The Comprehensive Annual Financial Report

For the Year Ended December 31, 2000

Public Employees Retirement System of Ohio

PERS

Public Employees Retirement System of Ohio

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of Ohio

The Comprehensive Annual Financial Report

For the Year Ended December 31, 2000

Laurie Fiori Hacking, Executive Director
Mark Snodgrass, Director-Finance

277 East Town Street, Columbus, Ohio 43215-4642

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Introductory Section

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, 1999

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

Anne Spray Kinney
President

Jeffrey L. Esser
Executive Director

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
Chairman

The Retirement Board

Elected Members

Charlie Adkins
Representing College and
University Employees

Ronald C. Alexander
Representing State Employees

Larry D. Black
Representing Miscellaneous Employees

Sharon M. Downs
Representing Retirees

Barbara J. Thomas
Representing County Employees

Ken Thomas
Representing Municipal Employees






Statutory Members

C. Scott Johnson
Director
Administrative Services

Betty D. Montgomery
Attorney General

Jim Petro
Auditor of State



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 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:

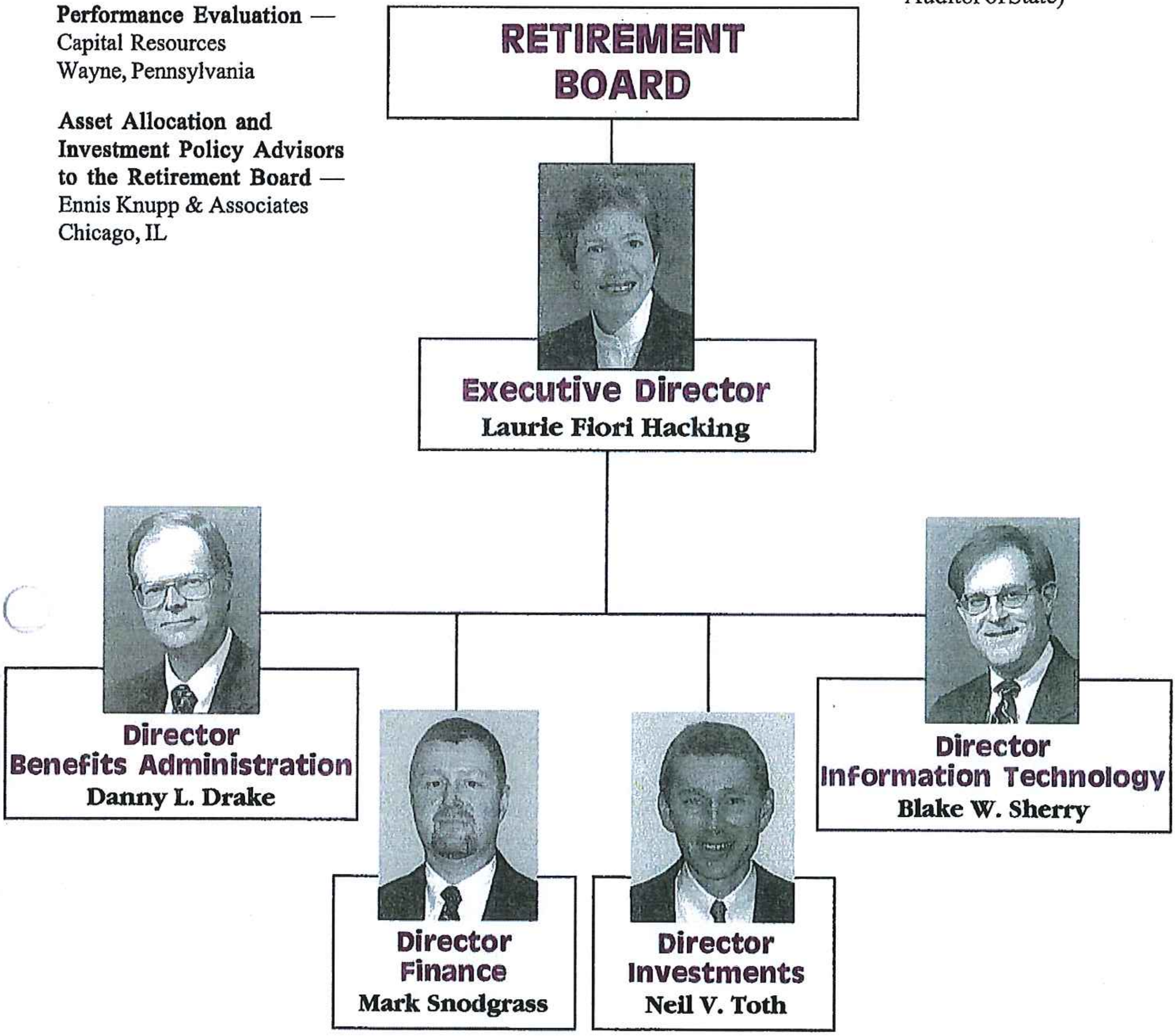
Actuary —
Gabriel, Roeder, Smith & Company
Detroit, Michigan

Performance Evaluation —
Capital Resources
Wayne, Pennsylvania

Asset Allocation and 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)



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 27, 2001

Dear Chair 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 fiscal year ended December 31, 2000. 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). 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 68. 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's or retirees death. For additional information on benefits available, see the Plan Statement on page 68.

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, the 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 the year 2000 PERS benefits were significantly increased by the enactment of several pieces of important pension legislation.

House Bill 628 (HB 628) became effective on September 20, 2000. Under this law:

- The benefit formula was changed from 2.1 percent of final average salary (FAS) to 2.2 percent of FAS for state and local government employees for each year of service credit up to 30 years. For members in the law enforcement division the benefit formula increased from 2.1 percent of FAS to 2.5 percent of FAS for each year of service between 20 and 25 years.

- Benefit amounts for survivors of members who die before retirement or while receiving a disability benefit were improved. They will be based on either the number of beneficiaries (the prior law) or on years of service credit, whichever provides the greater benefit.
- Benefit recipients were restored to 85 percent of the purchasing power of their original benefit.

HB 628 also authorized PERS to establish a defined contribution plan (DCP) for newly hired employees and those employees with less than five years of service at the time the plan is established. Law enforcement members would not be eligible for this plan. The DCP is scheduled to be in place sometime in 2002. PERS has made a considerable effort to incorporate the input of members, employers and constituency groups into the DCP design.

Senate Bill 144 (SB 144) was enacted into law during 2000. This legislation increases the payout to members who, upon termination of employment, withdraw their funds from PERS. Under prior law no interest was paid on a member's contributions at the time of withdrawal. Under SB 144 interest is paid at a rate set by the PERS Board which currently is 4 percent. In addition to the interest amount, a member with at least 5 but less than 10 years of qualifying service credit will receive matching funds equal to 33 percent of the member's own contributions plus credited interest. Members with at least 10 years of qualifying service credit will receive a 67 percent match.

SB 144 also made a number of changes aimed at simplifying the re-employment provisions governing PERS retirees. The penalty period for PERS retirees to become re-employed in a PERS-covered position was shortened from six to two months. In addition, the bill mandates that all re-employed retirees contribute to a money purchase annuity. Prior to SB 144, retirees reentering service could choose to either suspend their regular benefit and build towards a second benefit calculation or contribute to a money purchase annuity.

Effective January 1, 2001, House Bill 416 permits members with at least 25 years of service as a sheriff, deputy sheriff, or township police officer to retire with full benefits at age 48 (52 under prior law). In effect, this creates two law enforcement divisions at PERS with separate contribution rates and benefit structures.

The General Assembly enacted House Bill 535 (HB 535) in December 2000. The primary change in HB 535 authorizes the division of PERS benefit payments when marital property is divided due to divorce or dissolution of a marriage. These changes do not become effective until January 1, 2002.

Effective April 1, 2001, HB 535 also authorizes PERS and the Cincinnati Retirement System to enter into an agreement to transfer service credit between the systems. The bill also makes corrective changes to the provisions governing re-employment and the alternative retirement program for certain university employees.

Senate Bill 190 included provisions which would allow PERS to establish a qualified excess benefit arrangement (QEBA) for PERS members whose monthly retirement benefit would be limited by Internal Revenue Code 415. The Board has authorized a QEBA and the plan is currently under review for acceptance by the IRS.

During the year 2000 PERS made an unprecedented one-time rollback of employer contributions because PERS had exceeded its full funding target. The one time rollback provided nearly $270 million to state and local governments by way of reduced employer contributions. All members of the Retirement System can be proud to be part of an organization with the legacy of quality fiscal management and foresight exhibited by PERS. The financial strength to provide both significant benefit increases and reductions of employer contributions, within the same year, speaks well to the prudence of PERS' Boards both past and present.

The investment function has undergone an extensive review. The major outcomes of the review were to establish a more equity oriented asset allocation and move approximately 70 percent of domestic equity portfolio into passive management. The revised asset allocation raises PERS' expected annualized long-term return to 8.44 percent, as compared to 8.09 percent for the previous asset mix.

During the year 2000 PERS commenced work on a strategic plan. The focus of the plan is to improve customer service while maximizing operational efficiencies. This process has provided a useful framework in which both the Board and staff can move toward a common vision for the future of PERS. This in turn has allowed us to allocate System resources in a strategically sound manner which will assure that PERS reaches overall System goals in as efficient and timely a manner as possible. Service enhancements will be highlighted to our members and benefit recipients as we roll them out over the next several years.

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 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.

Several positive changes were made this past year in our health care services. Focusing on wellness, we began paying for several new screening procedures, all on a first-dollar basis. These enhancements were designed to support the recommendations put forth by the American Heart Association, the American Cancer Society, and the Center for Disease Control. Coverage for cancer screenings was increased to the first-dollar coverage as well, further encouraging benefit recipients to be proactive in managing their health. Further, we began covering the basic cost of a routine physical exam. Hospice benefits were increased effective January 2001, and additional resources were allocated to support smoking cessation.

In an effort to slow down the rapid rise in Medicare costs resulting from Parts A & B benefits, the federal government initiated the Medicare Plus Choice Program. PERS presently offers four of these Medicare HMOs as an alternative to the traditional PERS Health Care Plan. We also offer three commercial HMOs. Nearly 10,000 PERS health care recipients are covered by these HMOs.

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.

Future Legislative Initiatives

This might be the year that Congress finally acts to extend the portability of pension assets. A bipartisan package is expected to be introduced early in the 107th Congress that will contain many of the features of the comprehensive Retirement Security and Pension Act that passed the House last summer. The proposal is expected to include provisions to allow the transfer of pension assets between IRC Section 401(a) qualified plans (such as PERS), IRC Section 403(b) educational annuities, IRC Section 457 (deferred compensation) plans, and IRC Section 401(k) plans. If such proposals become law, PERS members will realize far greater flexibility in their individual retirement options.

At the state level, PERS will continue to pursue legislation to improve its cost of living adjustment (COLA) provisions. The PERS Board supported legislation last year to change the COLA to a simple 3 percent increase, regardless of the actual percentage change in the Consumer Price Index. PERS anticipates a similar bill will be introduced in 2001 to make this change for PERS and the other state retirement systems.

Internal Controls

The management of PERS is responsible for and has implemented systems of internal accounting controls, which are designed to provide reasonable 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 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 employer and employee contributions, as well as income from investments, provides the reserves needed to finance retirement benefits. Contributions, investment, and other income for fiscal year 2000 totaled $1,609,296,407.

	2000	1999	Increase (Decrease) Amount	Increase (Decrease) Percentage
Member Contributions	$ 879,844,987	$ 839,186,449	$ 40,658,538	5%
Employer Contributions	1,171,674,955	1,327,889,681	(156,214,726)	(12%)
Net Investment Income	(443,108,186)	6,495,797,615	(6,938,905,801)	(1.07%)
Other	884,651	1,785,346	(900,695)	(50%)
Total	$1,609,296,407	$8,664,659,091	($ 7,055,362,684)	(81%)

Member contributions increased by $40,658,538 (5 percent) and employer contributions decreased by $156,214,726 (12 percent) for the year ended December 31, 2000, as compared with the previous year. The increase in member contributions was attributable to higher salaries and additional members during the period. The decrease in employer contributions is the net affect of an increase in the number of members and their salaries and the temporary employer rate rollback granted by the Retirement Board. Net investment income decreased in 2000 due to an unfavorable market environment. Other income for 1999 was unusually high due to the favorable settlement of several class action securities litigation claims. Other income for 2000 reflects a more normalized cash flow.

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.

	2000	1999	Increase (Decrease) Amount	Increase (Decrease) Percentage
Benefit Payments	$ 2,215,870,453	$2,029,539,511	$186,330,942	9%
Refunds	81,830,345	120,631,961	(38,801,616)	(32%)
Administrative Expenses	29,642,466	24,142,273	5,500,193	23%
Total	$ 2,327,343,264	$2,174,313,745	$153,029,519	7%

Expenses for fiscal year 2000 totaled $2,327,343,264, an increase of 7 percent over fiscal year 1999 expenses. The majority of the increase is due to an increase in the number of benefit recipients and associated benefit payouts. We attribute the decrease in refunds to members leaving their funds on deposit to await the outcome of SB 144. The increase in administrative expenses is largely attributable to increased payroll costs. Administrative expenses are detailed in the Financial Section on page 33 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. As of December 31, 2000, funds established by the System totaled $57,227.4 million. The latest actuarial valuation, dated December 31, 1999, reflects an unfunded actuarial accrued liability of $11 million. This is the difference between actuarial value of pension assets and the actuarial calculated liability for the fund. The "unfunded actuarial accrued liability," is being amortized over future years. The state government portion of the liability is fully funded. The local government and law enforcement portions of the liability are being funded over 2 years and 21 years, respectively. 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 the 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. A summary of the asset allocation can be found on page 53 of this report.

For the year ended December 31, 2000, total return on investments was a negative .74 percent. The annualized rate of return over the past three years was 8.38 percent and 9.25 percent over the past five years.

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, 1999. 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 only for 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 financial records of the System were audited by Deloitte & Touche LLP, Certified 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

Financial Section

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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, 2000 and 1999, and the related combining statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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, 2000 and 1999, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2000 and 1999 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 statement for the years ended December 31, 2000 and 1999, 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 60 - 66 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 27, 200 1, 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 person 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 27, 2001

Deloitte
Touche
Tohmatsu

Combining Statements of Plan Net Assets
(as of December 31, 2000 and 1999)

	2000		
	Pensions	Post-employment Healthcare	Total
Assets:			
Cash and Short-Term Investments (Note 3)	$ 1,258,987,132	$ 299,551,036	$ 1,558,538,168
	1,258,987,132	299,551,036	1,558,538,168
Receivables:			
Employers	87,904,726	20,915,187	108,819,913
Retirement Incentive Plan	15,641,433	3,721,569	19,363,002
Investment Sales Proceeds	111,242,238	26,467,886	137,710,124
Accrued Interest and Dividends	196,761,976	46,815,613	243,577,589
Total Receivables	411,550,373	97,920,255	509,470,628
Investments, at fair value (Note 3):			
Bonds	8,971,083,780	2,134,491,585	11,105,575,365
Mortgage & Mortgage Backed	6,277,210,902	1,493,537,925	7,770,748,827
Stocks	16,184,222,502	3,850,714,985	20,034,937,487
Real Estate	4,399,152,974	1,046,691,262	5,445,844,236
Venture Capital	70,327,521	16,733,040	87,060,561
International Securities	8,598,383,329	2,045,814,900	10,644,198,229
Total Investments	44,500,381,008	10,587,983,697	55,088,364,705
Collateral on loaned Securities	3,358,750,897	799,148,208	4,157,899,105
Fixed Assets:			
Land	3,016,982	717,831	3,734,813
Building and Building Improvements	25,287,098	6,016,564	31,303,662
Furniture and Equipment	22,516,302	5,357,308	27,873,610
	50,820,382	12,091,703	62,912,085
Accumulated Depreciation	(15,315,716)	(3,644,071)	(18,959,787)
Total Fixed Assets	35,504,666	8,447,632	43,952,298
Prepaid Expenses and Other	78,500,800	18,677,709	97,178,509
TOTAL ASSETS	49,643,674,876	11,811,728,537	61,455,403,413
Liabilities			
Undistributed Deposits	2,007,549	477,657	2,485,206
Medical Benefits Payable		41,684,800	41,684,800
Investment Commitments Payable	17,903,169	4,259,704	22,162,873
Accrued Administrative Expense (Note 5)	3,063,079	728,799	3,791,878
Obligations Under Securities Lending	3,358,750,897	799,148,208	4,157,899,105
TOTAL LIABILITIES	3,381,724,694	846,299,168	4,228,023,862
Net assets held in trust for pension and post-employment healthcare benefits	$ 46,261,950,182	$10,965,429,369	$ 57,227,379,551

(A Schedule of Funding Progress is presented on page 30)

See Notes to Financial Statements

1999

Pensions	Post-employment Healthcare	Total
$ 807,108,540	$ 193,521,934	$ 1,000,630,474
807,108,540	193,521,934	1,000,630,474
113,213,559	27,145,428	140,358,987
11,582,121	2,777,067	14,359,188
488,638	117,162	605,800
193,580,178	46,415,084	239,995,262
318,864,496	76,454,741	395,319,237
9,018,209,290	2,162,313,014	11,180,522,304
5,960,439,775	1,429,145,862	7,389,585,637
16,312,155,666	3,911,196,263	20,223,351,929
4,664,271,642	1,118,361,190	5,782,632,832
75,534,729	18,111,104	93,645,833
9,539,132,619	2,287,215,780	11,826,348,399
45,569,743,721	10,926,343,213	56,496,086,934
3,610,133,854	865,608,588	4,475,742,442
3,021,934	724,575	3,746,509
16,132,990	3,868,237	20,001,227
18,468,978	4,428,341	22,897,319
37,623,902	9,021,153	46,645,055
(14,114,066)	(3,384,156)	(17,498,222)
23,509,836	5,636,997	29,146,833
66,670,876	15,985,801	82,656,677
50,396,031,323	12,083,551,274	62,479,582,597
1,049,671	251,682	1,301,353
	53,846,033	53,846,033
2,634,647	631,714	3,266,361
3,610,133,854	865,608,588	4,475,742,442
3,613,818,172	920,338,017	4,534,156,189
$46,782,213,151	$11,163,213,257	$57,945,426,408

Combining Statements of Changes in Plan Net Assets

(For the Years Ended December 31, 2000 and 1999)

	2000		
	Pensions	Post-employment Healthcare	Total
Additions:			
Contributions:			
Members'	$ 879,844,987		$ 879,844,987
Employers'	718,807,713	$ 452,867,242	1,171,674,955
Total Contributions	1,598,652,700	452,867,242	2,051,519,942
Investment Income			
From Investing Activities:			
Net Appreciation (Depreciation) in Fair Value of Investments	(2,007,657,004)	(546,918,282)	(2,554,575,286)
Bond Interest	1,028,061,381	284,384,050	1,312,445,431
Dividends	327,377,776	90,565,240	417,943,016
Real Estate Operating Income, net	298,749,874	82,658,021	381,407,895
Total Investment Income	(353,467,973)	(89,310,971)	(442,778,944)
Less: Investment Management Expenses	(8,279,036)	(1,969,832)	(10,248,868)
Net Income from Investing Activities	(361,747,009)	(91,280,803)	(453,027,812)
From Security Lending Activities:			
Security Lending Gross Income	137,769,705	37,328,394	175,098,099
Less: Security Lending Activity Expenses:			
Security Lending-Agent Fees	(1,575,998)	(427,013)	(2,003,011)
Security Lending-Broker Rebates	(128,388,802)	(34,786,660)	(163,175,462)
Total Security Lending Expenses	(129,964,800)	(35,213,673)	(165,178,473)
Net Income from Security Lending Activity	7,804,905	2,114,721	9,919,626
Total Net Investment Income	(353,942,104)	(89,166,082)	(443,108,186)
Other Income	884,651		884,651
TOTAL ADDITIONS	1,245,595,247	363,701,160	1,609,296,407
Deductions:			
Benefits	1,656,264,159	559,606,294	2,215,870,453
Refunds of Contributions	81,830,345		81,830,345
Administrative Expenses	27,763,712	1,878,754	29,642,466
TOTAL DEDUCTIONS	1,765,858,216	561,485,048	2,327,343,264
Net Increase (Decrease)	(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	46,782,213,151	11,163,213,257	57,945,426,408
BALANCE, END OF YEAR	$ 46,261,950,182	$ 10,965,429,369	$ 57,227,379,551

See Notes to Financial Statements

1999

Pensions	Post-employment Healthcare	Total
$ 839,186,449		$ 839,186,449
935,429,954	$ 392,459,727	1,327,889,681
1,774,616,403	392,459,727	2,167,076,130
3,649,521,868	888,386,350	4,537,908,218
1,004,469,466	254,543,745	1,259,013,211
273,833,286	69,366,846	343,200,132
282,076,647	71,472,483	353,549,130
5,209,901,267	1,283,769,424	6,493,670,691
(5,865,606)	(1,406,407)	(7,272,013)
5,204,035,661	1,282,363,017	6,486,398,678
114,175,302	29,062,059	143,237,361
(1,717,198)	(437,094)	(2,154,292)
(104,966,159)	(26,717,973)	(131,684,132)
(106,683,357)	(27,155,067)	(133,838,424)
7,491,945	1,906,992	9,398,937
5,211,527,606	1,284,270,009	6,495,797,615
1,785,346		1,785,346
6,987,929,355	1,676,729,736	8,664,659,091
1,505,940,162	523,599,349	2,029,539,511
120,631,961		120,631,961
22,384,915	1,757,358	24,142,273
1,648,957,038	525,356,707	2,174,313,745
5,338,972,317	1,151,373,029	6,490,345,346
41,443,240,834	10,011,840,228	51,455,081,062
$ 46,782,213,151	$ 11,163,213,257	$ 57,945,426,408

1. DESCRIPTION OF PERS

a. Organization — The Public Employees Retirement System of Ohio (PERS) 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, 1999 and 1998 (our latest available actuarial data) follows:

	1999	1998
Employer Units		
State group	**332**	327
Local government group	**3,232**	3,225
Law enforcement group	**233**	233
Employee Members and Retirees		
Retirees and beneficiaries currently receiving benefits	**129,656**	127,139
Terminated employees not yet receiving them	**43,869**	40,447
Active Employees		
State group	**112,761**	112,323
Local government group	**240,005**	234,601
Law enforcement group	**7,766**	7,507

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* — Law enforcement officers, as defined in ORC Chapter 145, are eligible for special retirement options. These options are available to such members at age 48 or older with 25 or more years of credited service. The annual benefit is 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, 1999, the date of the last actuarial study, the state division is fully funded. The necessary funding period for local and law divisions are 2 years and 21 years, respectively.

As of December 31, 1998, both the state and local government divisions were fully funded. The necessary funding period was 5 years for the law enforcement division.

	1999 & 2000 Employee Rate	2000 Employer Rate	1999 Employer Rate
State group	8.5%	10.65%	13.31%
Local government group	8.5%	10.84%	13.55%
Law enforcement group	9.0%	15.70%	16.70%

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. 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. For 1999, 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 employers, 16.70 percent of covered payroll. The percentage of the employer contribution rate used to fund healthcare, for all divisions, was 4.3 percent for 2000 and 4.2 percent for 1999.

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, 1999 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.

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, are valued based on closing market prices or broker quotes. The fair value of real estate 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. 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, 2000, the fair values of loaned securities and associated collateral (repo agreements and short-term investments) were $3,999,067,835 and $4,157,899,105, respectively.

As of December 31, 1999, the fair value of loaned securities and associated collateral (repo agreements and short-term investments) were $4,310,729,291 and $4,475,742,442, 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 $9,919,626 and $9,398,937 in 2000 and 1999, 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, 2000 and 1999, 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 $7,770,748,827 and $7,389,585,637 as of December 31, 2000 and December 31, 1999, 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 statement of changes in plan net assets. As of December 31, 2000 and December 31, 1999, the fair values of forward currency contracts held by the System were $581,540,268 and $604,984,570, 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, 2000 and December 31, 1999, the fair value of foreign stock index futures contracts was $3,820 and ($5,130), respectively.

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 temporarily. PERS also invests in forward currency contracts (see Note 2d).

The allocation and fair value of international investments held at December 31, 2000 and 1999 are:

	2000	1999
Cash	$ 76,360,361	$ 37,050,320
REIT		21,375,806
ADR	299,396,054	413,140,127
GDR	26,526,985	37,143,598
Cash Equivalents	214,862,968	133,120,209
Netted Receivable/ (Payable) Interest	(607,687,999)	(590,441,072)
Netted Receivable/ (Payable) Currency Contracts	581,540,268	604,984,570
International Stock	5,423,048,985	6,464,882,580
Convertible Bonds	4,109,946	7,760,343
Stock Index Futures Contracts	3,820	(5,130)
Stock Index Funds	4,431,007,467	4,455,811,237
Private Equity	195,029,374	241,525,811
Total International Investments	$10,644,198,229	$11,826,348,399

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, 1999, and accordingly, there are sufficient assets available in this fund to pay the vested benefits of all retirants 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, 1999.

- *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, 2000 and 1999 are as follows:

	2000	1999
Employees' Savings Fund	$ 7,447,696,499	$ 6,955,342,095
Employers' Accumulation Fund	31,702,819,858	35,523,440,762
Annuity & Pension Reserve Fund	17,102,441,704	14,638,972,514
Survivors' Benefit Fund	918,982,217	786,627,354
Income Fund	54,086,167	38,128,387
Expense Fund	1,353,106	2,915,296
Total Fund Balance	$ 57,227,379,551	$ 57,945,426,408

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 2000 and 1999 were related to the employee healthcare coverage (see Note 8).

3. CASH AND INVESTMENTS

At December 31, 2000, the carrying amount of PERS' cash deposits was $1,331,743 and the bank balance was $31,076,680. 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).

At December 31, 1999, the carrying amount of PERS' cash deposits was $9,614,664 and the bank balance was $16,282,831. Of the bank balance, $100,000 was insured by the Federal Deposit Insurance Corporation (Category 1). 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, 2000 and 1999 is as follows:

	2000 Fair Value	1999 Fair Value
Short-Term Securities		
Commercial Paper	$ 723,881,905	$ 614,042,993
U.S. Treasury Obligations	833,324,520	376,972,817
Total Short-term Securities	$ 1,557,206,425	$ 991,015,810
Other Investments		
Corporate Bonds:		
Not on securities loan	$ 6,579,183,346	$ 6,987,440,866
On securities loan	146,835,601	21,743,122
U.S. Government and Agencies:		
Not on securities loan	1,260,504,101	1,035,164,092
On securities loan	3,119,052,317	3,136,174,224
Mortgage and Mortgage backed	7,770,748,827	7,389,585,637
Stocks:		
Not on securities loan	19,330,073,029	19,070,539,984
On securities loan	704,864,458	1,152,811,945
Real Estate:		
Not on securities loan	5,417,528,777	5,782,632,832
On securities loan	28,315,459	
Venture Capital	87,060,561	93,645,833
International Securities	10,644,198,229	11,826,348,399
Collateral on loaned securities	4,157,899,105	4,475,742,442
Total Other Investments	$ 59,246,263,810	$60,971,829,376

a. **Fair Value** — If available, quoted market prices have been used to value investments as of December 31, 2000 and 1999. 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 value of real estate is 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 $415,104 and $326,715 for the years ended December 31, 2000 and 1999, respectively.

5. VACATION AND SICK LEAVE

As of December 31, 2000 and 1999, $2,745,083 and $2,154,446, 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, 2000 and for each of the two preceding years is as follows:

Year Ended December 31	Annual Required Contribution	Percentage Contributed
1998	$ 1,700,572	100 %
1999	1,783,233	100
2000	1,766,772	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 2000 and 1999. PERS also maintained a lifetime maximum stop loss coverage per employee for medical benefits in the amount of $1,000,000 for both 2000 and 1999.

The summary of changes in incurred but unreported claims for the years ended December 31, 2000 and 1999 follows:

	General Health Insurance
Claims Liability as of December 31, 1998	$ 173,154
Claims Incurred	1,665,513
Claims Paid	(1,818,999)
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

Schedule of Funding Progress**

($ Amounts in Millions)

Valuation Year	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as of % of Active Member Payroll
1990	$ 20,125	$ 16,245	$ 3,880	81 %	$ 6,036	64 %
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

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

Schedule of Employer Contributions*

Year Ended December 31	Annual Required Contributions	Percentage Contributed
1990	$ 558,119,779	100 %
1991	607,811,880	100
1992	646,170,989	100
1993	663,680,518	100
1994	693,802,578	100
1995	725,893,573	100
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

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, 1999, the date of the last actuarial study, state division is fully funded. The necessary funding period for local and law divisions are 2 years and 21 years, respcetively.

As of December 31, 1998, both the state and local government divisions were fully funded. The funding period for the law enforcement division was 5 years.

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 at a 25 percent per annum over a four-year period.

Significant actuarial assumptions employed by the actuary for funding purposes as of December 31, 1999, the date of the latest actuarial study, and 1998 include:

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

Salary Scale — As of December 31, 1999 and 1998 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. Also assumed are additional projected salary increases ranging from .54 percent to 5.1 percent per year at December 31, 1999 and 1998, 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 and 4.2 percent of member covered payroll in 2000 and 1999, 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:

Unfunded Actuarial Accrued Liability

	December 31, 1999				December 31, 1998
	State Group	Local Government Group	Law Enforcement Group	Total	Total
Present value of actuarial accrued liability for active and inactive accounts	$10,298,140,226	$ 14,642,847,775	$1,079,835,858	$ 26,020,823,859	$ 23,049,183,791
Less:					
Employers' Accumulation Fund*	6,399,384,344	8,708,985,252	686,499,441	15,794,869,037	14,182,937,155
Employees' Savings Fund	2,738,920,054	3,967,099,054	238,770,053	6,944,789,161	6,508,357,667
Market Value Adjustment	1,336,333,377	1,821,443,048	112,771,012	3,270,547,437	3,003,913,001
Unfunded/ (Assets in excess of) actuarial accrued liability**	($ 176,497,549)	$ 145,320,421	$ 41,795,352	$ 10,618,224	($ 646,024,032)

* 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 31,1998, valuation assets were in excess of unfunded actuarial accrued liabilities.

Administrative Expenses*

For the Years Ended December 31, 2000 and 1999

	2000	1999
Personal Services:		
Salaries and Wages	$16,921,920	$13,429,129
Retirement Contributions	1,765,789	1,816,925
Insurance	2,897,124	2,346,834
Bureau of Employment Services	1,694	128
	21,586,527	17,593,016
Supplies:		
Office Supplies	669,478	368,381
Printing and Publications	391,520	331,924
Dues and Subscriptions	93,939	139,105
	1,154,937	839,410
Other Services and Charges:		
Professional Services:		
Auditing	53,757	73,662
Actuarial and Technical	1,563,399	1,187,754
Investment	2,157,855	1,341,164
Treasurer of State Charges	3,393,629	1,060,465
Medical	1,456,094	1,333,539
Pension Review	22,057	14,027
Employee Training	250,243	177,908
Data Processing Contract	81,288	173,557
Retirement Awareness Seminar	347,025	281,206
Communications:		
Telephone	308,183	286,891
Postage & Contract Mailings & Shipping	1,655,678	1,711,977
Transportation and Travel	602,826	413,865
Utilities	365,428	300,610
Rental and Maintenance:		
Equipment & Facilities	1,647,739	1,326,848
Building	474,988	458,784
Microfilm	13,375	34,538
Retirement Study Council	314,009	251,273
Miscellaneous	280,779	239,458
	14,988,352	10,667,526
Depreciation On:		
Building	434,810	432,117
Equipment and Fixtures	1,726,708	1,882,217
	2,161,518	2,314,334
TOTAL ADMINISTRATIVE EXPENSES	$39,891,334	$31,414,286

*Includes investment-related administrative expenses

Schedule of Investment Expenses

(For the Years Ended December 31, 2000 and 1999)

	2000	1999
Investment Services	$ 2,268,562	$ 1,341,164
Investment Staff Expense	4,291,539	3,150,612
Legal Services for International Investments	469	5,756
Legal Services for Venture Capital Investments	2,174	4,146
Legal Services for Securities Lending	14,973	5,891
Allocation of Administrative Expense (See Note 2b)	3,671,151	2,764,444
TOTAL INVESTMENT EXPENSES	$10,248,868	$ 7,272,013

Schedule of Payments to Consultants

PERS paid the following investment consultants in 2000:

Capital Resource Advisors	$ 53,000
Ennis Knupp & Associates	110,707
Global Trend Alert	10,000
Independent Fiduciary Services	170,000
Strategic Investments Solutions, Inc.	14,250
TOTAL	$357,957

A schedule of Fees and Commission Payments to Brokers is presented on page 52.

Investment Section

Introduction

The investment authority of the Retirement System and its trustees, the Retirement Board, is specified in section 145.11 of the Ohio Revised Code (ORC). Importantly, the ORC requires that board and other fiduciaries discharge their duties with respect to the System's funds solely in the interest of the participants and beneficiaries, for the exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the Public Employees Retirement System. Within the guidelines of the ORC, the Board has developed an internal Investment Policy that provides for appropriate diversification of assets, and an acceptable expected return on investments after consideration of investment risks. Performance returns are prepared by Capital Resource Advisors in accordance with the Association for Investment Management and Research (AIMR) standards.

Accomplishments in 2000

The Investment Department made good progress toward the initiatives outlined in last year's annual report. The projects and actions undertaken in 2000 provide a strong foundation for improved investment performance over the long-term, and begin the process of positioning PERS to consistently achieve investment returns that are fully competitive with large state pension plans. Provided below is a summary of our major accomplishments last year:

- **Independent Investment Review** – PERS commenced a comprehensive review of the Investment Department in 2000. We retained the services of two premier consulting organizations to assist us in the study: Ennis Knupp + Associates (EK+A) and Independent Fiduciary Services (IFS). EK+A was charged with assessing our overall asset allocation, our investment strategies, and historical performance within each major asset class. IFS was asked to assess our internal operations and accounting, staffing, and compensation. At the time of this writing, the review is about 90 percent complete, and is expected to conclude by June 2001. Thus far we have received reports from EK+A on asset allocation and on each of our major asset classes, and from IFS regarding compensation, investment operations and accounting. These reports contain numerous recommendations aimed at improving investment returns and operations. The more important recommendations are discussed in the following "Initiatives" section of this report.

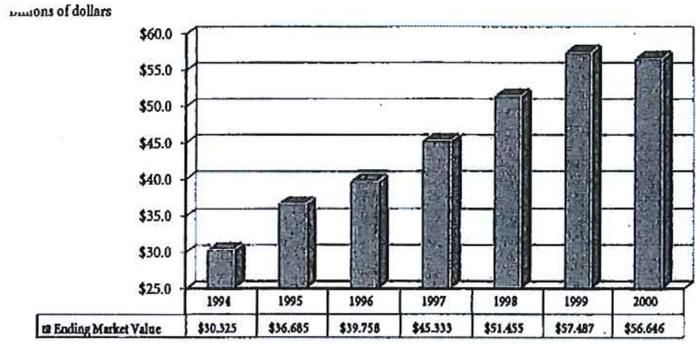
- **Asset/Liability Study** – As mentioned in last year's report, we undertook and completed an asset/liability study for the pension system in 2000. This study, conducted by Ennis Knupp in conjunction with our actuary, was the third such formal study completed since 1995. The purpose of an asset/liability study is to assess the interaction of various investment return and liability growth projections for the next ten to thirty years to obtain probability estimates of the funded status of the system over the long term. As a result of the study EK+A determined that a more aggressive asset allocation would, over the long-term, provide PERS with greater assurance of remaining fully funded, place the system in a better position to potentially raise member and retiree benefits over time, and help PERS maintain competitive employer and employee contribution rates.

  The revised asset allocation, shown in an accompanying table in this report, will be implemented in 2001. The significant changes in the asset allocation include an increase in PERS' domestic stock exposure of nine percentage points, a corresponding reduction in PERS' domestic bond exposure of 12 percentage points, and an initial target allocation to private equity investments of four percentage points. The revised asset allocation raises PERS' expected annualized long-term return to 8.44 percent, as compared to 8.09 percent for the previous asset mix.

  Along with the revised target asset allocation, PERS has adopted revised allowable ranges for exposure to each asset class. Additionally, once the transition to the new asset allocation is substantially complete, PERS will employ an "administrative rule" to effect the periodic re-balancing of the asset composition. Under such a rule, when an asset class rises above or falls below its specified allowable range, that asset class commitment will be brought back into its allowable range through sales or purchases. The administrative rule is designed to allow the System to benefit from trending markets, yet ensure that actions are taken to both capture gains and add exposure to weak sectors while avoiding excessive transaction costs.

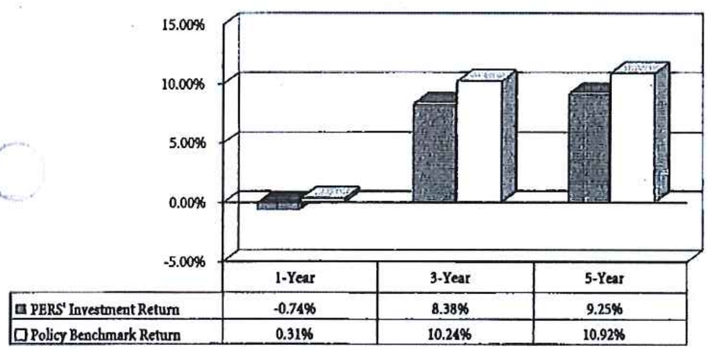
- **Selection of an Investment Advisor** – In last year's annual report, we listed as an initiative the retention of an investment advisor for our Board and staff. As the comprehensive investment review unfolded in the second half of 2000, it became evident that the timing of such a selection should appropriately be delayed until closer to the conclusion of that review. With the comprehensive review now nearing completion, we have commenced the task of identifying, reviewing and selecting a full-retainer investment advisor for board and staff. Such an organization plays an essential role in providing the Board an ongoing independent assessment of the strategies and performance of the investment department. Additionally, such an organization can be a valuable resource to the investment staff in investment education, investment counsel, and special projects. We hope to have such an organization selected and hired by June 2001.

PERS Year-End Market Values
1994-2000



The following chart displays the return of our portfolio and the return of the index[1] over one, three, and five years.

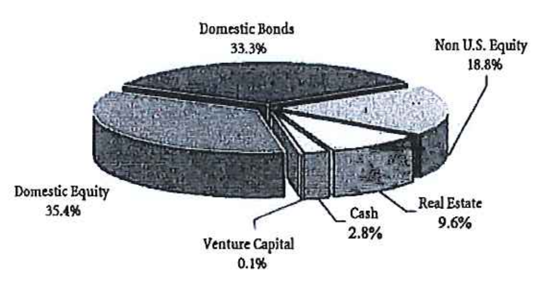
Total Fund Investment Returns
Annual Rates of Return



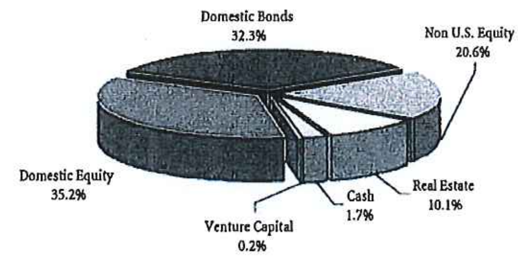
Asset Allocation

At the end of 2000 and 1999, the System's assets were diversified across asset classes as follows:

Actual Asset Allocation
At Year-end December 31, 2000



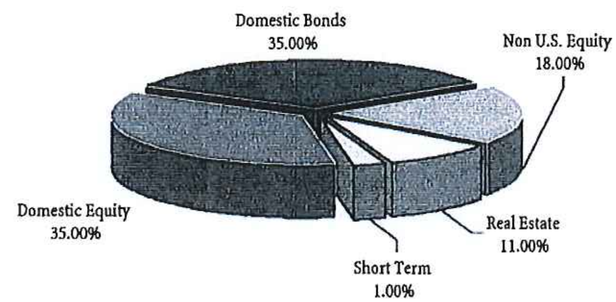
Actual Asset Allocation
At Year-end December 31, 1999



Policy Allocation

The policy allocation, as prescribed by our investment policy at December 31, 2000, is displayed in the following chart.

Policy Allocation
2000



Summary of Asset Class Allocation

- The **domestic equity** allocation of 35.4 percent ($20.035 billion) was essentially identical to the target allocation of 35 percent as specified in our Investment Policy. The policy allows for tactical allocation of ± 2 percentage points around the target.

- Our **fixed income** exposure ended the year at 33.3 percent, or $18.876 billion. Our Investment Policy calls for a 35 percent allocation to domestic bonds, ± 4 percentage points.

- Our **international equity** exposure ended the year at 18.8 percent of total assets or $10.644 billion. The Investment Policy specifies a target allocation of 18 percent to international equity, ± 2 percentage points.

- **Real estate** holdings were 9.6 percent of the total fund at the end of the year ($5.446 billion). Our Investment Policy specifies a target allocation to real estate of 11 percent, ±2 percentage points.

- We ended the year with 2.8 percent of total assets, or $1.557 billion, in **short-term investments**. Our Investment Policy specifies a target allocation to short-term investments of one percentage point. Cash holdings in excess of the one percent target are slated for investment in U.S. Equities early in the new year.

- Our **venture capital** investments totaled $87 million at year-end, representing about 15/100ths of 1 percent of total assets.

As a result of the asset/liability study conducted in 2000, EK+A recommended a more aggressive policy asset allocation. The details of the EK+A recommendation are exhibited in the table below. The year 2000 as well as year 2001 revised target asset allocations and allowable variances from the target allocation are specified in the following table.

Policy Allocation Targets
Previous and Revised

Asset Class	Benchmark	Previous Target Allocation	Revised Target Allocation	Allowable Range
Domestic Equity	Russell 3000	35%	44%	+/-3%
Domestic Bonds	Lehman Universal	35%	23%	+/-3%
Non U.S. Equity	MSCI ACWIFxUS	18%	20%	+/-3%
Real Estate	Custom Composite	11%	9%	+/-4%
Venture Capital	S&P 500	0%	4%	+/-4%
Cash	91-Day U.S. T-bill	1%	0%	NA
TOTAL		100%	100%	

Asset Class Performance

Domestic Equities

PERS' domestic equity holdings provided a total return of –6.46 percent in 2000. The reference benchmark for PERS in this asset class is the S&P Supercomposite index (SPR) of 1500 securities. The SPR provided a total return of –6.98 percent for the year of 2000. PERS' out-performance of 52 basis points in domestic equity was on target with our goal of relative out-performance of 50 basis points. Our domestic equity relative performance in 2000 marked a sharp turnaround from 1999, a year in which we trailed the SPR by 567 basis points (5.67 percent). The dramatic turnaround in our relative performance is directly attributable to our equity staff's late 1999 adoption of what we call our "core" management approach, discussed in last year's annual report. This approach seeks to blend pure active management with elements of passive management so as to produce consistent out-performance within a framework of controlled risk. The domestic equity group is refining internal management strategies in 2001 and will add some external management to complement our internal approach.

Domestic Bonds

PERS' domestic bond holdings produced a total return of 10.95 percent in 2000. The reference benchmark, the Salomon Smith Barney Broad Investment Grade Index (BIG) provided a total return of 11.60 percent for the year. PERS' relative under-performance of 65 basis points (0.65 percent) fell far short of our out-performance goal of 50 basis points. Our domestic bond strategy is to over-weight securities that offer greater yield, such as corporate bonds and government-agency issued mortgages, and under-weight lower yielding treasury securities. In 2000, our strategy worked against us as corporate bonds and mortgages suffered on two fronts: first, on a rally in government securities prompted by U.S. Treasury debt buybacks; and second, on late year fears of an impending economic recession that hurt corporate debt and sent government bonds rallying. The domestic bond group is re-examining its internal strategies in 2001, and will add external management to complement our internal approach.

International Equity

PERS' international equity holdings produced a total return of –16.77 percent in 2000. The reference benchmark for this asset class, the "Morgan Stanley Capital International All Country World Index Free ex U.S." (ACWIFxUS) provided a total return of –15.09 percent. PERS' relative under-performance of 168 basis points (1.68 percent) was due primarily to poor security and sector selection by our active international managers. The stocks and sectors that gave rise to our strong international performance in 1999 – namely the technology, media, and telecommunications areas – were responsible for the shortfall in 2000. While our managers moved to reduce exposure to these growth sectors in early 2000, the swift and steep decline in these sectors occurred too quickly for our managers to avoid under-performance. In 2001, our international equity group will be researching and implementing actions to better gauge portfolio characteristics and risk, and will be reducing overall portfolio risk to be consistent with our relative performance expectations for this asset class. PERS' international equity holdings are exclusively externally managed.

Real Estate

PERS' real estate holdings produced an estimated total return of 16.78 percent in 2000. The reference benchmark index for this asset class is a custom composite benchmark with a composition of 60 percent NCREIF NPI, 20 percent S&P REIT index, and 20 percent Giliberto Levy commercial mortgage index. This composite benchmark produced a return of 15.07 percent for the year.

PERS' relative out-performance of 171 basis points exceeded our relative return expectation of 100 basis points over the benchmark. Our out-performance in 2000 was driven by strong performance of our direct-held real estate assets (what we term as our "direct equity real estate"). The return from our direct equity real estate was 13.86 percent as compared to the reference NPI return of 11.16 percent net of fees.

Our publicly traded Real Estate Investment Trust (REIT) holdings produced a total return of 28.18 percent, whereas the reference benchmark S&P REIT index produced a total return of 28.85 percent. Our under-performance of 67 basis points (0.67 percent) was due to a combination of defensive posturing in our active REIT holdings, and some minor under-performance in a tactical passive REIT portfolio. We formed the passive REIT portfolio to take advantage of the discount to underlying net asset value that were being accorded REITs in 1999 and early 2000. Due to the sharp rally that ensued following the first quarter of 2000, much of that discount is now gone. Correspondingly, we have sold our passive REIT holdings.

Finally, our real estate mortgage holdings produced a return of 10.07 percent, whereas the reference benchmark Giliberto Levy Index produced a return of 13.51 percent net of fees. Our mortgage holdings are dissimilar to the composition of the underlying index, giving rise to variation in returns relative to the index from year to year.

Venture Capital

PERS has a relatively small investment in venture capital through exposure to funds based in Ohio and doing business predominantly in the state. PERS' venture capital investments provided a total return of –3.43 percent in 2000, following a return of 74.80 percent in 1999. The downturn in the U.S. equity market, and particularly the decline in the technology-heavy NASDAQ market, negatively impacted our venture capital funds' year-end market value estimates of portfolio company holdings. Venture capital returns are by nature volatile from year to year, and are impacted by valuations in the public equity markets.

Investment Department 2001 Initiatives

The focus of the Investment Department in 2001 will be to earn index-like returns in each asset class and at the fund level, while implementing the major recommendations arising from the comprehensive investment review. A summary of Investment Department and asset class objectives in 2001 follows:

- **Investment Department**
  - Achieve investment performance that meets or exceeds the policy benchmark
  - Transition the asset composition to the revised asset allocation while minimizing market impact and transaction costs
  - Retain an investment advisor for board and staff
  - Adopt and implement risk budgeting practices to control investment risk within each asset class and at the fund level

- **Domestic Equity**
  - Transition the portfolio to be managed against the broader Russell 3000 index (Domestic Equity was formerly benchmarked to the S&P Supercomposite index of 1500 securities)
  - Hire two or more external investment managers to complement internal management
  - Transition the overall equity portfolio to a 70 percent passive, 30 percent active composition

- **Domestic Bonds**
  - Transition the portfolio to be managed against the Lehman Universal index (Domestic Bonds was formerly benchmarked to the Salomon Smith Barney Broad Investment Grade index)
  - Hire three or more external managers to complement internal management

- **International Equity**
  - Adopt formal risk budgeting practices to assess and control benchmark risk
  - Hire one international small cap manager
  - Research the use of a currency hedging program of international investments

- **Real Estate**
  - Gradually reduce our overall investments in real estate to 9 percent of the total fund
  - Transition the REIT portfolio to be benchmarked to a broader index (PERS' REIT investments are currently benchmarked to the S&P REIT index)

- **Venture Capital**
  - Form a dedicated, internal venture capital group and develop a long-term plan to raise PERS' investments in this area to 4 percent over a period of five to seven years
  - Hire one or more external investment managers to assist in the execution of the long-term plan

Neil V. Toth
Director-Investments

DOMESTIC EQUITY

Domestic Equity Market Value

As of December 31, 2000, the Domestic Equity portfolio had a market value of $20.035 billion. This represented 35.4 percent of the total PERS fund. During the year, the purchases equaled $6,640,070,905 while sales totaled $6,348,585,899. Portfolio turnover was 30.4 percent versus 122.6 percent in 1999. The 1999 restructuring of the Domestic Equity portfolio to a "core" management style was the primary cause of the high turnover ratio.

Domestic Equity Structure

The Investment Policy objective for the PERS' Domestic Equity portfolio is to out-perform the S&P Super Composite 1500 stock index (S&P 1500) by 50 basis points (annualized) over a market cycle. In order to achieve this objective, given the "core" investment approach for Domestic Equities, we adopted a 30 percent passive and 70 percent active allocation within the asset class. As of December 31, 2000, approximately 31 percent of the Domestic Equity portfolio was passively managed while 69 percent was managed actively. The large, mid and small representations of 90.6 percent, 6.7 percent and 2.7 percent, respectively, stayed in line with the market capitalizations of the three indexes that make up the S&P 1500.

At December 31, 2000, the PERS' Domestic Equity portfolio was divided into eight separately managed portfolios, all internally managed. The following table provides year-end market values, the managers' investment styles, and individual portfolio weightings.

Domestic Equity Portfolio	Portfolio Market Value as of December 31, 2000	Investment Style	% of Equity Portfolio
Active			
Large Cap Alpha	$ 4,756,020,805	Large Cap Value	23.74 %
Large Cap Omega	4,739,720,034	Large Cap Core	23.66
Large Cap Gamma	2,955,470,964	Large Cap Enhanced	14.75
Mid Cap Active	953,447,628	Mid Cap Core	4.76
Small Cap Active	379,668,391	Small Cap Core	1.90
Total Active	**$13,784,327,822**		**68.81 %**
Passive			
S&P 500 Portfolio	$ 5,700,856,936	Indexed	28.45 %
S&P Midcap 400 Portfolio	397,779,985	Indexed	1.99
S&P Smallcap 600 Portfolio	151,963,744	Indexed	0.75
Total Passive	**$ 6,250,609,664**		**31.19 %**
Total Domestic Equity	**$20,034,937,487**		**100.00 %**

Domestic Equity Portfolio Statistics

The following table details the fundamental characteristics of the PERS' Domestic Equity portfolio as of December 31, 2000 with comparisons to the portfolio's benchmark, the S&P Super Composite 1500 stock index, and the PERS' portfolio as of the previous year-end.

Domestic Equity Portfolio and Index Characteristics

Characteristic	December 31, 2000 PERS' U.S. Stocks	December 31, 2000 S&P 1500 Composite	December 31, 1999 PERS' U.S. Stocks
Number of Securities	1510	1500	1529
Wtd. Avg. Market Value	$101.4 billion	$101.2 billion	$129.9 billion
Yield	1.2%	1.2%	1.3%
P/E	27.1x	29.6x	33.2x
Return on Equity	22.5%	22.5%	23.9%
Price/Book Ratio	7.5x	7.4x	7.9x
Five Year Earnings Growth	17.2%	17.1%	15.0%

The table below provides a listing of the top 10 largest holdings in the Domestic Equity portfolio as of December 31, 2000 and for the previous year-end.

Domestic Equity Top 10 Portfolio Holdings

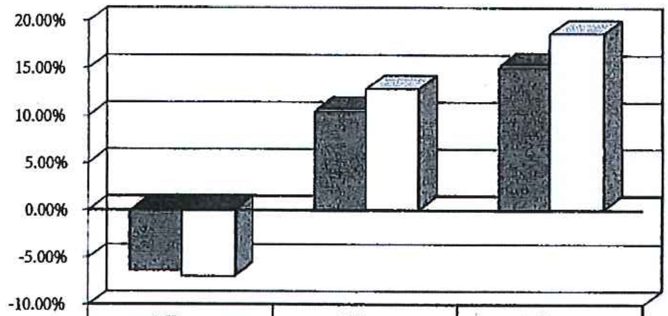
10 Largest Holdings December 31, 2000	Market Value	% of Total U.S. Stocks	10 Largest Holdings December 31, 1999	Market Value	% of Total U.S. Stocks
General Electric	$ 735,875,380	3.67 %	Micorsoft Corp.	$ 876,877,535	4.34 %
Exxon Mobil Corp.	468,795,498	2.34	General Electric	749,317,606	3.71
Pfizer Incorporated	449,096,712	2.24	Cisco Systems Inc.	514,101,659	2.54
Cisco Systems Inc.	425,263,959	2.12	Wal-Mart Stores	454,089,591	2.25
Citigroup Inc.	398,427,718	1.99	Exxon Mobil Corp.	414,795,205	2.05
Wal-Mart Stores	368,018,497	1.84	Intel Corporation	401,935,477	1.99
Microsoft	357,289,049	1.78	Lucent Technologies	339,206,325	1.68
AIG	354,748,910	1.77	Intl. Business Mach	287,939,303	1.42
Merck & Company	334,165,133	1.67	Citigroup	270,359,026	1.34
Intel Corporation	312,137,013	1.56	SBC Comm.	265,097,625	1.31
Total	$ 4,203,826,869	20.98 %	Total	$ 4,573,729,352	22.63 %

Domestic Equity Investment Returns

The total return for the PERS' Domestic Equity portfolio in 2000 was −6.46 percent versus a total return of −6.98 percent for the Standard & Poor's Super Composite 1500 stock index. The adoption of the "core" investment approach paid dividends in calendar year 2000 as the Domestic Equity portfolio outperformed its benchmark by 52 basis points. All five active portfolios within the asset class outperformed their respective benchmarks during the year. Superior stock selections and disciplined risk budgeting proved to be a winning combination for PERS' Domestic Equity portfolio in 2000.

The following chart displays the return of our portfolio and the return of the index[2] over one, three, and five years.

Domestic Equity
Annual Rates of Return



	1-Year	3-Year	5-Year
■ PERS' Domestic Equity	-6.46%	10.63%	15.27%
□ Reference Index	-6.98%	12.88%	18.70%

DOMESTIC BONDS

Domestic Bonds Portfolio Market Value

As of December 31, 2000, the PERS' fixed income portfolio had a market value of $18.876 billion, representing 33.3 percent of the total fund.

Domestic Bonds Portfolio Structure

The goal of the domestic bonds portfolio over the past several years has been to outperform the Salomon Broad Investment Grade Index by 50 basis points per year over the course of a market cycle. With that goal in mind, our strategy has been to overweight the higher yielding sectors of the market, namely corporate and mortgage debt, which have proven to outperform over longer periods of time. The domestic bonds market is broken into three main sectors: 1) Governments, comprised of treasury and agency securities, is the highest quality and most liquid of the sectors and represents 40.4 percent of Salomon Index (PERS holds 23.2 percent); 2) Corporates represent 25.7 percent of the Index (PERS holds 35.6 percent); and 3) Mortgages represent 33.9 percent of the Index (PERS holds 41.2 percent).

We have intentionally kept the duration of the domestic bond portfolio relatively close to that of the Index over the past year for two main reasons. First, we believe the additional yield offered by the spread sectors is a less risky way to achieve our performance objective. Second, we believe we have greater expertise in corporate and mortgage security selection than in anticipating interest rate changes.

Domestic Bonds Portfolio Statistics

The following table displays the statistical characteristics of the domestic bond portfolio as of December 31, 2000 and the prior year-end with comparisons shown to the portfolio's policy benchmark (Salomon Broad Investment Grade Index).

Domestic Bonds Portfolio and Index Characteristics

	December 31, 2000		December 31, 1999	
	PERS	Index	PERS	Index
Total Number of Securities	285	6,999	256	7,193
Yeild to Maturity	6.88%	6.47%	7.46%	7.19%
Effective Duration	4.41	4.57	5.01	5.00
Average Credit Quality	AAA	AAA	AAA	Agency

The table below provides a listing of the top 10 largest holdings in the domestic bond portfolio as of December 31, 2000 and for the previous year-end.

Domestic Bonds Top 10 Portfolio Holdings

10 Largest Holdings (December 31, 2000)	Market Value	% of Total U.S. Bonds	10 Largest Holdings (December 31, 1999)	Market Value	% of Total U.S. Bonds
GNMA 6.5 (30 years)	$ 1,290,904,679	6.84 %	GNMA 6.5 (30 years)	$ 1,669,089,275	8.99 %
FNMA 7.5 (30 years)	913,222,093	4.84	FNMA 7.5 (30 years)	955,759,404	5.15
GNMA 7.0 (30 years)	762,789,108	4.04	FNMA 8.0 (30 years	821,186,878	4.42
FNMA 8.0 (30 years)	612,658,864	3.25	GNMA 7.0 (30 years)	813,774,628	4.38
Tsy 6.375 4/02	611,806,126	3.21	FNMA 7.0 (30 years)	562,436,866	3.03
GNMA 8.5 (30 years)	588,479,631	3.12	GNMA 7.5 (30 years)	547,437,160	2.95
FNMA 7.0 (30 years)	528,763,453	2.80	GNMA 6.0 (30 years)	519,299,253	2.80
GNMA 6.0 (30 years)	526,211,910	2.79	Tsy 6.0 8/15/09	409,009,894	2.20
GNMA 715. (30 years)	487,678,942	2.58	TIPS 3.625 7/15/02	405,470,637	2.18
Tsy 5.875 11/30/01	358,602,112	1.90	Tsy 5.875 11/30/01	375,558,285	2.02
Total	**$6,681,116,918**	**35.36 %**	**Total**	**$7,079,022,280**	**38.12 %**

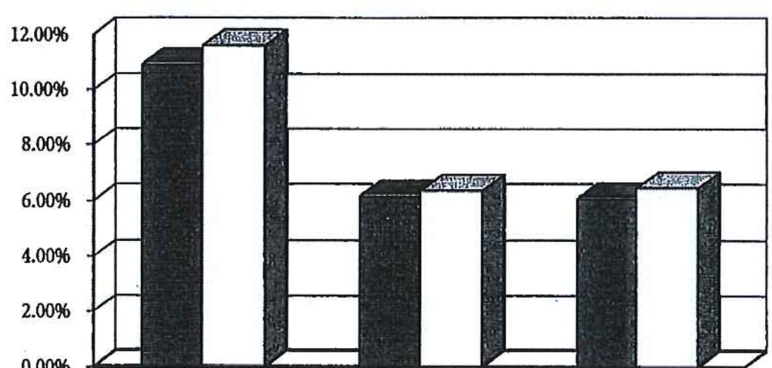
Domestic Bonds Investment Returns

PERS of Ohio's bond holdings had a total return of 10.95 percent for the year. The reference index, the BIG[3], had a total return of 11.60 percent. Our underperformance of 65 basis points relative to the index resulted primarily from our decision to remain overweighted in corporate debt while underweighting US Treasury debt. Duration management (attempting to anticipate changes in interest rates) had little impact on relative performance, as we focused on maintaining a portfolio duration very similar to the reference index.

The following chart displays the return of the PERS' domestic bond portfolio and the return of the index[3] over one, three, and five years

Domestic Bonds

Annual Rates of Return



	1-Year	3-Year	5-Year
■ PERS' Domestic Bonds	10.95%	6.20%	6.12%
□ Reference Index	11.60%	6.36%	6.45%

INTERNATIONAL

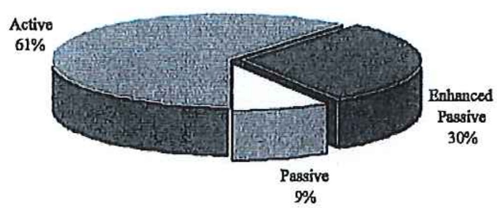
International Equity Market Value

Non-U.S. stocks, with a target allocation of 18.0 percent, are employed by the fund primarily because their historical return premiums versus inflation, if realized in the future, will help preserve and enhance the fund's ability to achieve the long-term rate of return objectives as set by the board. Non-U.S. stocks also are employed for the diversification benefits they provide to the portfolio. By incorporating non-U.S. stocks into the asset mix, Ohio PERS expects to achieve overall equity returns which are comparable to that of a U.S. stock portfolio while reducing overall portfolio risk. As of December 31, 2000, the Ohio PERS' international equity stock portfolio had a market value of $10.644 billion, representing approximately 18.8 percent of the total fund.

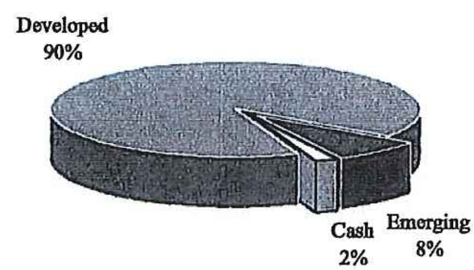
International Equity Portfolio Structure

As of December 31, 2000, 61 percent of the portfolio was managed on an active basis, 30 percent on an active/passive basis, and 9 percent on a passive basis. Moreover, approximately 90 percent of the portfolio was allocated among the developed non-U.S. markets (i.e. the EAFE countries), 8 percent to the emerging markets, and 2 percent to cash.

Non U.S. Equity
Active, Enhanced Passive, and Passive Allocations
December 31, 2000



Non U.S. Equity
Developed and Emerging Allocations
December 31, 2000



International Equity Portfolio Statistics

The following tables display country allocations and the top10 holdings of the Ohio PERS' international portfolio as of December 31, 2000:

PERS/MSCI ACWIF x US Country % Allocations

Country	PERS December 31, 2000	ACWIFxUS December 31, 2000	Difference	PERS December 31, 1999	ACWIFxUS December 31, 1999	Difference
EUROPE	63.6	61.5	2.1	55.1	57.7	-2.6
ASIA	23.6	24.6	-1.0	32.5	29.0	3.5
OTHER	9.7	14.0	-4.3	12.4	13.3	-0.9
CASH	3.1	0.0	3.1	2.0	0.0	2.0

International Equity Portfolio Top 10 Holdings

10 Largest Holdings (December 31, 2000)	Market Value	% of Portfolio	10 Largest Holdings (December 31, 1999)	Market Value	% of Portfolio
Vodafone Group	$ 143,531,800	1.35 %	Mannesmann AG	$ 215,022,704	1.86 %
ING Groep NV	129,670,925	1.22	Murata Manufacturing Co.	182,658,343	1.58
Aventis SA	104,393,685	0.98	Nokia Corp.	159,692,009	1.38
ENI	94,792,958	0.89	NTT Mobile Communication	158,574,524	1.37
Total Fina ELF	85,630,367	0.80	Sony Corp.	102,520,473	0.88
Nokia Corp.	72,694,573	0.68	ST Microelectronics	97,230,386	0.84
Novartis AG	72,237,691	0.68	Softbank Corp.	79,975,162	0.69
Nestle SA	64,503,837	0.61	Koninklijke	76,558,115	0.66
AXA	59,719,924	0.56	Ericsson	67,722,383	0.58
Glaxo Smithkline	58,284,876	0.55	Rohm Co.	49,732,778	0.43
Total	**$885,460,642**	**8.32 %**	**Total**	**$1,189,686,877**	**10.27 %**

International Equity Portfolio Investment Advisors

The following firms were under contract with Ohio PERS at the end of 2000 for management of non-U.S. stocks. Also, displayed are the managers' investment styles, 2000 year-end market values, and the management fees paid during the year:

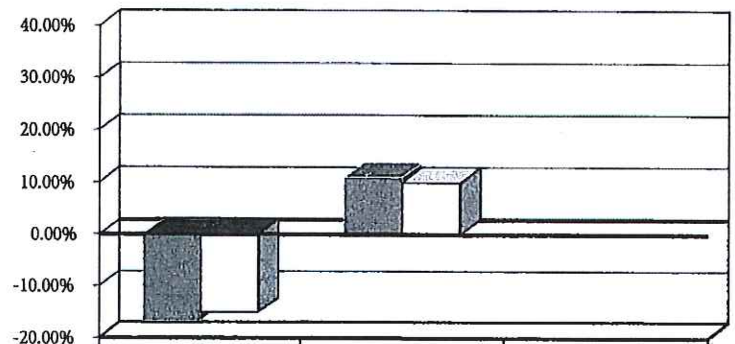
2000 International Equity Advisor Data

Investment Advisor	Investment Style	Market Value (December 31,2000)	FY00 Management Fee
AIG GEM Fund	Private Equity	$ 18,311,374	N/A
Bank of Ireland Asset Management	Active-ACWI	629,203,217	$ 1,868,440
Barclays Global Investors	Active/Passive ACWI	1,562,357,113	2,602,747
Barclays Global Investors	Passive-ACWI	906,124,618	41,633
Baring Asset Management	Active/Passive-EAFE	1,625,990,618	2,379,987
Brandes Investment Partners	Active-ACWI	798,492,354	3,814,808
Capital Guardian Trust Company	Active-EAFE	1,213,174,100	4,828,628
Driehaus Capital Management	Active-ACWI	474,305,497	1,728,611
Lazard Asset Management	Active-Emerging Markets	221,293,723	1,164,768
Marvin & Palmer Associates	Active-ACWI	760,406,298	4,302,631
J.P. Morgan Investment Management	Active-EAFE	402,315,173	1,860,378
Nicholas-Applegate Capital Management	Active-ACWI	576,845,188	2,954,398
Oechsle International Advisors	Active-ACWI	528,182,169	2,793,889
Scudder Kemper Investments	Active-Emerging Markets	169,299,798	2,047,311
TT International	Active-ACWI	581,178,989	2,880,403
Xylem Fund	Private Equity	176,718,000	1,197,695
Total		**$10,644,198,229**	**$36,466,327**

International Equity Investment Returns

The following chart displays the return of our portfolio and the return of the index[4] over one, three, and five years.

Non U.S. Equity
Annual Rates of Return



	1-Year	3-Year	5-Year
PERS' Non U.S. Equity	-16.77%	10.92%	NA
Reference Index	-15.09%	10.00%	NA

REAL ESTATE

Real Estate Market Value

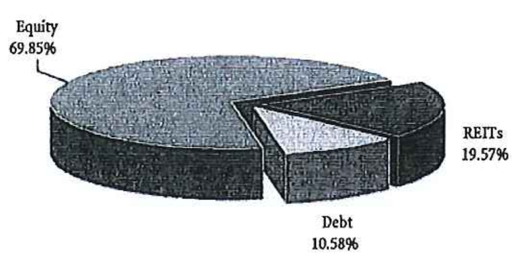
The market value for the portfolio at year-end was $5.45 billion, bringing the fund's exposure in real estate to 9.6 percent of the fund. Th. compared to year-end 1999, when the market value was $5.783 billion, at 10.1 percent of the fund.

Real Estate Portfolio Structure

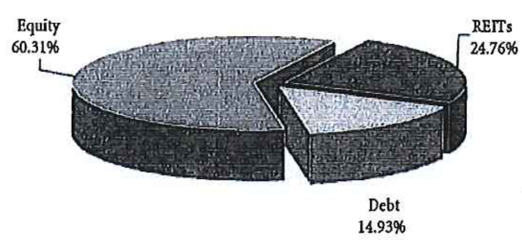
In 2000, the real estate staff focused on out-performing its benchmark while maintaining the fund's exposure to real estate. We focused on making strategic investments and taking profits through sales where appropriate. Last year, PERS decreased advisor allocations by $242 million and invested a gross amount of $570.2 million in real estate.

The following charts display PERS' investments in real estate by asset type at the end of 2000 and 1999.

Real Estate Composition and Investments
as of 12/31/00



Real Estate Composition and Investments
as of 12/31/99



2000 PERS Real Estate Advisor Data			
Investment Advisor	**Investment Style**	**Market Value** December 31, 2000	**Market Value** December 31, 1999
Rothschild Realty, Inc.	Equity	$ 873,295,966	$ 893,989,304
Lowe Enterprises, Inc.	Equity, Debt	791,068,914	734,200,360
Bristol Group, Inc.	Equity, Debt	655,116,992	628,127,278
Sentinel Corporation	Equity	604,374,862	536,700,054
TGM Associates, L.P.	Equity	464,539,793	517,196,733
Liberty Lending Services, Inc.	Debt	377,726,549	442,314,991
Faison & Associates, Inc.	Equity	379,335,215	285,108,051
AFL-CIO Housing Investment Trust	Debt	72,902,841	207,115,635
Great Point Investors, L.L.C.	Equity, Debt	55,240,133	69,564,852
Legg Mason Real Estate Services	Equity, Debt	55,547,961	26,367,088
Huntoon Hastings, Inc.	Debt	50,938,753	9,934,582
Total		**$4,380,087,979**	**$4,350,618,928**

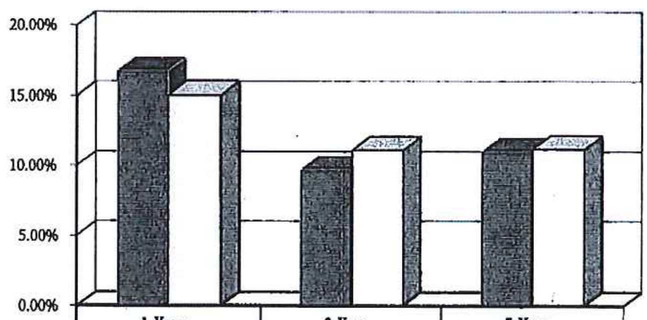
Real Estate Investment Returns

The PERS' real estate portfolio performed well in 2000. This was due to very strong performance by the REIT market, our overweighting in REITs, and projected outperformance by the direct equity portfolio. Our return for 2000 is 16.78 percent, with a Direct Equity return of 13.86 percent, a debt return of 10.07 percent, and a REIT return of 28.18 percent.

Of our total return of 16.78 percent, the income component of the return is 8.25 percent, and appreciation is 7.96 percent. The appreciation includes both realized and unrealized gains. A fair number of properties were sold this year, in order to realize gains and position us more defensively. As part of our defensive posturing, we sold several assets at year-end in markets where we expected growth to slow (a listing of asset purchases and sales will be provided in the Real Estate Annual Report in April 2001). In addition, we began the year with an overweighting in REITs, which performed quite well. This overweighting enhanced our overall performance. By year-end, however, we had returned to a neutral weighting in REITs.

The following chart displays the return of our portfolio and the return of the index[5] over one, three, and five years.

Real Estate
Annual Rates of Return



	1-Year	3-Year	5-Year
PERS' Real Estate	16.78%	9.74%	11.05%
Reference Index	15.07%	11.08%	11.14%

VENTURE CAPITAL

Venture Capital Market Value

As of December 31, 2000, the venture capital portfolio had a market value of $87.06 million. This represented 15/100ths of one percent of the total PERS Fund.

Venture Capital Structure

Prior to December 2000, the Retirement Board had set a 0 percent target allocation to venture capital and investments. The investment staff did not actively pursue investments in this area in 2000, but reviewed numerous proposals from in-state venture firms. In 2000, the board approved a $25 million investment each in Blue Chip Capital IV, Linsalata Capital IV, and Primus Capital V. In addition, PERS funded commitments to venture firms that were approved in prior years. In all, PERS funded $29.73 million in commitments in venture capital investments during 2000, and received $33.52 million in distributions.

Venture Capital Fund Investments

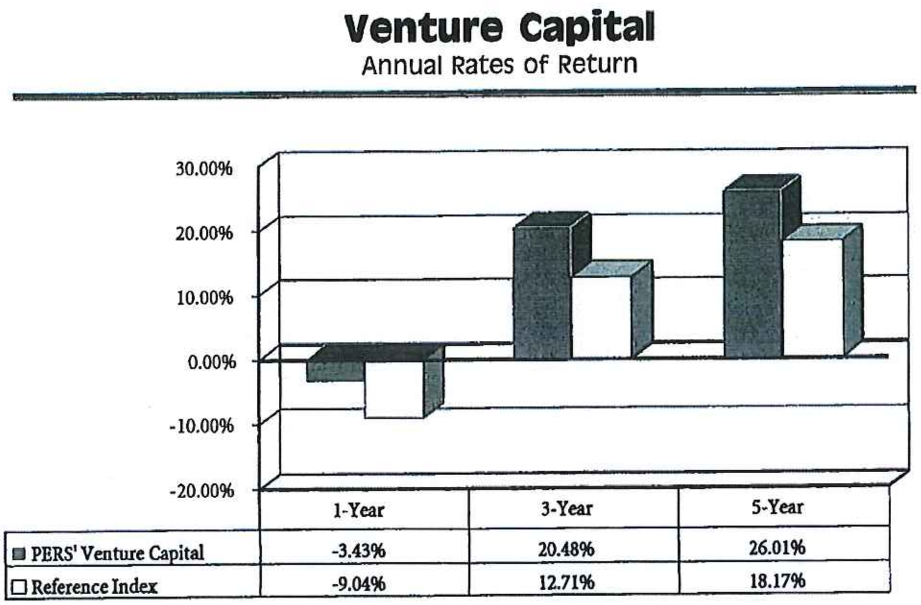
Fund	Initial Funding Date	Investment Fair Value	Internal Rate of Return*	2000 Total Return
Blue Chip Capital I	11/01/92	$4,846,681	23.46%	-18.62%
Blue Chip Capital II	1/06/97	14,205,909	14.77%	-55.53%
Blue Chip Capital III	6/01/99	16,807,396	12.29%	17.88%
Blue Chip Capital IV	12/14/00	2,456,839	-3.42%	-3.42%
Linsalata Capital III	5/20/98	11,803,123	1.18%	2.48%
Linsalata Capital IV	12/12/98	1,433,139	-15.15%	-15.15%
MC Capital Corporation	2/19/98	5,196,107	-12.31%	-6.40%
Northwest Ohio Venture	1/01/92	2,437,112	-6.57%	-6.75%
Primus Capital I**	2/01/84	0	11.21%	9.46%
Primus Capital II	4/01/87	324,103	14.40%	8.89%
Primus Capital III	12/01/93	7,714,996	28.32%	203.25%
Primus Capital IV	7/02/97	16,881,126	35.38%	53.65%
Primus Capital V	7/26/00	2,954,030	-8.44%	-8.44%
Total	**N/A**	**$87,060,561**	**N/A**	**N/A**

* Internal Rate of Return is the compound annual rate from inception.
**Primus Capital I Complete liquidation in June 2000.

Venture Capital Investment Returns

Our venture capital investments provided an estimated total return of –3.43 percent in 2000. Because our investments consist of a small number of funds at various stages of the investment life cycle, the performance tends to vary greatly from year to year. Overall, staff believes that the portfolio should produce healthy returns over the long run. The investments with Linsalata, MCM, Primus and Blue Chip are expected to continue to be successful.

The following chart displays the return of our portfolio and the return of the index[6] over one, three, and five years.



Schedule of Investment Results

	2000	Rolling 3-Year	Rolling 5-Year
Total Portfolio	-0.74	8.38	9.25
Customized Benchmark	0.31	10.24	10.92
Equity Portfolio	-6.46	10.63	15.27
Standard & Poor Supercomposite	-6.98	12.88	18.70
Fixed Income Portfolio	10.95	6.20	6.12
Salomon B.I.G. Index	11.60	6.36	6.45
Real Estate Portfolio	16.78	9.74	11.05
Custom Real Estate Index	15.07	11.08	11.14
Venture Capital Portfolio	-3.43	20.48	26.01
Standard & Poor 500	-9.04	12.71	18.17
International Portfolio	-16.77	10.92	N/A
MSCI ACWIF x US	-15.09	10.00	N/A
Short-Term Portfolio	6.49	5.79	5.74
90 Day Treasury Bill	6.18	5.42	5.38

Footnotes for Schedule of Investment Results

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

Asset Class	Full Year 1997	Full Year 1998	Full Year 1999	Full Year 2000
Domestic Equity	27.00%	30.50%	35.00%	35.00%
Fixed Income	56.50%	51.00%	35.00%	35.00%
International	4.00%	6.00%	18.00%	18.00%
Real Estate	8.00%	8.00%	11.00%	11.00%
Short-term Investments	4.50%	4.50%	1.00%	1.00%
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 12/31/00
Domestic Equity	S&P 500	S&P Supercomposite
Fixed Income	SSB BIG Index	SSB BIG Index
International	MSCI EAFE	MSCI AWI Free x US
Real Estate	NCREIF	RE Custom Composite
Short-term Investments	90-day US Treasury Bill	90-day US Treasury Bill

Benchmark Index Descriptions

2 **S&P Super Composite Index** — A broad U.S. equity market index comprised of 1,500 stocks which is created by combining the S&P 500 (Large Cap), S&P 400 (Mid Cap), and S&P 600 (Small Cap) indexes to represent over 80 percent of the total capitalization of the U.S. equity market. The index is market-weighted and is rebalanced on a periodic basis as determined by the provider, *Standard & Poor's.*

3 **Salomon Smith Barney Broad Investment Grade Index (BIG)** — A broad U.S. fixed income market index comprised of over 6,000 bonds from the Government, Corporate, and Mortgage-Backed sectors. The index is market-weighted and is rebalanced on a periodic basis as determined by the provider, *Salomon Smith Barney.*

4 **MSCI All Country World Ex-US Index (MSCI ACWIF x US)** — A broad global equity index comprised of over 2,100 stocks from 47 developed and emerging market countries. The index is market-weighted and is rebalanced on a periodic basis as determined by the provider, *Morgan Stanley Capital International.*

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% Giliberto-Levy Commercial Mortgage Performance Index (a representative portfolio of institutional grade, fixed-rate/fixed-term, commercial mortgage whole loans), adjusted for representative fees.

6 **Standard & Poor 500 (S&P 500)** — A broad U.S. equity market index comprised of 500 of the largest capitalized U.S. equities.

* **Three-Month US Treasury Bill** — The 90-day Treasury Bill return as measured by Merrill Lynch under their internal security code, G0O1.

* **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.*

* **VC 100** — An index of 100 recently public, originally venture capital-financed, companies as calculated by the provider, *The Venture Capital Journal.*

List of Largest Assets Held*

Largest Stock Holdings (By Fair Value)

December 31, 2000

	Shares	Stock	Fair Value
1)	15,350,725	General Electric Company	$735,875,380
2)	5,392,549	Exxon Corporation	468,795,498
3)	9,762,972	Pfizer Incorporated	449,096,712
4)	11,118,012	Cisco Systems Incorporated	425,263,959
5)	7,802,746	Citigroup Incorporated	398,427,718
6)	6,927,407	Wal-Mart Stores Incorporated	368,018,497
7)	8,237,419	Microsoft Corporation	357,298,049
8)	3,599,228	American International Group	354,748,910
9)	3,569,187	Merck & Company	334,165,133
10)	10,382,936	Intel Coporation	312,137,013

Largest Bond Holdings (By Fair Value)**

December 31, 2000

	Par	Bonds				Fair Value
1)	$598,229,000	U.S. Treasury Notes	6.375%	due 04/30/2002	Rating AAA	$605,706,863
2)	300,390,374	FNMA Bond	8.500%	due 04/01/2030	Rating AAA	309,612,358
3)	283,335,000	U.S. Treasury Bonds	6.125%	due 08/15/2029	Rating AAA	308,580,149
[illegible])	287,451,878	FNMA Bond	8.000%	due 11/01/2029	Rating AAA	295,040,607
5)	273,395,000	U.S. Treasury Notes	5.750%	due 08/15/2010	Rating AAA	286,545,300
6)	277,851,379	FNMA Bond	8.000%	due 12/01/2029	Rating AAA	285,186,656
7)	272,989,644	FNMA Bond	7.000%	due 06/01/2029	Rating AAA	274,463,788
8)	171,040,000	U.S. Treasury Bonds	9.125%	due 05/15/2018	Rating AAA	238,532,384
9)	172,800,000	U.S. Treasury Bonds	8.875%	due 08/15/2017	Rating AAA	234,679,680
10)	200,000,000	FNMA Bond	7.125%	due 02/15/2005	Rating AAA	210,560,000

**Due to the method used to aggregate, the bonds reflected in this schedule are not the same as those reflected in the Investment Report.

*A complete list of assets held at December 31, 2000 is available upon request

Schedule of U.S. Stock Brokerage Commissions Paid

Year Ended December 31, 2000

Brokerage Firms	Shares Traded	Commissions Paid	Average Cents Per Share
Morgan Stanley & Company	26,229,243	$ 902,688	3.4
Bear, Stearns & Company	26,349,639	883,555	3.4
Goldman, Sachs & Company	23,947,935	777,342	3.2
Merrill Lynch, Inc.	17,392,711	626,163	3.6
Lehman Brothers, Inc.	15,582,522	601,230	3.9
Salomon Smith Barney	11,768,804	518,963	4.4
Prudential Securities	10,318,515	488,742	4.7
First Boston Corporation	9,193,895	441,258	4.8
Donaldons, Lufkin & Jenrette	7,701,066	319,929	4.2
Bernstein, Sanford C.	6,231,000	311,550	5.0
CIBC World Markets	5,957,473	292,209	4.9
J.P. Morgan Securities, Inc.	5,928,477	288,613	4.9
William Blair	5,780,908	287,925	5.0
Deutsche Banc Alex Brown	6,795,562	279,186	4.1
Paine Webber Mitchell Hutchins	5,037,648	245,598	4.9
Gerard, Klauer	4,817,680	232,842	4.8
NationsBanc Montgomery Securities	4,406,417	218,400	5.0
Jefferies & Company Inc.	3,644,058	171,285	4.7
Edwards, A.G. & Sons Inc.	3,306,875	165,117	5.0
Baird, Robert W. & Company	3,464,890	163,984	4.7
UBS Warburg L.L.C.	3,301,331	162,198	4.9
McDonald & Company	2,839,551	141,688	5.0
ISI Group	2,749,526	135,356	4.9
First Union Capital Markets	2,597,547	124,989	4.8
Cowen & Company	2,607,403	122,180	4.7
Others (includes 42 Brokerage Firms)*	45,256,793	2,136,780	4.7
TOTAL	**263,207,469**	**$11,039,770**	**4.2**

* A complete list of brokerage firms used in 2000 by PERS is available upon request.

Investment Summary

	2000		1999	
	Fair Value	Percentage of Total Fair Value	Fair Value	Percentage of Total Fair Value
Fixed Income:				
U.S. Government & Agencies	$ 4,379,556,418	7.73%	$ 4,171,338,316	7.26%
Corporate Bonds	6,726,018,947	11.87	7,009,183,988	12.19
Mortgage & Mortgage Backed	7,770,748,827	13.72	7,389,585,637	12.85
Total Fixed Income	18,876,324,192	33.32	18,570,107,941	32.30
Common Stock	20,034,937,487	35.38	20,223,351,929	35.18
Real Estate	5,445,844,236	9.61	5,782,632,832	10.06
Venture Capital	87,060,561	0.15	93,645,833	0.16
International	10,644,198,229	18.79	11,826,348,399	20.57
Short-term Investments				
Commercial Paper	723,881,905	1.28	614,042,993	1.07
U.S. Treasury Obligations	833,324,520	1.47	376,972,817	0.66
TOTAL	$56,645,571,130	100%	$57,487,102,744	100.0%

Actuarial Section

GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

1000 Town Center • Suite 1000 • Southfield, Michigan 48075 • 248-799-9000 • 800-521-0498 • fax 248-799-9020

January 12, 2001

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, 1999.

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 reviews 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
Page 2

January 12, 2001

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, 1999 valuations were based upon assumptions that were recommended in connection with a study of experience covering the 1991-95 period.

Pension experience was favorable during 1999. Benefit changes in connection with House Bill 628, Senate Bill 144, and House Bill 416 acted to increase accrued liabilities slightly ahead of assets, but well within expectations. Retiree Health experience, on the other hand, continues to be cause for continued review of the plan. It is unlikely that the present contribution for Retiree Health (4.3% of payroll) can fund the present level of benefits indefinitely. Prudent, measured changes in the plan design, and in the contribution rate structure in the near term could act to reduce the likelihood of more significant changes later.

Based upon the results of the December 31, 1999 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.

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:md:lr

GABRIEL, ROEDER, SMITH & COMPANY

The following methods and assumptions were adopted by the Retirement Board after consulting with the Actuary. ʻll 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 %	2.40 %	3.10 %	4.75 %	7.37 %	7.15 %	7.85 %
40	1.66	1.70	1.70	4.75	6.41	6.45	6.45
50	0.88	1.00	1.14	4.75	5.63	5.75	5.89
60	0.54	0.54	0.70	4.75	5.29	5.29	5.45

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

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

% Separating Within Next Year										
				Withdrawal						
Sample	Years of	Death		State		Law	Local		Disability	
Ages	Service	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

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
1990	277,963	$ 6,036	$ 21,715	5.02 %	107,177	$ 762	$ 7,109
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

*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			
Year Ended	Number	Annual Allowances	Number	Annual Allowances	Number*	Annual Allowances	Percentage Increase in Annual Allowances	Average Annual Allowances
1995	6,796	$ 95,567,616	4,433	$ 18,719,272	116,705	$ 1,095,879,181	7.54 %	$ 9,390
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

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

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.

Accrued Liabilities ($ Amounts in Millions)

aluation 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)
1990	$ 3,386	$ 7,981	$ 14,826	$ 20,655	100 %	100 %	63 %
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

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

Actual vs. Recommended Contribution Rates

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

Analysis of Financial Experience

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

Type of Activity	Gain (or Loss) for Year $ in Millions 1999	1998	1997	1996
Age & Service Retirements. If members retire at older ages than assumed, there is a gain. If younger ages, a loss.	$ 11.1	$ 48.6	$ 27.2	$ 19.9
Disability Benefits. If disability claims are less than assumed, there is a gain. If more claims, a loss.	25.3	49.4	44.8	57.4
Death-in-Service Annuities. If survivor claims are less than assumed, there is a gain. If more claims, a loss.	1.9	3.5	3.1	3.6
Other Separations. If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.	(258.7)	(143.3)	(89.6)	(145.8)
Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	151.7	288.1	267.6	274.0
Investment Return. If there is greater investment return than assumed, there is a gain. If less return, a loss.	1,590.7	1,733.3	801.4	573.5
Health Insurance & Medicare Premiums. If there are smaller increases than assumed, there is a gain. ...eater increases, a loss.	NA*	NA*	NA*	560.1
Gain (or Loss) During Year from Financial Experience	$ 1,522.0	$ 1,979.6	$1,054.5	$1,342.7

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

Statistical Section

Employer Contribution Rates

		Current			Unfunded Liability		
	Year	Normal	Health	Survivor Benefits	Past Service	Health	Total
State	1991*	5.48 %	3.34 %	1.01 %	2.40 %	1.08 %	13.31 %
	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
Local	1991*	4.99 %	4.13 %	0.99 %	2.31 %	1.13 %	13.55 %
	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
Law Enforcement	1991	8.23 %	4.37 %	1.45 %	1.13 %	0.82 %	16.00 %
	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

* Rate effective July 1, 1991.

** One-time employer contribution rate rollback.

Disbursements by Category

Year	Annuities	Disabilities	Other Systems	Survivors	CPI	Post Retiremen Legislative Increase
	Benefits					
1991	$ 531,188,927	$ 70,423,067	$ 3,484,009	$ 39,601,327	$ 120,558,352	$ 47,510,253
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

Revenues by Source

Year	Members' Contributions	Employers' Contributions	Employers' Contributions as a Percentage of Covered Payroll	Investment Income (Net)	Other	Total
1991	$ 562,818,132	$ 925,097,737	13.75 %	$ 2,418,425,646	$ 84,878	$ 3,906,426,393
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	1,609,296,40[illegible]

* 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 2000 which can create significant fluctuations.

		Refunds			
Health Care	Death Benefits	Separation	Beneficiaries	Other	Total All Payments
$281,799,972	$ 5,292,320	$ 74,682,948	$ 4,434,088	$ 17,840,419	**$ 1,196,815,682**
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**

Expenses by Type

Year	Benefit Payments	Refunds	Administrative Expenses	Total
1991	$ 1,099,858,227	$ 96,957,455	$ 15,421,235	$1,212,236,917
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

Schedule of Benefit Recipients by Benefit Type

December 31, 2000

Amount of Monthly Benefit	Number of Recipients	Annuities	Disabilities	Survivors
$1-249	14,001	13,305	367	329
250-499	20,828	16,623	819	3,386
500-999	36,331	27,073	3,816	5,442
1,000-1,499	23,999	17,578	4,558	1,863
1,500-1,999	16,352	12,191	3,588	573
2,000 & over	19,917	16,910	2,663	344
Totals	131,428	103,680	15,811	11,937

Schedule of Average Benefit Payments

	Years Credited Service					
	5-9	10-14	15-19	20-24	25-30	30+
Period 1/1/95-12/31/95						
Average Monthly Benefit*	$402.96	$549.06	$835.55	$1,161.70	$1,541.93	$2,349.68
Average Final Average Salary	$21,190.29	$23,979.14	$26,633.19	$28,898.48	$32,056.98	$37,038.08
Number of Active Recipients	476	1,157	905	884	946	1,714
Period 1/1/96-12/31/96						
Average Monthly Benefit*	$381.68	$505.29	$842.45	$1,179.52	$1,534.19	$2,322.46
Average Final Average Salary	$19,952.26	$22,252.14	27,383.63	$29,786.06	$32,358.66	$37,570.32
Number of Active Recipients	540	1,152	979	1,002	1,033	1,963
Period 1/1/97-12/31/97						
Average Monthly Benefit*	$426.84	$553.95	$858.83	$1,197.98	$1,568.77	$2,425.65
Average Final Average Salary	$22,001.15	$25,355.26	$28,601.21	$30,979.73	$33,952.42	$40,339.72
Number of Active Recipients	524	1,174	970	906	966	2,137
Period 1/1/98-12/31/98						
Average Monthly Benefit*	$408.89	$531.11	$838.19	$1,191.46	$1,544.32	$2,318.17
Average Final Average Salary	$19,903.19	$24,514.49	$28,496.09	$31,481.33	$34,231.66	$39,839.65
Number of Active Recipients	551	1,291	1,005	975	1,018	2,155
Period 1/1/99-12/31/99						
Average Monthly Benefit*	$504.17	$578.46	$878.03	$1,225.10	$1,594.75	$2,425.64
Average Final Average Salary	$22,707.53	$26,616.81	$29,945.11	$33,081.72	$35,665.91	$42,536.66
Number of Active Recipients	536	1,179	932	976	1,025	2,244
Period 1/1/00-12/31/00						
Average Monthly Benefit*	$529.13	$546.31	$860.39	$1,194.83	$1,673.59	$2,482.74
Average Final Average Salary	$22,832.97	$25,994.67	$29,946.97	$32,447.86	$37,508.05	$44,154.54
Number of Active Recipients	443	1,114	880	896	974	2,313

* "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
1991	87,364	8,670	11,068	**107,102**
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**

Number of New Benefit Recipients and Refund Payments

Year	Annuities	Disabilities	Survivors	Refund
1991	4,406	802	534	27,165
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

Member Count

Year-end	Active Contributing	Inactive	Total
1991	328,981	71,216	**400,197**
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**

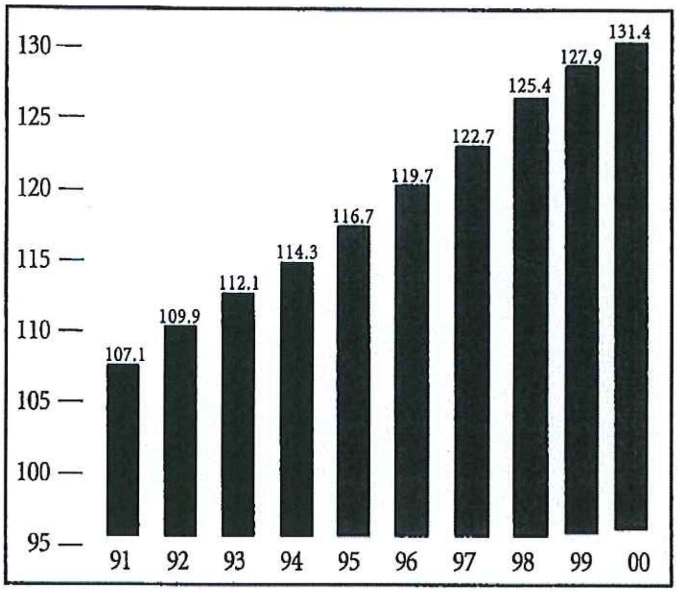
Member Contribution Rates

Year	Regular	Law Enforcement
1991	8.5%	9.5%
1992	8.5	9.0
1993	8.5	9.0
1994	8.5	9.0
1995	8.5	9.0
1996	8.5	9.0
1997	8.5	9.5
1998	8.5	9.0
1999	8.5	9.0
2000	8.5	9.0

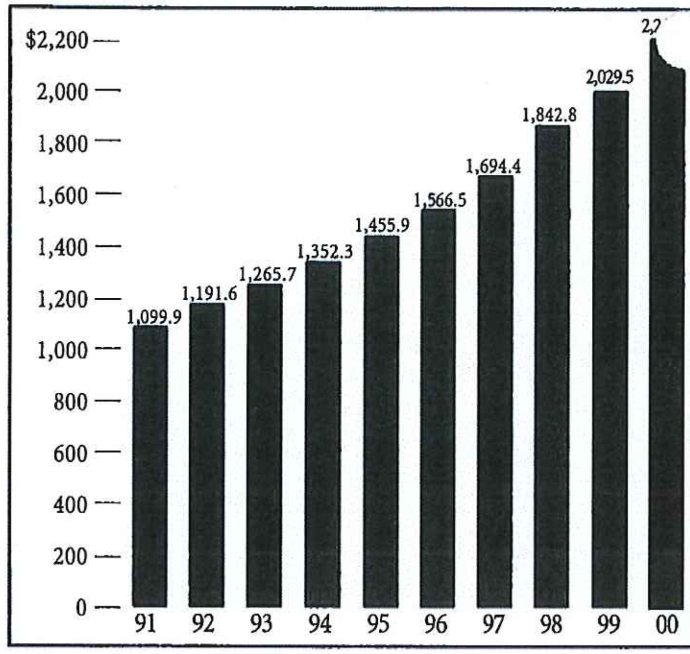
Number of Employer Units

Calendar Year	State	County	Law Enforcement	Municipalities	Villages	Miscellaneous	Libraries	Township	Totals
1991	263	237	212	339	611	327	256	1,311	**3,556**
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**
999	332	247	233	337	673	406	257	1,312	**3,797**
2000	318	243	232	334	673	414	257	1,312	**3,783**

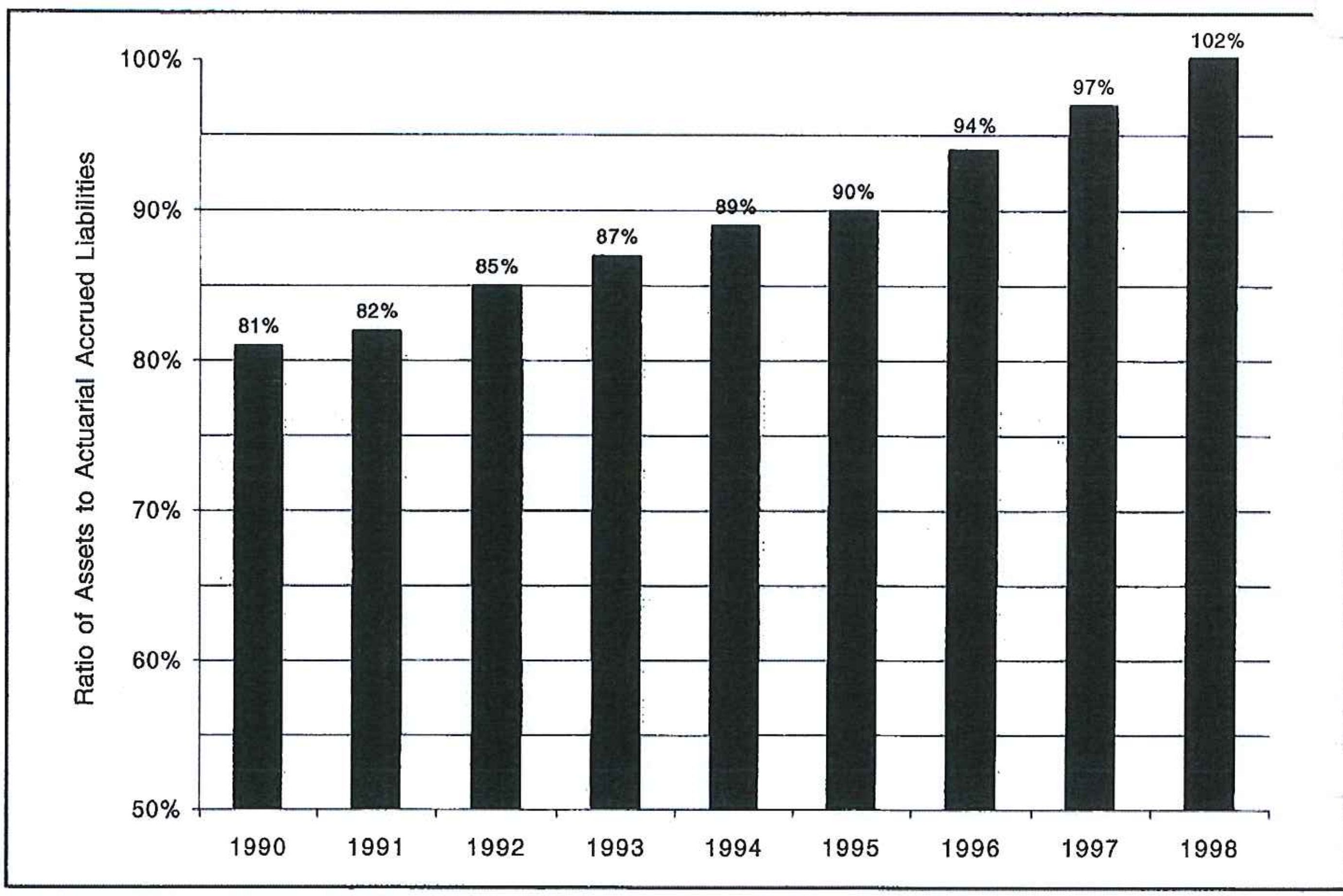
Total Benefit Recipients
(in thousands)



Total Benefit Payments
($ in Millions)



Funding Progress
(Pension Only)



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 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, or state watercraft officers under Section 1547.521 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 Syste 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 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 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.

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.