Global Bonds	51.00%	35.00%	35.00%	20.00%
International	6.00%	18.00%	18.00%	23.00%
Real Estate	8.00%	11.00%	11.00%	9.00%
Private Equity	N/A	N/A	N/A	0.60%
Short-term Investments	4.50%	1.00%	1.00%	0.40%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

To arrive at customized benchmark performance, the asset allocation targets are multiplied by the performance of the corresponding asset class reference indices. The asset class reference indices are specified by the Investment Policy, and are displayed below:

Asset Class	**1/1/96 through 9/30/98**	**10/1/98 through 1/31/01**	**2/01/01 through 11/30/01**	**12/31/01**
Domestic Equity	S&P 500	S&P Supercomposite	S&P 1500/Russell 3000	Russell 3000
Global Bonds	SSB BIG Index	SSB BIG Index	Lehman Aggregate	Lehman Aggregate
International	MSCI EAFE	MSCI AWI Free x US	MSCI ACWI Free x US	MSCI ACWI Free x US
Real Estate	NCREIF	RE Custom Composite	RE Custom Composite	RE Custom Composite
Private Equity*	S&P 500	S&P 500	S&P 500	S&P 500
Short-term Investments	90-day US Treasury Bill	90-day US Treasury Bill	90-day US Treasury Bill	90-day US Treasury Bill

* Name changed from Venture Capital 12/31/2001; management of International Private Equity moved to Private Equity class.

2 **Russell 3000 Stock Index** - A capitalization-weighted stock index consisting of the 3,000 largest publicly traded U.S. stocks by capitalization. This index is a broad measure of the performance of the aggregate domestic equity market.

3 **Lehman Brothers Aggregate Bond Index** - A market value-weighted index consisting of the Lehman Brothers Corporate, Government and Mortgage-Backed Indices. This index is the broadest available measure of the aggregate U.S. fixed income market.

4 **MSCI All Country World Ex-US Index (MSCI ACWIF x US)** - A capitalization-weighted index of stocks representing 47 developed and emerging country markets, excluding the U.S. market.

5 **PERS Custom Real Estate Index** - 60 percent NCREIF (appraisal-based valuations of privately-owned commercial real estate) adjusted for representative fees, plus 20 percent S&P REIT Index (publicly traded real estate investment trust securities), plus 20 percent Giliberto-Levy Commercial Mortgage Performance Index (a representative portfolio of institutional grade, fixed-rate/fixed-term, commercial mortgage whole loan), adjusted for representative fees.

6 **Standard & Poor 500 (S&P 500)** - A capitalization weighted index representing the 500 largest publicly traded U.S. stocks.

* Three-Month US Treasury Bill - The 90-day Treasury Bill return as measured by Merrill Lynch under their internal security code, G001
* Inflation - An index of the average monthly change in consumer prices for a fixed basket of goods and services compiled by the Bureau of Labor Statistics.

List of Largest Assets Held*

Largest Equity Holdings (By Fair Value)

December 31, 2001

	Shares	Stock	Fair Value
1)	20,802,894	General Electric Company	$ 873,859,992
2)	9,891,790	Microsoft Corporation	655,331,088
3)	11,930,974	Citigroup Incorporated	602,275,568
4)	14,733,528	Exxon Mobil Co.	579,027,503
5)	13,796,361	Pfizer Incorporated	549,784,986
6)	14,281,618	Intel Corporation	449,156,886
7)	3,607,355	IBM Corp.	436,345,661
8)	5,101,777	American International Group	405,081,094
9)	6,450,028	Johnson & Johnson	381,196,655
10)	6,289,374	Wal-Mart Stores Incorporated	361,953,474

Largest Global Bond Holdings (By Fair Value)

December 31, 2001

	Par	Security				Fair Value
1)	$ 227,370,895	FNCI Bond	6.500%	due 11/01/2016	Rating AAA	$ 231,961,513
2)	200,000,000	FNMA Bond	7.125%	due 02/15/2005	Rating AAA	218,376,000
3)	164,500,000	U.S. Treasury Notes	3.500%	due 01/15/2011	Rating AAA	163,934,120
4)	146,198,021	GNMA Bond	6.500%	due 06/15/2028	Rating AAA	147,040,122
5)	144,197,000	U.S. Treasury Notes	3.625%	due 08/31/2003	Rating AAA	146,224,410
6)	136,129,856	FNMA Bond	7.000%	due 06/01/2029	Rating AAA	139,224,088
7)	129,373,190	FNMA Bond	8.000%	due 11/01/2029	Rating AAA	135,900,067
8)	129,058,905	GNMA Bond	6.500%	due 07/15/2028	Rating AAA	129,932,806
9)	131,000,000	U.S. Treasury Receipts	NA	due 05/15/2005	Rating AAA	114,338,110
10)	100,000,000	U.S. Treasury TIPS	3.875%	due 01/15/2009	Rating AAA	110,835,720

* A complete list of assets held at December 31, 2001 is available upon request.

Schedule *of* U.S. Stock Brokerage Commissions Paid

Year Ended December 31, 2001

Brokerage Firm	Shares Traded	Commissions Paid	Average Cents Per Share
Frank Russell **	256,519,069	$ 8,975,957	3.5
Morgan Stanley & Co.	77,122,334	1,956,275	2.5
Goldman, Sachs & Co.	42,218,868	1,194,846	2.8
Bear, Stearns & Co., Inc.	30,338,990	910,170	3.0
Merrill Lynch & Co.	22,144,693	664,341	3.0
CS First Boston Corporation	11,289,777	358,046	3.2
UBS Warburg Paine Webber	2,461,162	80,835	3.3
Lehman Brothers	2,155,433	73,533	3.4
Saloman Smith Barney	2,207,067	68,059	3.1
First Union Capital Mkts.	1,465,694	68,052	4.6
ABN Amro Chicago Corp.	727,896	27,460	3.8
Prudential Securities Incorporated	995,794	27,236	2.7
A. G. Edwards & Sons, Inc.	594,619	25,839	4.3
Bridge Information Systems	1,116,962	24,863	2.2
Cantor Fitzgerald	662,694	21,881	3.3
Knight Securities	624,288	18,729	3.0
William Blair & Company	543,500	16,305	3.0
Deutsche Bank Securities	519,038	15,571	3.0
J. P. Morgan Securities	499,925	14,998	3.0
Banc of America (Montgomery)	407,843	13,585	3.3
Gerard Klauer Mattison & Co.	532,146	13,004	2.4
CIBC Oppenheimer & Co., Inc.	390,017	11,700	3.0
ISI	303,603	11,688	3.8
Cowen & Co.	338,700	10,161	3.0
Jeffries & Co.	361,438	9,843	2.7
Others (Includes 29 Brokerage Firms)*	3,262,967	103,305	3.2
TOTAL	**459,804,517**	**$ 14,716,282**	**3.2**

* A complete list of brokerage firms used in 2001 by PERS is available upon request.

** Commissions paid to Frank Russell Securities (FRS) include the brokers and the electronic communication networks ("ECNs") utilized by FRS to execute trades during the transition project in domestic equities. The following details the brokers/ECNs and traded shares attributable to each:

Instinet Corp.	(ECN)	11,102,026	shares
ITG/Posit	(ECN)	161,269,832	shares
Merrill Lynch & Co.		28,307,599	shares
UBS Warburg		55,839,612	shares
Total		256,519,069	shares

Investment Summary

	2001		2000	
	Fair Value	Percentage of Total Fair Value	Fair Value	Percentage of Total Fair Value
Global Bonds:				
U.S. Government & Agencies	$ 1,953,827,531	3.65 %	$ 4,379,556,418	7.73 %
Corporate Bonds	4,910,958,500	9.17	6,726,018,947	11.87
Mortgage & Mortgage Backed	4,089,146,297	7.64	7,770,748,827	13.72
Total Global Bonds	10,953,932,328	20.46	18,876,324,192	33.32
Equities	25,652,128,434	47.92	20,034,937,487	35.38
Real Estate	5,221,406,555	9.75	5,445,844,236	9.61
Private Equity	69,834,713	0.13	87,060,561	0.15
International	10,813,568,495	20.20	10,644,198,229	18.79
Short-term Investments:				
Commercial Paper	344,401,541	0.64	723,881,905	1.28
U.S. Treasury Obligations	478,670,990	0.90	833,324,520	1.47
TOTAL	$53,533,943,056	100.00 %	$ 56,645,571,130	100.00 %

The Comprehensive Annual Financial Report 2001

Actuarial SECTION

Report *of the* Actuary

GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

One Towne Square • Suite 800 • Southfield, Michigan 48076 • 248-799-9000 • 800-521-0498 • fax 248-799-9020

June 4, 2002

The Retirement Board
Public Employees Retirement System of Ohio
277 East Town Street
Columbus, Ohio 43215

Dear Board Members:

The basic financial objective of the Public Employees Retirement System (PERS) is to establish and receive contributions which:

- when expressed in terms of percents of active member payroll will remain approximately level from generation to generation, and
- when combined with present assets and future investment return will be sufficient to meet the financial obligations of PERS to present and future retirees and beneficiaries.

The financial objective is addressed within the annual actuarial valuation. The valuation process develops contribution rates that are sufficient to fund the plan's current cost (i.e. the costs assigned by the valuation method to the year of service about to be rendered), as well as to fund unfunded actuarial accrued liabilities as a level percent of active member payroll over a finite period. The most recent valuations were completed based upon population data, asset data, and plan provisions as of December 31, 2000.

The plan administrative staff provides the actuary with data for the actuarial valuation. The actuary relies on the data after reviewing it for internal and year-to-year consistency. The actuary summarizes and tabulates population data in order to analyze longer-term trends. The plan's external auditor also audits the actuarial data annually.

The actuary prepared the following supporting schedules for the Comprehensive Annual Financial Report.

Actuarial Section

Summary of Actuarial Assumptions
Percent Retiring Next Year
Probabilities of Retirement for Members Eligible to Retire
Percent Separating Within Next year
Individual Employee pay Increases
Analysis of Financial Experience

Financial Section

Schedule of Funding Progress

Retirement Board

June 4, 2002

Page 2

PERS Staff prepared the schedules showing the trend of short-term solvency based upon material prepared by the actuary.

Assets are valued on a market related basis that recognizes each year's difference between actual and assumed investment return over a closed four-year period.

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. The Board adopts these assumptions after considering the advice of the actuary and other professionals. The assumptions comply with the requirements of Statement 25 of the Governmental Accounting Standards Board. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed. The December 31, 2000 valuations were based upon assumptions that were recommended in connection with a study of experience covering the 1991-95 period.

Pension experience was mixed during 2000. On a market value basis, investment return was disappointing for PERS as it was for most other retirement funds across the nation. Fortunately, the actuarial method for recognizing asset gains and losses prevented the recognition of an investment loss this year. However, the actuarial value of assets now exceeds the market value by $1.4 Billion. Unless the investment markets turn around, the unrecognized $1.4 Billion loss will soon begin affecting results. Experience in the Retiree Health Plan continues to be cause for concern, and has led to a policy decision to increase the contribution allocation to the retiree health plan to 5.0% of pay, as well as to continued attention to restructuring benefits.

Based upon the results of the December 31, 2000 valuations, we are pleased to report to the Board that the Public Employees Retirement System of Ohio is meeting its basic financial objective and continues in sound condition in accordance with actuarial principles of level percent of payroll financing. However, a recovery in the investment markets is very important to PERS and to every other retirement plan in the United States.

Respectfully submitted,

GABRIEL, ROEDER, SMITH & COMPANY

Norman L. Jones, F.S.A., M.A.A.A.

Brian B. Murphy, F.S.A., M.A.A.A.

BBM: msw

GABRIEL, ROEDER, SMITH & COMPANY

Summary *of* Assumptions

The following methods and assumptions were adopted by the Retirement Board after consulting with the Actuary. All assumptions are approved annually by the Board.

Funding Method. An entry age normal actuarial cost method of valuation is used in determining benefit liabilities and normal cost. Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. Unfunded actuarial accrued liabilities are amortized to produce payments which are level percents of payroll contributions.

Economic Assumptions. The following economic assumptions are used by the Actuary:

Investment Return. 7.75 percent, compounded annually, for all members and beneficiaries.

Active Employee Total Payroll. Increasing 4.75 percent annually, compounded annually, which is the inflation portion of the individual pay increase assumption. In effect, this assumes no change in the number of active employees.

Individual Employee Pay Increases. An employee's pay is assumed to increase each year, in accordance with a table consisting of a percent increase for each age. For sample ages, the following table describes annual increase percents.

Age	Merit & Seniority			Inflation	Increase Next Year		
	State	Local	Law		State	Local	Law
30	2.62%	2.62%	3.10%	4.75%	7.37%	7.37%	7.85%
40	1.66	1.66	1.70	4.75	6.41	6.41	6.45
50	0.88	0.88	1.14	4.75	5.63	5.63	5.89
60	0.54	0.54	.70	4.75	5.29	5.29	5.45

Turnover. Probabilities of separation from employment before age and service retirement because of death, withdrawal or disability are:

% Separating Within Next Year

Sample Ages	Years of Service	Death		Withdrawal: State		Withdrawal: Law	Withdrawal: Local		Disability	
		Men	Women	Men	Women	Enforcement	Men	Women	Men	Women
	0			39.00%	35.00%	18.00%	36.00%	34.50%		
	1			17.00	17.00	10.00	17.00	18.00		
	2			13.00	14.00	8.00	13.00	14.00		
	3			9.00	10.00	7.00	10.00	11.00		
	4			6.50	8.00	6.00	8.00	9.00		
30	5 & over	.05%	.03%	5.16	6.66	3.52	5.40	7.28	.11%	.08%
40		.11	.06	3.36	4.00	2.32	3.52	4.40	.36	.25
50		.34	.13	2.28	2.90	1.62	2.82	3.36	.91	.65
60		.84	.32	.60	.70	.50	.60	.80	1.97	1.64

Assets Valuation Method. For actuarial purposes, assets are valued utilizing a method which recognizes expected return plus or minus a percentage of realized and unrealized investment gains and losses above or below expected return.

Valuation Data. The data about persons now covered and about present assets was furnished by the System's administrative staff. Data is examined for general reasonableness and year-to-year consistency, but is not audited by the Actuary.

Decrement Assumptions. The following tables of probabilities for the indicated risk areas are used by the Actuary.

Mortality. The tables used in evaluating allowances to be paid were 90% of the 1971 Group Annuity Mortality Male and Female tables, projected to 1984.

Retirement. Probabilities of normal age and service retirement applicable to members eligible to retire are:

% Retiring Next Year

Retirement	State		Local		Law
Age	Men	Women	Men	Women	Enforcement
50 - 54	15%	20%	23%	20%	25%
55 - 58	15	20	23	20	20
59	18	21	20	20	20
60	20	22	25	25	15
61	21	25	25	28	15
62	22	30	27	30	15
63	25	30	28	30	15
64	25	30	30	30	15
65	25	25	25	25	30
66	25	20	25	25	30
67	25	20	20	20	25
68	25	20	20	20	25
69 - 79	25	20	20	20	30
80	100	100	100	100	100

Actuarial Valuation Data

	Active Members				Retired Lives		
Valuation Year	Number	Annual Payroll ($ Millions)	Average Pay	% Increase In Average Pay	Number*	Annual Allowance ($ Millions)	Average Allowance
1991	324,948	$ 6,651	$20,468	5.74%	108,971	$ 820	$ 7,525
1992	333,848	6,889	20,635	(0.82)	111,779	896	8,016
1993	339,190	7,236	21,333	3.38	113,950	965	8,469
1994	343,477	7,625	22,119	3.68	116,001	1,024	8,828
1995	344,632	7,973	23,135	4.59	118,280	1,106	9,351
1996	352,408	8,340	23,666	2.30	121,219	1,216	10,031
1997	352,960	8,640	24,479	3.44	124,258	1,311	10,551
1998	354,431	9,017	25,441	3.93	127,139	1,409	11,082
1999	360,532	9,477	26,286	3.32	129,656	1,625	12,533
2000	366,975	10,192	27,773	5.66	132,603	1,753	13,220

* Retired lives number represents an individual count of retirees and beneficiaries.

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls

	Added to Rolls		Removed from Rolls		Rolls at End of Year		Percentage	
Year Ended	Number	Annual Allowances	Number	Annual Allowances	Numbers*	Increase Annual Allowances	Average in Annual Allowances	Annual Allowances
1996	7,497	$ 108,028,996	4,406	$ 12,574,601	119,796	$ 1,191,333,576	8.71%	$ 9,945
1997	7,457	118,084,211	4,465	11,278,145	122,788	1,298,139,642	8.97	10,572
1998	7,556	116,000,363	4,926	18,222,925	125,418	1,395,917,080	7.53	11,130
1999	7,513	125,218,771	4,933	21,503,909	127,998	1,499,631,942	7.43	11,716
2000	8,459	154,006,435	5,029	3,910,980	131,428	1,649,727,397	10.00	12,552
2001	8,403	323,457,399	5,062	99,438,913	134,769	1,873,745,883	13.58	13,903

* This number represents actual number of warrants written at year end. One warrant may be issued to multiple beneficiaries.

Short Term Solvency Test

The PERS financing objective is to pay for the benefits through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the System are level in concept and soundly executed, the System will *pay all promised benefits when due – the ultimate test of financial soundness.*

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (cash and investments) are compared with: 1) active member contributions on deposit; 2) the liabilities for future benefits to present retired lives; 3) the liabilities for service already rendered by active members.

In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (1) and the liabilities for future benefits to present retired lives (2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (3) will be partially covered by the remainder of present assets. Generally, if the system has been using level cost financing, the funded portion of (3) will increase over time. Column (3) being fully funded is very rare.

It is wise to pay attention to both fundamental and short-term solvency tests.

Actual vs. Recommended Contribution Rates

The Board adopted all contribution rates as recommended by the Actuary.

Accrued Liabilities

($ Amounts in Millions)

Valuation Year	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members (Employer-Financed Portion)	Valuation Assets	Portions of Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)
1991	$ 3,720	$ 8,582	$16,169	$23,097	100%	100%	67%
1992	4,062	9,403	17,536	25,969	100	100	71
1993	4,481	10,010	19,688	29,251	100	100	75
1994	4,895	10,605	20,710	31,771	100	100	79
1995	5,299	11,477	22,378	34,877	100	100	81
1996*	5,681	12,531	14,419	30,534	100	100	85
1997*	6,074	13,587	15,311	33,846	100	100	93
1998*	6,508	14,665	16,541	38,360	100	100	104
1999*	6,945	17,050	19,076	43,060	100	100	100
2000*	7,448	18,017	20,882	46,844	100	100	100

* Does not include assets set aside to pay healthcare benefits.

Analysis of Financial Experience

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

	Gain (or Loss) For Year $ in Millions			
Type of Activity	2000	1999	1998	1997
Age & Service Retirements. If members retire at older ages than assumed, there is a gain. If younger ages, a loss.	$ 24.3	$ 11.1	$ 48.6	$ 27.2
Disability Retirements. If Disability claims are less than assumed, there is a gain. If more claims, a loss.	(21.6)	25.3	49.4	44.8
Death-In-Service Annuities. If survivor claims are less than assumed, there is a gain. If more claims a loss.	12.1	1.9	3.5	3.1
Other Separations. If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.	(235.7)	(258.7)	(143.3)	89.6
Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	(169.2)	151.7	288.1	267.6
Investment Return. If there is greater investment return than assumed, there is a gain. If less return, a loss	606.9	1,590.7	1,733.3	801.4
Health Insurance & Medicare Premiums. If there are smaller increases than assumed, there is a gain. If greater increases, a loss.	NA*	NA*	NA*	NA*
Gain (or Loss) During Year from Financial Experience	$145.2	$ 1,522.0	$ 1,979.6	$1,054.5

* Gains (or Losses) are no longer calculated on health insurance or Medicare premiums because PERS no longer calculates accrued liabilities for health care.

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT 2001

Statistical SECTION

Employer Contribution Rates

		Current			Unfunded Liability		
	Year	Normal	Health	Survivor Benefits	Past Service	Health	Total
State	1992	5.49%	3.34%	1.02%	2.51%	0.95%	13.31%
	1993	5.49	3.24	1.08	2.45	1.05	13.31
	1994	5.34	3.37	1.07	2.61	0.92	13.31
	1995	5.31	3.39	1.09	2.62	0.90	13.31
	1996	5.57	3.54	1.09	2.36	0.75	13.31
	1997	5.62	3.31	0.59	2.81	0.98	13.31
	1998	5.62	4.20	0.59	2.90	0.00	13.31
	1999	5.62	4.20	0.59	2.90	0.00	13.31
	2000*	4.90	4.30	0.51	0.94	0.00	10.65
	2001	6.97	4.30	0.72	1.32	0.00	13.31
Local	1992	5.02%	4.17%	1.00%	2.42%	0.94%	13.55%
	1993	4.95	4.20	1.00	2.49	0.91	13.55
	1994	4.81	4.29	0.99	2.64	0.82	13.55
	1995	4.85	4.26	1.00	2.59	0.85	13.55
	1996	5.16	4.44	1.00	2.28	0.67	13.55
	1997	5.57	4.29	0.59	2.28	0.82	13.55
	1998	5.57	4.20	0.59	3.19	0.00	13.55
	1999	5.57	4.20	0.58	3.20	0.00	13.55
	2000*	4.92	4.30	0.51	1.11	0.00	10.84
	2001	6.96	4.30	0.72	1.57	0.00	13.55
Law Enforcement	1992	8.08%	4.46%	1.44%	1.29%	0.73%	16.00%
	1993	7.87	5.06	1.45	1.49	0.13	16.00
	1994	8.21	4.93	1.44	1.16	0.96	16.70
	1995	7.97	4.82	1.56	1.28	1.07	16.70
	1996	8.15	4.95	1.56	1.10	0.94	16.70
	1997	9.61	4.70	0.89	0.74	0.76	16.70
	1998	9.61	4.20	0.89	2.00	0.00	16.70
	1999	9.61	4.20	0.88	2.01	0.00	16.70
	2000*	9.76	4.30	0.81	0.83	0.00	15.70
	2001	10.72	4.30	0.85	0.83	0.00	16.70
Public Safety	2001**	10.71%	4.30%	0.98%	0.71%	0.00%	16.70%

* One-time employer contribution rate rollback.
** HB 416 separated the Law Enforcement program into two divisions effective January 1, 2001.

Disbursements *by* Category

	Benefits					
Year	Annuities	Disabilities	Other Systems	Survivors	CPI	Post Retirement Legislative Increase
1992	$ 577,820,133	$ 78,697,614	$4,550,956	$41,737,122	$135,927,483	$44,686,312
1993	620,080,348	91,337,107	4,636,808	43,855,109	151,763,785	41,860,355
1994	655,822,239	105,602,623	5,222,468	46,229,029	167,031,125	39,123,353
1995	701,867,702	119,699,694	6,762,310	48,103,168	182,925,717	36,520,590
1996	757,995,460	138,848,062	4,734,682	50,844,206	199,783,533	39,127,634
1997	822,581,843	155,239,567	6,037,460	53,220,591	219,887,499	41,172,682
1998	881,261,294	173,229,819	5,937,875	55,975,704	241,745,889	37,766,500
1999	947,588,558	189,724,304	6,688,026	59,181,847	261,973,594	34,475,613
2000	1,038,847,107	213,894,998	7,767,254	64,975,799	285,195,103	39,119,094
2001	1,162,871,313	243,297,512	6,984,942	79,678,241	323,734,033	57,179,842

Revenues *by* Source

Year	Members' Contributions	Employers' Contributions	Employers' Contributions as a Percentage of Covered Payroll	Investment Income (Net)	Other	Total
1992	$ 589,700,557	$ 971,602,348	13.51%	$ 2,648,454,471	$ (189,141)	**$ 4,209,568,235**
1993	639,366,718	1,012,814,909	13.51	2,683,394,902 *	592,395	**4,336,168,924**
1994	679,907,661	1,065,570,715	13.51	(134,383,505) *	229,502	**1,611,324,373**
1995	698,987,279	1,107,696,800	13.53	6,134,722,598 *	263,915	**7,941,670,592**
1996	737,292,990	1,181,597,072	13.54	2,848,123,681 *	867,738	**4,767,881,481**
1997	773,100,594	1,233,637,457	13.54	5,421,861,077 *	754,023	**7,429,353,151**
1998	799,281,516	1,266,445,268	13.55	6,045,862,119 *	237,360	**8,111,826,263**
1999	839,186,449	1,327,889,681	13.56	6,495,797,615 *	1,785,346	**8,664,659,091**
2000	879,844,987	1,171,674,955	13.57	(443,108,186) *	884,651	**1,609,296,407**
2001	931,050,640	1,408,392,987	13.67	(2,717,806,094) *	664,919	**(377,697,548)**

* GASB 25 was adopted in 1994 and applied retroactively to January 1, 1993. As a result, net investment income includes net appreciation (depreciation) in fair value of investments for 1993 through 2001 which can create significant fluctuations.

		Refunds			
Health Care	Death Benefits	Separation	Beneficiaries	Other	Total All Payments
$ 302,486,109	$ 5,677,159	$ 81,001,038	$ 4,130,148	$17,632,947	**$1,294,347,021**
307,001,902	5,203,412	76,066,042	5,123,185	3,895,870	**1,350,823,923**
327,578,426	5,718,038	86,026,417	5,403,248	1,760,429	**1,445,517,395**
353,685,547	6,304,298	100,842,250	5,100,749	2,089,485	**1,563,901,510**
369,213,858	5,987,329	102,212,756	5,598,156	2,232,831	**1,676,578,507**
389,845,273	6,464,758	131,184,720	5,827,194	2,612,260	**1,834,073,847**
440,596,663	6,321,994	116,866,392	5,824,082	2,919,433	**1,968,445,645**
523,599,349	6,308,220	101,426,721	4,477,399	14,727,841	**2,150,171,472**
559,606,294	6,464,804	69,381,933	2,374,820	10,073,592	**2,297,700,798**
693,484,110	6,959,058	231,665,029	22,378,095	8,638,134	**2,836,870,309**

Expenses *by* Type

Year	Benefit Payments	Refunds	Administrative Expenses	Total
1992	$1,191,582,888	$ 102,764,133	$ 16,178,012	**$1,310,525,033**
1993	1,265,738,826	85,085,097	17,029,933	**1,367,853,856**
1994	1,352,327,301	93,190,094	17,212,600	**1,462,729,995**
1995	1,455,869,026	108,029,484	18,232,175	**1,582,130,685**
1996	1,566,534,763	110,043,743	18,650,473	**1,695,228,979**
1997	1,694,449,673	139,624,174	20,107,718	**1,854,181,565**
1998	1,842,835,738	125,609,907	21,530,875	**1,989,976,520**
1999	2,029,539,511	120,631,961	24,142,273	**2,174,313,745**
2000	2,215,870,453	81,830,345	29,642,466	**2,327,343,264**
2001	2,574,189,051	262,681,258	40,081,348	**2,876,951,657**

Schedule *of* Benefit Recipients *by* Benefit Type

Amount of Monthly Benefit	Number of Recipients	Annuities	Disabilities	Survivors
$ 1-249	13,408	12,736	360	312
250-499	20,131	16,061	779	3,291
500-999	35,911	26,721	3,597	5,593
1,000-1,499	24,655	17,976	4,757	1,922
1,500-1,999	17,371	12,887	3,848	636
2,000 & Over	23,293	19,495	3,386	412
Totals	**134,769**	**105,876**	**16,727**	**12,166**

Schedule *of* Average Benefit Payments

	Years Credited Service					
	5-9	10-14	15-19	20-24	25-30	30+
Period 1/1/96-12/31/96						
Average Monthly Benefit*	$ 374.09	$ 508.25	$ 843.40	$ 1,208.45	$ 1,568.23	$ 2,374.00
Average Final Average Salary	$19,936.71	$22,154.96	$27,149.62	$29,866.58	$32,352.94	$37,565.77
Number of Active Recipients	519	1,134	951	988	1,024	1,951
Period 1/1/97-12/31/97						
Average Monthly Benefit*	$ 426.08	$ 558.52	$ 872.77	$ 1,222.66	$ 1,603.02	$ 2,486.91
Average Final Average Salary	$22,031.22	$25,315.85	$28,550.09	$31,018.97	$33,927.69	$40,413.10
Number of Active Recipients	520	1,159	944	889	955	2,120
Period 1/1/98-12/31/98						
Average Monthly Benefit*	$ 408.75	$ 538.31	$ 859.51	$ 1,221.36	$ 1,584.23	$ 2,377.66
Average Final Average Salary	$19,827.76	$24,457.13	$28,430.45	$31,505.49	$34,320.53	$39,894.01
Number of Active Recipients	547	1,289	993	953	1,008	2,133
Period 1/1/99-12/31/99						
Average Monthly Benefit*	$ 512.63	$ 593.27	$ 892.31	$ 1,250.57	$ 1,629.59	$ 2,485.10
Average Final Average Salary	$22,577.73	$26,592.55	$29,804.08	$32,960.61	$35,598.43	$42,549.25
Number of Active Recipients	553	1,199	926	970	1,025	2,246
Period 1/1/00-12/31/00						
Average Monthly Benefit*	$ 556.97	$ 571.34	$ 871.07	$ 1,235.37	$ 1,705.39	$ 2,531.57
Average Final Average Salary	$22,970.77	$26,141.81	$29,794.33	$32,681.34	$37,502.53	$43,834.48
Number of Active Recipients	621	1,323	1,050	1,059	1,103	2,647
Period 1/1/01-12/31/01						
Average Monthly Benefit*	$ 635.49	$ 620.58	$ 952.80	$ 1,286.41	$ 1,776.53	$ 2,553.81
Average Final Average Salary	$24,280.50	$28,404.98	$32,627.53	$35,006.61	$39,560.03	$45,092.08
Number of Active Recipients	470	1,079	890	929	1,098	2,561

* "Average Monthly Benefit" includes post retirement and yearly 3% cost-of-living increases.

Number *of* Benefit Recipients *by* Category

Year-end	Annuities	Disabilities	Survivors	Total
1992	89,736	9,079	11,158	**109,973**
1993	91,048	9,879	11,256	**112,183**
1994	92,224	10,758	11,360	**114,342**
1995	93,718	11,561	11,426	**116,705**
1996	95,739	12,547	11,510	**119,796**
1997	97,833	13,335	11,620	**122,788**
1998	99,619	14,146	11,653	**125,418**
1999	101,345	14,868	11,785	**127,998**
2000	103,680	15,811	11,937	**131,428**
2001	105,876	16,727	12,166	**134,769**

Number *of* New Benefit Recipients *and* Refund Payments

Year	Annuities	Disabilities	Survivors	Refund
1992	5,330	793	505	38,894
1993	4,463	1,195	537	37,336
1994	4,428	1,327	563	39,457
1995	4,908	1,353	535	39,536
1996	5,394	1,536	567	38,195
1997	5,371	1,470	616	40,806
1998	5,490	1,487	579	38,299
1999	5,387	1,474	652	36,442
2000	6,065	1,739	655	31,157
2001	5,999	1,650	754	40,615

Member Count

Year-end	Active Contributing	Inactive	Total
1992	349,674	73,660	**423,334**
1993	347,937	96,268	**444,205**
1994	358,149	110,745	**468,894**
1995	365,383	127,491	**492,874**
1996	369,467	148,274	**517,741**
1997	365,384	175,020	**540,404**
1998	371,563	192,273	**563,836**
1999	383,286	207,345	**590,631**
2000	399,919	220,189	**620,108**
2001	411,076	224,677	**635,753**

Member Contribution Rates

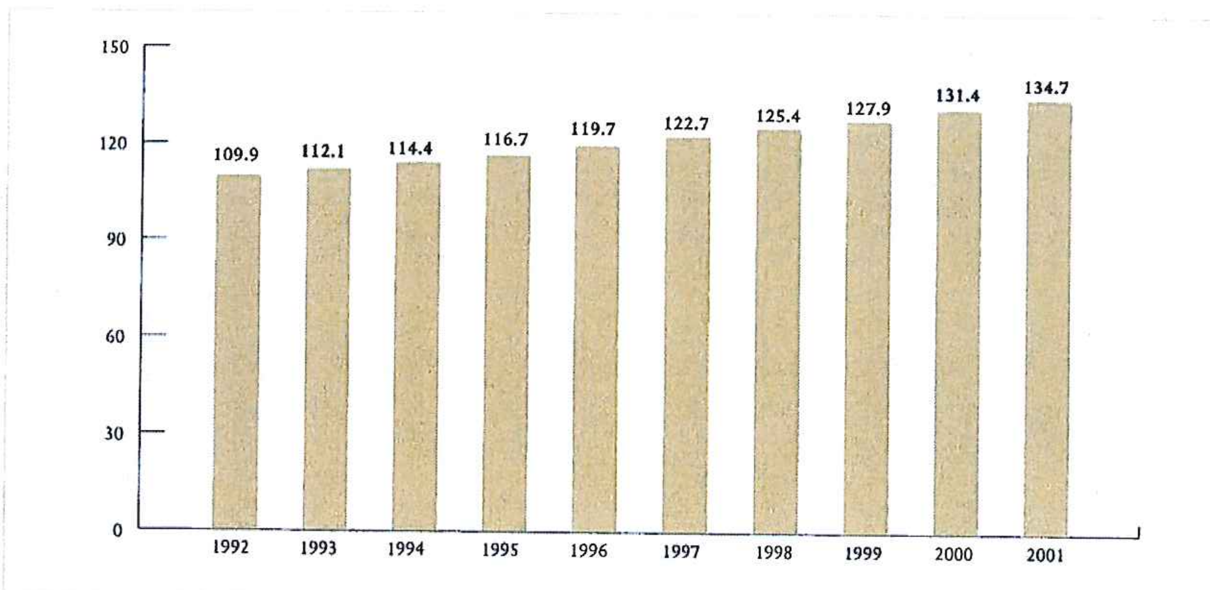
Year	Regular	Law Enforcement	Public Safety
1992	8.5%	9.0%	N/A
1993	8.5	9.0	N/A
1994	8.5	9.0	N/A
1995	8.5	9.0	N/A
1996	8.5	9.0	N/A
1997	8.5	9.0	N/A
1998	8.5	9.0	N/A
1999	8.5	9.0	N/A
2000	8.5	9.0	N/A
2001	8.5	10.1	9.0 %

Number *of* Employer Units

Calendar Year	State	County	Law Enforcement	Municipalities	Villages	Miscellaneous	Libraries	Townships	Totals
1992	265	234	211	336	613	320	256	1,310	**3,545**
1993	280	238	214	338	620	324	257	1,312	**3,583**
1994	287	238	207	340	634	340	257	1,311	**3,614**
1995	288	238	208	340	651	354	256	1,310	**3,645**
1996	289	238	213	339	658	374	256	1,312	**3,679**
1997	292	236	226	338	666	379	256	1,312	**3,705**
1998	327	247	233	338	672	400	256	1,312	**3,785**
1999	332	247	233	337	673	406	257	1,312	**3,797**
2000	318	243	232	334	673	414	257	1,312	**3,783**
2001	266	239	255	258	665	442	256	1,309	**3,690**

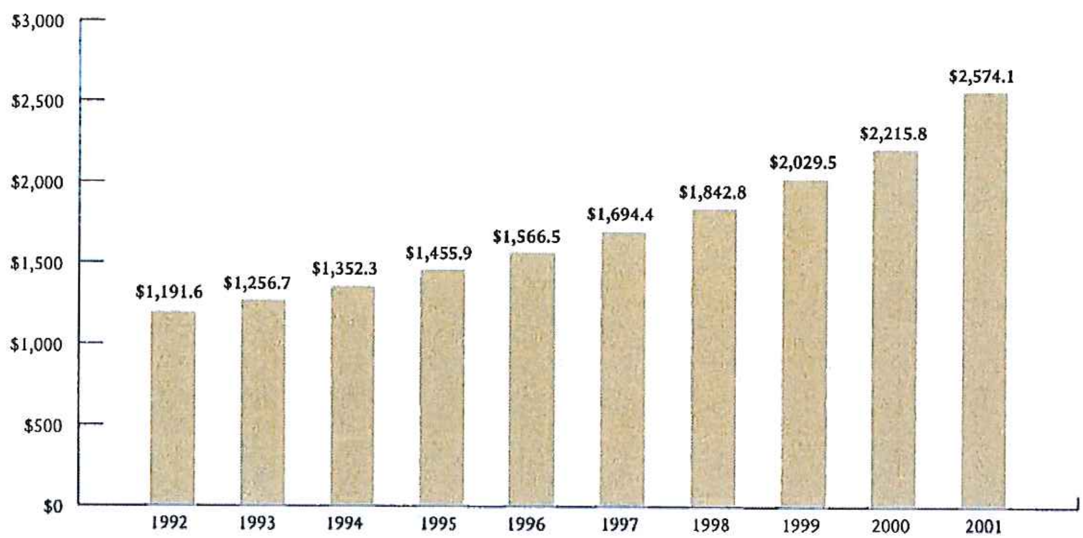
Total Benefit Recipients

(in thousands)



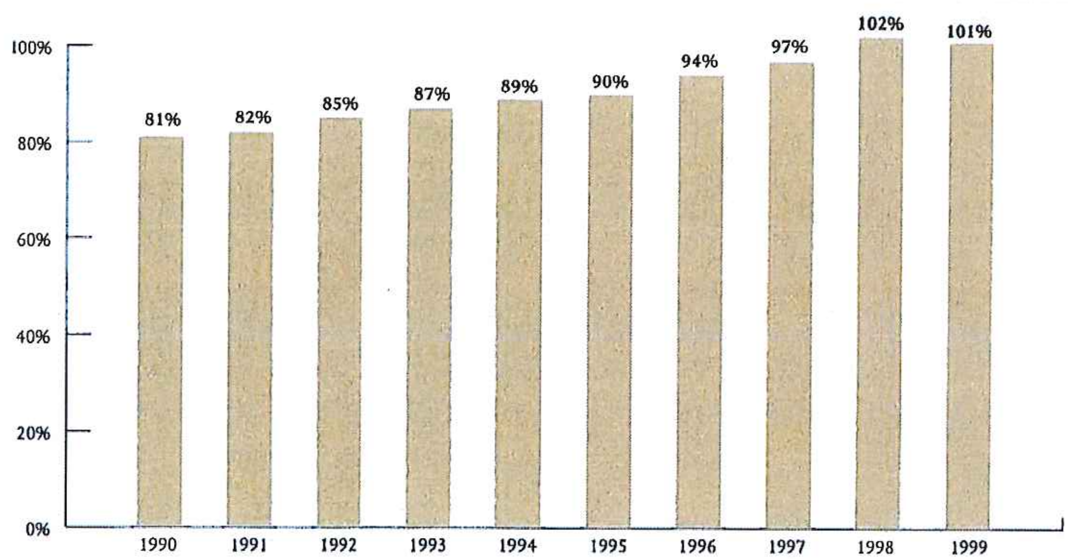
Total Benefit Payments

(Dollar Amounts in Millions)



Funding Progress

(Pension Only)



THE COMPREHENSIVE ANNUAL FINANCIAL REPORT 2001

Plan STATEMENT

Plan Statement

The PUBLIC EMPLOYEES RETIREMENT SYSTEM OF OHIO (PERS) was created by the Ohio General Assembly to provide retirement, disability, and survivor benefit programs for the public employees of Ohio. This summary outlines the Ohio law which regulates PERS; however, it cannot and does not change any of the provisions of the Ohio Revised Code.

Member Eligibility

All public employees, except those covered by another state retirement system in Ohio or by the Cincinnati Retirement System, are required to become contributing members of PERS when they begin public employment unless they may be exempted or excluded.

The law provides for optional membership for elected public officials. Students, not already members, working for the public school, college, or university they are attending may be exempt from contributing to PERS by filing a request for exemption within the first month of employment.

The following individuals are excluded from membership:

1) inmates of state correctional institutions;
2) patients in hospitals operated by the Departments of Mental Health or Mental Retardation;
3) patients in the Ohio Veterans' Home and residents of county homes;
4) elected officials of public employers who have no employees subject to PERS coverage;
5) employees of temporary help services who perform services for public employers;
6) individuals serving on a temporary basis in case of fire, storm, snow, earthquake, flood, or other similar emergency;
7) persons employed under the federal Job Training Partnership Act;
8) members of the Motor Vehicle Salvage Dealers Board or the Motor Vehicle's Board;
9) employees of private contractors except public employees transferred with previously publicly-operated functions and performing the same duties as before;
10) individuals performing services under a contract as an independent contractor;
11) election workers who earn less than $500 per calendar year;
12) firefighters except those who were members before Aug. 3, 1992 and elected to remain members;
13) board members of city or general health district boards of health whose compensation is established in Section 3709.02 or 3709.05;
14) full-time faculty and administrative state employees in the unclassified civil service of state colleges/universities who choose to participate in an alternate retirement plan (ARP); and
15) board members of a sanitary district established under Chapter 6115.

PERS provides special retirement coverage for certain law enforcement officers. These individuals, who must have a Peace Officer's Training School Certificate, are covered if they were hired on or after the dates of the enabling legislation. If they were employed before the legislation was enacted, they had the option to be covered; if they did not elect to law enforcement coverage, they remained under the regular PERS schedule of benefits.

Those listed below, whose primary duties are to preserve the peace, to protect life and property, and to enforce the laws of Ohio, are covered if they are:

1) sheriffs and deputy sheriffs;

2) full-time township constables or police officers,

3) criminal bailiffs or court constables who were deputized by a county sheriff and employed under Section 2301.12,

4) full-time state university law enforcement officers under Section 3345.04,

5) full-time bailiffs or deputy bailiffs appointed by the Hamilton County Municipal Court Clerk of Courts under Section 1901.32(A)(3), and

6) full-time county narcotics agents.

The following groups also are eligible for law enforcement coverage:

1) full-time undercover drug agents as defined in Section 109.79,

2) full-time enforcement agents with the Ohio Department of Public Safety under Section 5502.14,

3) full-time park officers under Section 1541.10, forest officers under Section 1503.29, wildlife officers under Section 1531.13, state watercraft officers under Section 1547.521, full-time natural resources law enforcement officers under Section 1501.013, and full-time preserve officers under Section 1517.10, with the Ohio Department of Natural Resources,

4) full-time park district police officers under Section 511.232 or 1545.13,

5) full-time conservancy district officers under Section 6101.75,

6) full-time municipal corporation police officers not covered by the Ohio Police and Fire Pension Fund,

7) police employed by the Ohio Veterans' Home under Section 6907.02,

8) special police employed by a state mental health institution under Section 5119.14, and

9) special police employed by a state institution for the mentally retarded and developmentally disabled under Section 5123.13.

Contributions

Employers are required to make contributions to the System on the basis of a percentage of reportable payroll and at a rate based upon the recommendation of PERS' actuary. Penalties and interest are added for late payments. The state contribution rate is 13.31 percent. Local employers contribute 13.55 percent and employers in the law enforcement division contribute 16.70 percent.

The current contribution rate for members is 8.5 percent of earnable salary. Members in the law enforcement division pay 9.0 or 10.1 percent of earnable salary. Individual accounts for each member of PERS are maintained and funds contributed by the member are fully refundable at service termination or death. In the first quarter of the year, members are sent a statement of their individual account as of the previous Dec. 31. A report disclosing the financial status of the System and describing major developments during the year at PERS is sent along with the statement of account.

Benefits for Contributing Members

Age and Service Retirement

Members are eligible to retire at age 60 with at least five years of total service credit. They may retire with a reduced benefit as early as age 55 with 25 years of service. With 30 years of credit, there is no age requirement nor benefit reduction because of age.

Service credit allowed under Chapter 145 of the Ohio Revised Code includes:

1) service for the state of Ohio or an Ohio political subdivision for which contributions have been paid;

2) certain military service which interrupted contributing public service;

3) any out-of-public service period of three years or less during which the member was receiving an award under Workers' Compensation;

4) previously unreported service in Ohio;

5) service purchased by the member for:

a) other military service that is not being used for other retirement programs, except Social Security;

b) prisoner-of-war service;

c) an authorized leave of absence, which did not exceed one year;

d) comparable public service that is not being used for other retirement programs, except Social Security, performed outside Ohio or with the federal government or for which contributions were made to an Ohio municipal retirement system;

e) service restored by redeposit which had been cancelled by an earlier refund of PERS contributions;

f) service in an Ohio police or fire department and covered by the Police and Firemen's Disability and Pension Fund or service in the State Highway Patrol and covered by the Highway Patrol Retirement System that is not being used for other retirement benefits;

g) service which was previously covered by a valid exemption under PERS;

h) 35 percent additional credit on completed terms of full-time contributing elective service or board, commission, or other public body service by members who are appointed by the governor with the advice and consent of the Senate;

6) service purchase by an employer under a retirement incentive plan.

When a member files an application for age and service retirement, a choice of several plans of payment is available. The choices include benefits payable throughout the member's lifetime (Plan B-single life annuity) or in a lesser amount during the individual's life but continuing after their death to a spouse (Plan A) or to another designated beneficiary (Plans C, or D-joint and survivor annuity). A benefit payable under Plan A, C, or D is the actuarial equivalent of Plan B, but the payment to the member is reduced because it is based on the combined life expectancies of the member and the beneficiary. A fifth payment plan (Plan E-guaranteed period) is also the actuarial equivalent of Plan B, but the payment is reduced to guarantee the period.

Benefit payments vary in amount depending on length of public service, final average salary (FAS), age, and plan of payment selection. FAS is determined by taking the average of the three highest years of earnable salary. In no case can the age and service formula benefit exceed 100 percent of FAS or the limits under Internal Revenue Code Section 415.

Disability Benefits

PERS members are eligible for one of two disability programs, the **original** plan or the **revised** plan. Employees who had contributions on deposit with PERS on July 29, 1992 had a one-time opportunity to select coverage under one of these programs. Those employees hired after July 29, 1992 are covered only under the revised plan. There are a number of features common to both plans.

A member who has at least five years of contributing service credit and becomes disabled for the performance of duty may apply to the Retirement Board for monthly disability benefits. Those members in the law enforcement division do not need five years of service credit to apply for disability if the disabling condition was the result of an on-duty illness or injury, or an injury which occurred during or resulted from the performance of duty.

A member must go off the payroll because of a presumably permanent disabling condition, either mental or physical, which prevents performance of their job. No more than two years must have passed since the member's contributing service was terminated unless at the end of the two-year period, the member was disabled and unable to file an application. The member must not be receiving an age and service retirement benefit. If the Retirement Board approves the disability application, the benefit is effective the first day of the month following the member's service termination, provided the member is otherwise eligible. A disability benefit recipient may be required to have a medical examination at least once a year.

A disability benefit terminates under either plan if the member is no longer disabled, returns to public service, chooses to begin receiving an age and service benefit, dies, or requests termination of the benefit.

The amount of disability allowance under the original plan is based on the FAS and years of service with PERS, plus the length of time between the effective date of disability and age 60. The disability benefit cannot exceed 75 percent, nor be less than 30 percent of the member's final average salary. The benefit is fully taxable until normal retirement age and then a specified dollar amount each month representing the return of taxed contributions is tax-free. For a law enforcement member disabled due to an on-duty injury or illness, 30 percent of the benefit payment is excludable from taxable income.

The benefit under the revised plan is based on the FAS and years of service with PERS with no early retirement reductions, but cannot be less than 45 percent or exceed 60 percent of FAS. The benefit is fully taxable as long as it is received. For a law enforcement member disabled due to an on-duty injury or illness, 45 percent of the benefit payment is excludable from taxable income.

When the disability benefit under the revised plan ends, the member may have the opportunity to apply for a service retirement benefit or apply for a refund of the account, which is not reduced by the amount of disability benefits paid. The benefit amount would be the greater of: a) 2.2 percent of FAS multiplied by the years of service (contributing and disability) not to exceed 45 percent of FAS, or b) the regular or law enforcement benefit calculation using only the member's years of contributing service.

Survivor Benefits

A member's beneficiary is determined by statutory automatic succession unless a specific designation is made in writing on a form provided by PERS. Listed below is the order of automatic succession under Ohio law:

1) Spouse.
2) Children.
3) Dependent parents.
4) If none of the above, parents share equally in a refund of the account.
5) If none of the foregoing, a refund of the account will be paid to the estate.

Qualified beneficiaries will be eligible to receive monthly survivor benefits if, at the time of the member's death, at least one of the following qualifications was met:

1) 18 full months of Ohio service credit with three of those months within the two and one half years immediately before death, or
2) receiving a disability benefit from PERS, or
3) eligible for retirement but did not retire and continued to work

If, at the member's death, none of these requirements were met, a refund of contributions paid into PERS for the account may be made. The member's beneficiary may choose a refund of the member's account only if there are not children eligible for monthly benefits. If the member dies while receiving a disability benefit under the original plan and eligible survivors are allowed to select a cash refund of the account, the amount is reduced by the amount of disability benefits that had already been paid. There is no reduction in amount if the member dies while receiving a benefit under the revised disability plan or while still working.

Surviving Spouse – If the member had at least 10 full years of Ohio service credit, their surviving spouse (with no children eligible for monthly benefits) may receive benefits of $250 a month, an amount equal to 25 percent of final average salary, or a percent determined by service credit (if over 20 years), whichever is higher. If the member had less than 10 full years, but at least 18 full months, of Ohio service credit, the surviving spouse (at age 62 or older with no children eligible for monthly benefits) may receive the greater of $250 per month or 25 percent of final average salary.

These benefits are payable regardless of the age of a surviving spouse adjudged physically or mentally incompetent. Also, a spouse with children eligible for monthly benefits will receive a benefit immediately regardless of the age of the spouse.

As long as the member did not have any children eligible for a monthly benefit, and the member was eligible to retire on a monthly benefit but chose to stay on the job, a monthly benefit for the spouse at the member's death may be calculated as though the member had retired and taken Plan D. This option provides for the monthly allowance to continue through the spouse's lifetime.

Child – A child may qualify for monthly benefits if they have never been married or are a natural or legally adopted child under age 18, (or 22, if a qualified student attending an accredited school) or a child, at any age, who is physically or mentally incompetent at the time of the member's death. Benefits terminate upon the child's first marriage, adoption by someone other than a stepparent, abandonment, death, or during active military service.

Also, survivor benefits will be stopped after a child reaches age 18 unless proof is submitted that the child is attending an institution of learning or training and pursuing a program of study equivalent to at least two-thirds of the full-time curriculum requirements of the institution. Forms are provided by PERS for submission of the necessary proof by the surviving spouse or student, and by the school.

Dependent Parent – A dependent parent is one who received at least one-half support from the member during the 12 months preceding the member's death. A dependent parent may receive survivor benefits if age 65 or older, or at any age if adjudged physically or mentally incompetent at the time of the member's death. Payments to dependent parents stop in the event of a first marriage or death.

Additional Benefits

Health Care Coverage – PERS-provided health care is not a statutorily-required benefit. Currently, when applying for age and service retirement, a member with 10 years of Ohio service credit has PERS health care plan coverage available. These 10 years may not include out-of-state and/or military service purchased after Jan. 29, 1981, service credit granted under a retirement incentive plan, or credit purchased after May 4, 1992 for exempt service. Health care coverage for disability recipients and primary survivor recipients is available. Dependents of eligible recipients may be covered through premium deductions. Qualified benefit recipients also may be eligible for alternative health care plans (HMOs) which may require a premium deduction.

Members with less than 10 years of service credit at age and service retirement may obtain access to independent health care coverage offered by our health care administrators. This coverage is neither offered by PERS nor is it the responsibility of the Retirement System. PERS does not pay premiums, claims, or withhold any premiums for this coverage.

Medicare Part B Reimbursement – Recipients who are eligible for health care must enroll in Medicare B (medical) when they become eligible for Medicare B even if they are covered by health care through their current employer. Proof of enrollment must be submitted and PERS will then reimburse a recipient for the basic premium cost of the Medicare B premium as long as the recipient is enrolled in Medicare B. The amount is added to the monthly benefit.

Cost-of-Living Adjustment – Once a benefit recipient has received benefits for 12 months, an annual 3 percent cost-of-living adjustment is provided to benefit recipients each year.

Death Benefit – Upon the death of an age and service or disability benefit recipient, a lump sum death benefit is paid to the qualified beneficiary. The benefit, from $500 to $2,500, is based on the recipient's years of service credit.

Refunds

Full recovery of all employee contributions to PERS is guaranteed. Upon leaving all public employment in Ohio, a member may apply for and receive their accumulated contributions, interest, and a matching amount (if the member has five or more years of service credit).

Before a refund may be issued, the law requires three months must elapse from the date certified by the employer that the member terminated public employment. If a member is also a member of the State Teachers Retirement System or the School Employees Retirement System, an application for refund from the other system(s) must have been filed in order to receive the money from PERS.

If a refund is taken and the individual later returns to covered employment for at least 18 months, the amount refunded, plus interest, may be redeposited and service credit restored.

Coverage and Benefits for Re-Employed Retirees

After a member retires, re-employment in a job that is covered by PERS, including service in an elected position, may affect continuing receipt of an age and service retirement benefit.

Retirees begin contributing from the first day of re-employment at a rate of 8.5 percent of earnable salary. State employers contribute 13.31 percent for these re-employed retirees and local employers contribute 13.55 percent.

A retiree should not be re-employed for at least two months after retirement from a PERS-covered employer. A retiree who returns to work and has not been retired for the required two months must contribute, but the current retirement allowance for each month in which re-employment occurs during those two months will be forfeited.

All re-employed retirees will continue to receive their retirement allowance and must make contributions toward a money purchase annuity, which is based on the calculation of the sum of employee contributions for the period of re-employment, plus allowable interest, multiplied by two.

The employer must provide the re-employed retiree's primary health care coverage if it is available to employees in comparable positions. The employer health care coverage cannot be waived by the re-employed retiree. Suspension or forfeiture of the retirement allowance interrupts the retiree's health care coverage.

A person who is retired from PERS and returns to PERS-covered employment as an elected official is treated as a re-employed retiree. A person who is retired from another Ohio state retirement system and becomes a PERS member as an elected official also is treated as a re-employed retiree. However, if a PERS member is covered for non-elected official service, and, also is an elected official contributing to Social Security for the elected position, their elected service has no effect on their PERS retirement, and they are not PERS re-employed retirees for subsequent elected services.

A PERS retiree cannot continue to receive benefits and work as an independent contractor under a contract for any period of time for the employer from which they retired.

A disability or age and service benefit recipient from another Ohio system coming into PERS-covered employment should be retired for at least two months and must begin contributions to PERS from the first day of employment. These recipients will earn a money purchase annuity based on the calculation of the sum of employee contributions received for the period of re-employment, plus allowable interest, multiplied by two.

PERS

PUBLIC EMPLOYEES RETIREMENT SYSTEM OF OHIO

277 East Town Street
Columbus, Ohio 43215-4642
(614) 466-2085
1-800-222-PERS (7377)
www.opers.org