School Employees Retirement System of Ohio

Comprehensive Annual Financial Report

For the year ended June 30, 2011

Serving the People Who Serve Our Schools®

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For the year ended June 30, 2011

Prepared by SERS Staff
Lisa J. Morris, Executive Director

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

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

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Pictured on the cover, clockwise starting from the top left:
Cindy Murray, Melinda Sayre, and Barbara Tittle – Lincoln Elementary; Aaron Butts – Coventry Local Schools; Bryan Reames – Gahanna Schools Transportation; Carol Bauman – Blacklick Elementary.

Vicky White, Avalon Elementary

Introductory Section

SERS Retirement Board

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

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

Vice Chair:
Madonna D. Faragher
Term Expires June 30, 2011

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

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

Appointed Member:
Nancy D. Edwards
Term Expires Dec. 2, 2012

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

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

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

Employee Member:
Beverly A. Woolridge
Term Expires June 30, 2013

Advisors

Independent Auditor
Clifton Gunderson LLP - Toledo, Ohio

Actuary
Cavanaugh Macdonald Consulting, LLC - Kennesaw, Georgia

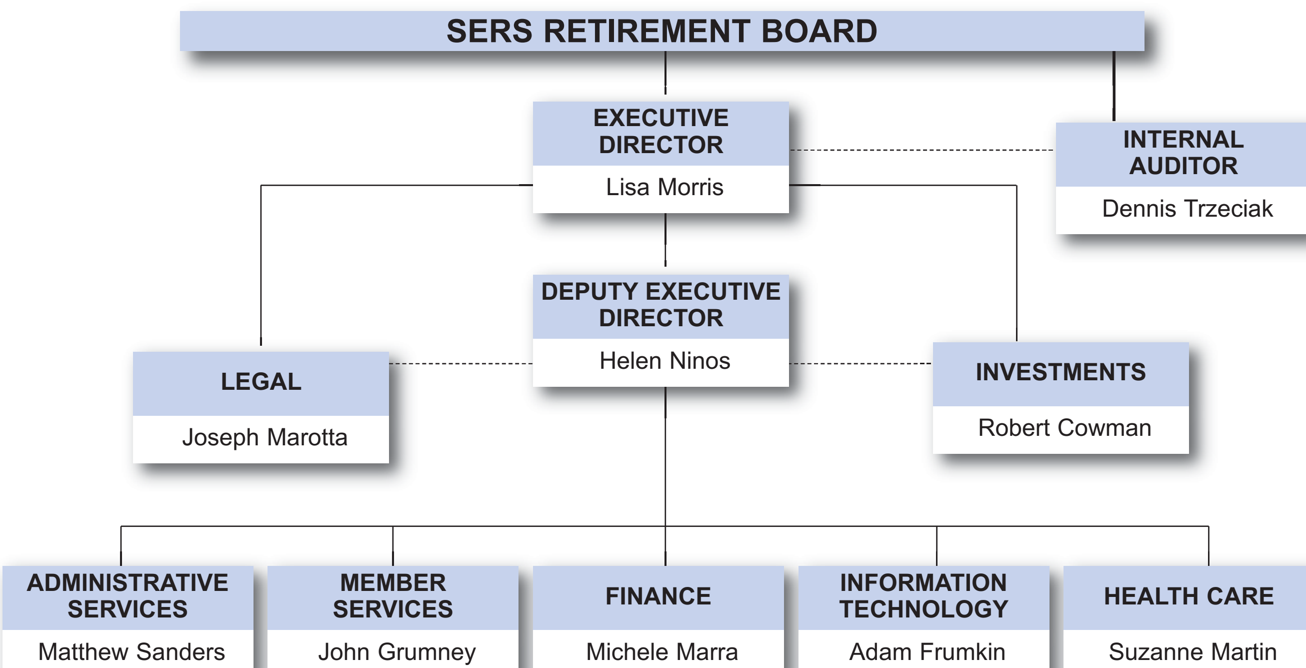
Investment Consultant
Summit Strategies Group - St. Louis, Missouri

Hedge Fund Consultant
Aksia LLC - New York, New York

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

Investment Consultants and Investment Managers and Broker’s Fees - see pages 50-52

Clockwise from top left – Matthew Sanders, Adam Frumkin, John Grumney, Joseph Marotta, Michele Marra, Robert Cowman, Helen Ninos, Lisa Morris, Suzanne Martin



Certificate of Achievement for Excellence in Financial Reporting

Presented to

School Employees Retirement System of Ohio

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

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

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

Linda C. Davison

President

Jeffrey R. Emer

Executive Director

PPCC

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2011

Presented to

School Employees Retirement System of Ohio

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle

Alan H. Winkle
Program Administrator

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

LISA J. MORRIS
Executive Director

HELEN M. NINOS
Deputy Executive Director

December 15, 2011

Dear Chair and Members of the Retirement Board:

We are pleased to submit the Comprehensive Annual Financial Report of the School Employees Retirement System of Ohio (SERS) for the fiscal year ended June 30, 2011. Established in 1937 by an act of the Ohio General Assembly, SERS provides pensions and benefits to public and charter school employees who are not required to possess a certificate in order to perform their duties. By statute, benefit plans include retirement for age and service, disability benefits, and survivor benefits that are paid upon the death of a member before retirement. A postretirement health care program is also provided, although it is not required by law.

MAJOR INITIATIVES AND HIGHLIGHTS

A Record Year for Phone Calls, Counseling Sessions, and Retirements Uncertainty about job security, school funding, pension reform, and the beginning of the Baby Boomer generation reaching retirement age were factors that contributed to a record number of retirements at SERS. In FY2011, staff processed 1,145 more retirements than in FY2010, resulting in a 26% year-over-year increase. In addition to processing more retirement applications, the Member Services staff handled 29% more counseling sessions and 21% more member phone calls in FY2011. To accommodate the increased counseling session load, staff added a group counseling option in which up to 10 members could attend a single session and still receive individualized attention.

Legislature Begins Pension Reform After submitting a Board-approved pension reform plan to the Ohio Retirement Study Council in 2009, placeholder pension reform legislation was finally introduced in both the House and Senate (H.B. 69 and S.B. 3) in April. We testified in support of the SERS Board-approved plan before both the House and Senate, and conducted 41 legislative visits, which included the President of the Senate, Senate Minority Leader, and all three chairmen of the committees reviewing pension reform.

SERS staff also engaged in a statewide media outreach initiative to large and medium-sized newspapers to discuss the SERS pension reform plan and advocate for its passage by the legislature. Staff met with 20 newspaper editorial boards in FY2011, and the results of the visits included three editorials in support of SERS' plan and two articles containing information presented at editorial board meetings. In addition, one newspaper published an Op-Ed piece from SERS describing the system's financial stability, statewide economic impact, and modest retirement benefits.

Actuarial Assumptions Change after Results of Five-Year Experience Study Every five years, SERS is required by statute to measure the reasonableness of the actuarial assumptions used to measure and budget future costs against SERS' actual experience over the previous five years. If actual experience differs significantly from overall expected results, new assumptions are recommended.

SERS' economic assumptions: price inflation, investment returns, and wage inflation were compared to historical data from indices such as the Consumer Price Index and S&P 500 over a 50-year period.

Demographic assumptions including rates of retirement, rates of withdrawal, rates of salary increases for merit and promotions, and mortality rates were compared to what actually happened to the membership during the study period.

Based on the results of the study and the actuary's recommendations, the Board approved prospective changes in April 2011 to all three economic assumptions and five demographic assumptions for actuarial valuations. Price inflation decreases from 3.50% to 3.25%. This impacts the investment return which decreases from 8.00% to 7.75%; the real rate of return remains at 4.50%. Wage inflation increases from 0.50% to 0.75%, however because of the decrease in price inflation the total wage inflation assumption remains at 4.00%. More information about the actuarial assumptions used in the basic benefit and health care valuations can be found in the Actuarial Section.

SERS Keeps Health Care Premiums Flat for FY2012; Board Drops Insulin Costs Despite increasing costs from most health care coverage carriers, SERS was able to maintain the 2011 premium rates because of rate reductions in Aetna's Medicare℠ Plan (PPO), federal reimbursement from the Early Retiree Reinsurance Program (ERRP), and significant prescription drug savings due to retirees using generic drugs more often than brand name drugs.

As staff routinely monitored prescription drug usage in FY2011, they noticed an alarming trend: the fill rates for insulin prescriptions decreased. Knowing the severe health issues associated with inadequate diabetes management, staff recommended, and the Board approved, a reduction in the cost of insulin for retirees enrolled in any of SERS' health care plans effective July 1, 2011.

Imaging Project Tackles New and Old Paper Documents In a collaborative project including Member Services, Health Care Services, Employer Services, Information Technology, and Records Management, the day-forward phase of the imaging project began in February. Paper records received by mail are now converted into electronic files as they are received and are available for access the following day. More than 43,000 electronic images were created by the day-forward process in FY2011.

As all new records were being imaged by the day-forward project, staff continued to convert older paper records held in member case files to electronic files. In FY2011, more than 285,000 member case files have been converted into 6.3 million electronic images. All 800,000 paper case files containing an estimated 11-15 million electronic images are projected to be completed by the end of FY2012.

Strategic Planning Maps Out SERS' Future SERS' leadership team identified the following priorities for staff to address in a five-year action plan: develop long-term plans for pension security and health care security, ensure effective Board and staff collaboration, communicate effectively with stakeholders, and ensure appropriate human, financial, and infrastructure resources are in place to accomplish each goal. Cross-departmental teams were formed to address each of these priorities.

By the end of calendar year 2012, the communications and pension security teams will conduct member and retiree surveys. The intent of the surveys is to learn more about the impact defined benefit pensions have in keeping SERS' retirees off public assistance, and to learn about members' financial literacy, retirement resources, commitment to healthy living, and access to affordable healthcare.

INVESTMENTS

The primary objective of our investment policy is to ensure that the System meets its responsibilities for providing statutory retirement benefits and then other permissive benefits as authorized by the Board. The portfolio is diversified by asset class, investment approach, and individual investments within each asset class to reduce overall portfolio risk and volatility. SERS investment return was 20.9% for the fiscal year versus the benchmark return of 17.8%. The strongest sectors of the portfolio were equities (US and non-US) and global real estate. For more information on SERS portfolio performance and investment policy, please turn to the Investment Section of this report.

FUNDING

SERS' objective is to meet long-term benefit promises through contributions that remain approximately level as a percent of member payroll from one generation to the next. Historical information related to progress on meeting this objective can be found in the *Required Supplementary Information* in the Financial Section of this report.

SERS takes seriously its obligation to plan for the financial future of Ohio school employees. This is why we sought the changes in retirement eligibility for new hires that were enacted in 2008 and support the current efforts of the General Assembly to enact pension reform. The SERS Board has approved additional eligibility changes, which include increasing minimum retirement ages and years of service for members retiring August 1, 2015 or later, to keep the system within the 30-year funding period mandated by statute.

SERS benefits are separated to comply with various sections of the Internal Revenue Code (IRC), and then reported and valued for funding purposes in accordance with relevant Governmental Accounting Standards Board statements. Pension and death benefits are pension benefits; Medicare Part B and health care benefits are postemployment benefits. The QEBA fund, established to pay retirement benefits in excess of IRC §415 limits, is funded by employer contributions on a pay-as-you-go basis.

For FY2011 the funded ratio for pension and death benefits decreased from 72.6% over a 29-year period to 65.2% over a 28-year period. The Medicare B funded ratio over a 28-year period decreased from 33.3% to 30.3% and the funded ratio for health care benefits over 30 years increased from 13.7% to 14.8%.

FINANCIAL REPORTING AND INTERNAL CONTROLS

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

A system of internal accounting controls ensures the security of member and employer contributions and provides reasonable, but not absolute, assurance that assets are properly safeguarded, transactions are properly executed, and that financial statements are reliable. Our independent external auditors have conducted an audit of the basic financial statements in accordance with auditing standards generally accepted in the United States of America. They have full and unrestricted access to the Board to discuss their audit and related findings concerning the integrity of the financial reporting and adequacy of internal controls.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to SERS for its comprehensive annual financial report for the fiscal year ended June 30, 2010. This was the twenty-sixth consecutive year that SERS has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A

Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Public Pension Coordinating Council (PPCC) awarded the Public Pension Standards Award for 2011 to SERS. Developed by the PPCC to promote excellence in meeting professional standards for plan funding and administration among state and local public retirement systems, the Public Pension Standards are the benchmark for measuring current practices of defined benefit plans. The PPCC is a coalition of three national associations that represent public retirement systems and administrators: the National Association of State Retirement Administrators, the National Council on Teacher Retirement, and the National Conference on Public Employee Retirement Systems. Together, these associations represent more than 500 of the largest pension plans in the United States.

ACKNOWLEDGEMENTS

The preparation of this report is the combined effort of the System's staff under the direction of the Retirement Board. Many hands are involved in the successful operation of SERS – the Board, employers, advisors, stakeholders; but this year we especially thank our employees for their dedication in carrying out our mission and thereby *"Serving the People Who Serve Our Schools®".*

Respectfully submitted,

Lisa J. Morris	Michele L. Marra
Executive Director	Finance Director

Legislative Summary

SERS and its members can be significantly affected by legislation enacted by the Ohio General Assembly and Congress. The impact of legislation and federal regulatory activities on SERS and other public retirement systems has increased in recent years. SERS closely monitors legislative activities, and when appropriate, provides testimony or otherwise educates Ohio legislators, congressional representatives, and regulatory agencies on the impact of these proposals.

State Legislation

From the 129th General Assembly:

HB 69 State Retirement Systems (03/23/2011 House Health and Aging - Pension Reform Subcommittee, 11th hearing)
This bill modifies age and service requirements for retirement, cost-of-living adjustments, and final average salary periods at the five state retirement systems, and makes other statutory updates.

HB 123 Workers' Compensation Budget (04/25/11 Signed by Governor)
This bill includes a provision that provides for the termination of a disability benefit of a state retirement system member who has been convicted of certain felonies committed while serving in a position of honor, trust, or profit.

HB 202 Limit Retirement Benefit of Re-Employed Retiree/No Deferred Retirement (04/12/2011 Referred to House Health and Aging)
This bill limits the retirement benefit of a re-employed retiree of a public retirement system and eliminates the deferred retirement option plan in the Ohio Police and Fire Pension Fund and State Highway Patrol Retirement System.

HB 323 Retirement/Disability Benefits-Forfeited For Extortion and Perjury (09/27/2011 House Criminal Justice, 1st hearing)
This bill adds extortion and perjury to the felonies committed by a public retirement system member while serving in a position of honor, trust, or profit under the law governing the forfeiture of retirement system benefits and the termination of retirement system disability benefits.

SB 3 State Retirement Systems-Change Law Governing (03/24/2011 Senate Government Oversight & Reform, 2nd hearing)
This bill states the General Assembly's intent to make changes to the laws governing the state retirement systems as necessary to modernize, update, and improve the actuarial soundness of the systems.

SB 5 Collective Bargaining Law-Revise (11/8/2011 Repealed by referendum)
This bill includes a provision that prohibits public employers from offering fringe benefit pick-up plans.

SB 214 Public Retirement Systems-Compliance with Restitution Withholding Orders (09/20/2011 Referred to Senate Government Oversight & Reform)
This bill modifies when a public retirement system, alternative retirement plan, or deferred compensation program must comply with a withholding order for restitution issued on conviction of a public employee for certain offenses committed in the course of public employment.

Federal Legislation
From the 112th Congress:

HR 567 Public Employee Pension Transparency Act (02/09/2011 Referred to House Committee on Ways and Means)
This bill amends the Internal Revenue Code to deny tax benefits relating to bonds issued by a state or political subdivision during any period in which such state or political subdivision is noncompliant with specified reporting requirements for state or local government employee pension benefit plans.

HR 1332 Social Security Fairness Act of 2011 (04/07/2011 Referred to the Subcommittee on Social Security)
This bill amends Title II of the Social Security Act to repeal government pension offset requirements applicable to husband’s and wife's insurance benefits, widow's and widower's insurance benefits, and mother's and father's insurance benefits with respect to OASDI payments; and windfall elimination requirements with respect to computation of an individual's primary insurance amount.

S 113 Public Servant Retirement Protection Act of 2011 (01/25/2011 Referred to Senate Committee on Finance)
This bill amends Title II of the Social Security Act to repeal the windfall elimination provision and protect the retirement of public servants.

S 347 Public Employee Pension Transparency Act (02/15/2011 Referred to Senate Committee on Finance)
This bill amends the Internal Revenue Code to deny tax benefits relating to bonds issued by a state or political subdivision during any period in which such state or political subdivision is noncompliant with specified reporting requirements for state or local government employee pension benefit plans.

Brenda Smith, Park Street Intermediate

Financial Section

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Certified Public Accountants & Consultants

Independent Auditors' Report

The Retirement Board
School Employees Retirement System of Ohio
and
The Honorable Dave Yost
Auditor of State:

We have audited the accompanying statement of plan net assets of School Employees Retirement System of Ohio (SERS) as of June 30, 2011, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the management of SERS. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SERS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of SERS as of June 30, 2011, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 9, 2011, on our consideration of SERS' internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Retirement Board
School Employees Retirement System of Ohio
and
The Honorable Dave Yost

Management's discussion and analysis on pages 14 through 17 and the schedules of funding progress and employer contributions and related notes on pages 33 through 35 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on pages 36 and 37 is presented for the purpose of additional analysis and is not a required part of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section on pages 2 through 10, the investments section on pages 40 through 60, the actuarial section on pages 62 through 70, and the statistical section on pages 72 through 84 have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Clifton Gunderson LLP

Toledo, Ohio
December 9, 2011

Management's Discussion and Analysis (Unaudited)

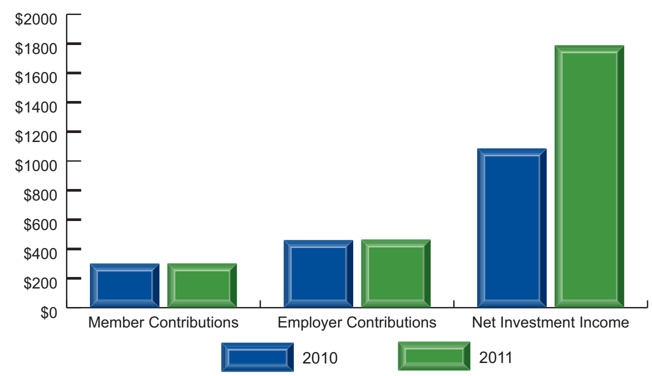
This discussion and analysis of the School Employees Retirement System of Ohio's (SERS) financial performance provides a narrative overview of financial activities for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with the information in our Letter of Transmittal, which is found in the Introductory Section of this report. In addition to historical information, Management's Discussion and Analysis includes certain forward–looking statements which involve certain risks and uncertainties. Actual results, performance, and achievements may differ from those expressed or implied in such forward–looking statements, due to a wide range of factors, including changes in the securities markets, general economic conditions, and legislative changes, as well as other factors.

OVERVIEW OF FINANCIAL STATEMENTS

Following Management's Discussion and Analysis are the basic financial statements. Reviewing these statements, along with the accompanying notes, gives the reader a better understanding of SERS' financial position. The *Statement of Plan Net Assets* provides a view at the fiscal year-end of the amount the plans have accumulated in assets to pay for future benefits and any liabilities that are owed as of the statement date. The *Statement of Changes in Plan Net Assets* presents what has happened to the plans during the fiscal year. If net assets increased, then additions to the plans were greater than the deductions. If net assets decreased, then additions to the plans were less than the deductions from the plans.

The *Notes to Financial Statements* supply additional information that is essential for a full understanding of the data provided in the financial statements. The notes describe the history and purpose of the plans; present information about accounting policies and significant account balances and activities; and disclose material risks, subsequent events, and contingent liabilities, if any, that may significantly impact SERS' financial position. In addition to the financial statements and notes, *Required Supplementary Information* (RSI) is provided. This supplementary information includes data on funding progress and employer contributions, along with other information useful in evaluating the financial condition of SERS. Following the RSI is other supplementary information, including schedules with detailed information on investment and administrative expenses.

Comparative Additions by Source FY2010 & 2011
(in millions)



FINANCIAL HIGHLIGHTS

We are pleased to report that all funds recorded increases in net assets in 2011.

- Total additions to plan net assets were $2.7 billion, comprised of contributions of $891.7 million and net investment income of $1.8 billion.
- Total deductions from plan net assets for fiscal year 2011 totaled $1.1 billion, an increase of 4.0% over fiscal year 2010 deductions.
- The increase in plan net assets was $1.6 billion compared to the $886.4 million increase in 2010.

CONDENSED SUMMARY OF TOTAL PLAN NET ASSETS
(in millions)

			Change	
ASSETS	2011	2010	Amount	Percent
Cash	$ 478.8	$ 552.6	$ (73.8)	(13.4)%
Receivables	422.8	499.7	(76.9)	(15.4)
Investments	10,753.4	8,837.1	1,916.3	21.7
Capital Assets	44.2	45.6	(1.4)	(3.1)
Other Assets	-	0.1	(0.1)	(100.0)
Total Assets	11,699.2	9,935.1	1,764.1	17.8
LIABILITIES				
Benefits & Accounts Payable	12.0	12.7	(0.7)	(5.5)
Other Liabilities	712.2	525.4	186.8	35.6
Total Liabilities	724.2	538.1	186.1	34.6
Net Assets Held in Trust	$10,975.0	$ 9,397.0	$ 1,578.0	16.8%

FINANCIAL ANALYSIS

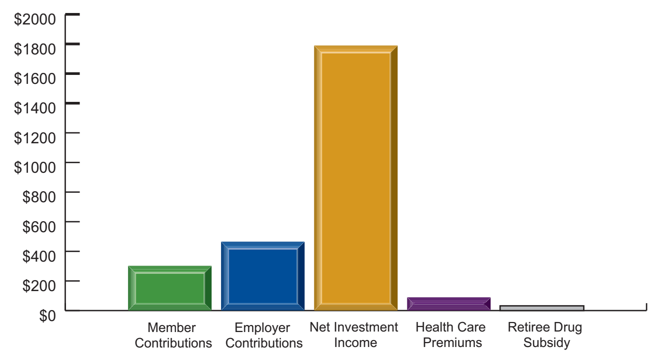
A cost-sharing defined benefit public retirement system, such as SERS, has a long-term perspective on financial activities. Pension benefits are funded on an actuarial basis. Contributions are invested in assets with the highest possible return at an acceptable level of risk that will provide for the lifetime pensions of retirees.

Additions SERS is comprised of five separate plans – the Pension Trust Fund, the Medicare B Fund, the Death Benefit Fund, the Qualified Excess Benefit Arrangement (QEBA) Fund, and the Health Care Fund. Pension benefits are funded through a combination of employee and employer contributions, and investment income. Medicare Part B premium reimbursements and death benefits are funded through employer contributions and investment income. The QEBA, a separate plan under Internal Revenue Code §415, is funded by contributions from the retiree's last employer and invested separately in a short-term investment fund. Funding for the health care program comes from employers, retiree premium payments, the federal government, and investment income. The graph on the next page labeled "Comparison of Additions to Plan Net Assets by Fund" depicts the proportion that each source added to the individual fund's assets during FY2011.

For financial statement purposes, employee contributions consist of 10% of payroll, and member purchases of restored and optional service credits. Employer contributions include 14% of payroll, the employer's share of optional and compulsory purchased service credit, early retirement incentives, and the health care surcharge. Combined active membership decreased 0.5%, continuing the trend of relatively flat membership numbers that we have experienced for several years. It reflects school budget cuts, declining enrollments in traditional schools, and increasing enrollments in charter schools that are non-traditional in many ways by not needing the same numbers of support personnel per student. Employee and employer contributions increased 0.7%, which indicates small payroll increases.

Employer contributions to the Health Care Fund are derived from two sources. The first source is an allocation of the employers' 14% contribution after pension benefits are actuarially funded. This allocation increased from .46% in FY2010 to 1.43% for FY2011. The second is a health care surcharge for members who earn less than an actuarially determined minimum salary, which is established annually by the Board and did not change from the previous year. Regardless of the minimum compensation amount, legislated limits on SERS' surcharge revenue restrict the actual surcharge to 1.5% of statewide payroll, and no employer pays more than 2.0% of the district's payroll. This year, as in the past, most employers paid 1.51% of payroll for the surcharge; approximately 5% of reporting employers paid less than 1.51%, or nothing at all. The health care surcharge increased from $43.4 million in 2010 to $44.7 million in 2011.

Additions to Plan Net Assets
(in millions)



In addition to employer contributions and investment income, additions to the Health Care Fund include health care premiums paid by retirees. Premiums increased 25.5% over the previous fiscal year although enrollment declined 4.8% from 50,605 retirees and dependents to 48,151. Both changes can be attributed to the Board-adopted increases in premiums and other plan changes effective January 2011

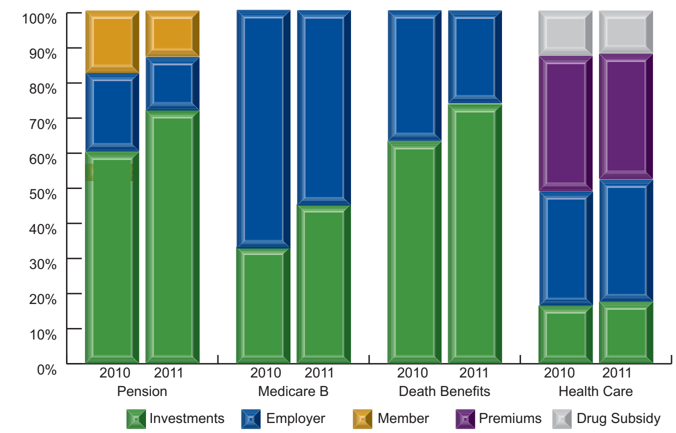
CONDENSED SUMMARY OF CHANGES IN TOTAL PLAN NET ASSETS
(in millions)

			Change	
ADDITIONS	2011	2010	Amount	Percent
Contributions	$ 891.7	$ 860.4	$ 31.3	3.6%
Net Investment Income	1,789.9	1,087.5	702.4	64.6
Total Additions	2,681.6	1,947.9	733.7	37.7
DEDUCTIONS				
Benefits	1,033.8	999.0	34.8	3.5
Refunds & Transfers	48.6	42.3	6.3	14.9
Admin. Expenses	21.2	20.2	1.0	5.0
Total Deductions	1,103.6	1,061.5	42.1	4.0
Net Increase	1,578.0	886.4	691.6	78.0
Balance, Beginning of Year	9,397.0	8,510.6	886.4	10.4
Balance, End of Year	$10,975.0	$ 9,397.0	$ 1,578.0	16.8%

with the goal of stabilizing the Health Care Fund by matching inflows with expenses. The other source of contributions to the Health Care Fund included $31.8 million in reimbursements from the federal Medicare Part D and early retiree reinsurance programs.

Investment income is allocated, in accordance with the actuary's recommendation, to all funds except the QEBA. The financial markets continued to improve in FY2011, resulting in SERS' portfolio yielding investment income of $1.8 billion and outperforming its benchmark. Investment net income is presented net of investment fees and is comprised of interest, dividends, and realized and unrealized investment gains and losses. Income from interest and dividends increased $13.5 million to $240.0 million in FY2011. SERS' investment portfolio, with the exception of cash and short-term investments, is handled by external investment managers whose fees are based on asset values. Total investment expenses increased 12.3% from $75.2 million in FY2010 to $84.4 million in FY2011 as a result of the positive investment performance. More information on investment results can be found in the Investment Section.

Comparison of Additions to Plan Net Assets by Fund

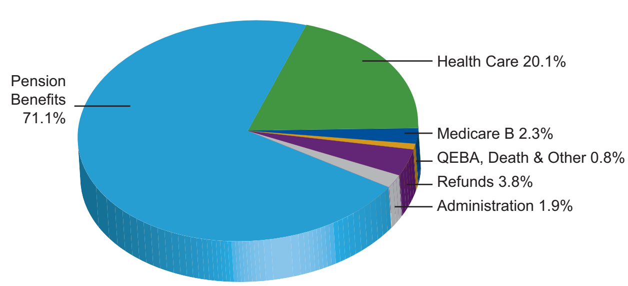


Deductions Expenses are incurred primarily for the purpose for which SERS was created: the payment of benefits to non-teaching Ohio public and charter school employees. Included in the deductions from plan assets were benefit payments, refunds of contributions due to member terminations or deaths, net transfers to other Ohio retirement systems to provide benefits for those members who had membership in more than one system, and administrative expenses.

Payments to service, disability, and survivor benefit recipients increased $50.5 million, or 6.6%. Retirees receive an annual 3% cost-of-living allowance on the anniversary of their retirement date, which makes up approximately half of the increase. The net increase in retirees was 1,094, compared to the net increase in FY2010 of 370 retirees. This reversed the downward trend in new retirements that SERS had experienced the past five years. We expect the number of new retirees to continue upward as baby boomers retire and pension reform is enacted which will most likely increase minimum age and years of service for retirement eligibility and may change benefit calculations and post-retirement increases.

Total refunds paid increased 13.6% from FY2010 to FY2011. Upon application, lump sums are disbursed to members who have terminated public employment as well as to the beneficiaries of deceased members. Net transfers to other Ohio retirement systems increased 25.7%. If a member has been employed in a job covered by the State Teachers Retirement System of Ohio (STRS) or the Ohio Public Employees Retirement System (OPERS) as well as in a job covered by SERS, the member may combine the service credit and accounts in all the systems to receive one benefit. The system with the greatest service credit will be the system that will calculate and pay the benefit. Generally, a member will have a career position with OPERS or STRS, thus SERS generally transfers more monies to those systems than it receives.

Deductions from Plan Net Assets

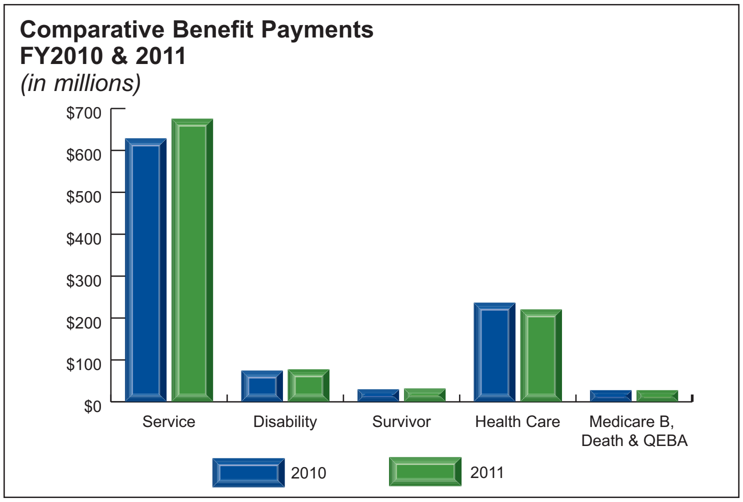


SERS reimburses a portion of the Medicare Part B premium to retirees eligible for SERS' health care program who provide proof of enrollment in Part B. The amount of Medicare Part B reimbursement is established by statute. SERS reimbursed $45.50 of the 2011 minimum monthly Part B premium of $96.40. Medicare Part B expense decreased $341,000 or 1.3% in FY2011. The reimbursement amount has not changed since 2001; therefore, changes in expenses are driven by retirees' eligibility for Medicare Part B or termination of a benefit.

SERS pays a $1,000 death benefit to the designated beneficiary of service and disability retirees. Death benefit payments increased $19,000 or 0.8% in FY2011.

The majority of retirees are enrolled in Medicare Advantage plans; however, SERS maintains a traditional, self-insured

Preferred Provider Organization (PPO) plan for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program.



Health care expense decreased $15.7 million to $221.2 million, a 6.7% decrease. Much of this decrease was in the prescription drug program, the result of formulary changes that encouraged retirees to use generic drugs. Lower net health care expenses and greater investment income resulted in a net increase to the Health Care Fund of $30.7 million.

June 30, 2011 projections by our actuary indicate that funds will run out in FY2023, which is five years longer than the projections made by the actuary at June 30, 2010. However, there will be lower employer contributions in FY2012 and the Retirement Board has decided to hold the line on health care premiums for calendar year 2012. Consequently, SERS may lose some of the ground that was gained this past year. SERS continues to seek solutions that preserve access to health care coverage for current and future retirees, but health care is not mandated by statute. Funding sources are limited to those noted earlier in this analysis.

REQUEST FOR INFORMATION

This financial report is designed to provide the Retirement Board, our membership, employers, and investment managers with a general overview of SERS' finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to:

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

Statement of Plan Net Assets
as of June 30, 2011

	Pension Trust Fund	Medicare B Fund	Death Benefit Fund
ASSETS			
Cash & Operating Short Term Investments	$ 409,646,109	$ 4,405,687	$ 881,046
Receivables			
Contributions			
Employer	121,122,738	6,806,081	358,086
Employee	14,265,730	-	-
Investments Receivable	210,373,035	2,247,011	393,214
Other Receivables	644,972	-	-
Total Receivables	346,406,475	9,053,092	751,300
Investments at Fair Value			
US Equity	3,693,989,473	39,451,072	6,904,098
Non-US Equity	2,733,715,381	29,195,536	5,109,338
Private Equity	799,585,264	8,539,411	1,494,432
Fixed Income	1,776,320,135	18,970,746	3,319,958
Real Estate	986,259,856	10,533,059	1,843,328
Total Investments at Fair Value	9,989,870,109	106,689,824	18,671,154
Securities Lending Collateral at Fair Value	381,822,920	4,077,793	713,630
Capital Assets			
Land	3,315,670	-	-
Property & Equipment, at Cost	60,001,433	-	-
Accumulated Depreciation and Amortization	(19,111,696)	-	-
Total Capital Assets	44,205,407	-	-
Prepaids and Other Assets	54,146	-	-
TOTAL ASSETS	11,172,005,166	124,226,396	21,017,130
LIABILITIES			
Accounts Payable & Accrued Expenses	792,963	(484)	2,210
Benefits Payable	1,207,322	41,269	481,104
Investments Payable	305,211,561	3,259,599	570,443
Obligations under Securities Lending	381,717,306	4,076,665	713,433
TOTAL LIABILITIES	688,929,152	7,377,049	1,767,190
NET ASSETS HELD IN TRUST FOR PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS	$ 10,483,076,014	$ 116,849,347	$ 19,249,940

See accompanying notes to the financial statements and schedules of funding progress on page 33.

QEBA Fund	Health Care Fund	TOTAL
$ 103,835	$ 63,718,918	$ 478,755,595
-	47,510,574	175,797,479
-	-	14,265,730
15	5,108,987	218,122,262
-	13,943,932	14,588,904
15	66,563,493	422,774,375
-	89,585,430	3,829,930,073
-	66,297,175	2,834,317,430
-	19,391,281	829,010,388
-	43,078,737	1,841,689,576
-	23,918,453	1,022,554,696
-	242,271,076	10,357,502,163
-	9,259,845	395,874,188
-	-	3,315,670
-	-	60,001,433
-	-	(19,111,696)
-	-	44,205,407
-	800	54,946
103,850	381,814,132	11,699,166,674
1,254	9,449,213	10,245,156
-	-	1,729,695
-	7,401,891	316,443,494
-	9,257,284	395,764,688
1,254	26,108,388	724,183,033
$ 102,596	$ 355,705,744	$ 10,974,983,641

Statement of Changes in Plan Net Assets for the year ended June 30, 2011

	Pension Trust Fund	Medicare B Fund	Death Benefit Fund
ADDITIONS			
Contributions			
Employer	$ 355,959,304	$ 22,172,922	$ 1,166,996
Employee	303,114,258	-	-
Other Income			
Health Care Premiums	-	-	-
Federal Drug Subsidy	-	-	-
	659,073,562	22,172,922	1,166,996
Income from Investment Activity			
Net Appreciation in Fair Value	1,571,277,030	16,893,579	3,034,573
Interest and Dividends	231,036,630	2,483,382	446,107
	1,802,313,660	19,376,961	3,480,680
Investment Expenses	(81,281,663)	(873,674)	(156,948)
Net Income from Investment Activity	1,721,031,997	18,503,287	3,323,732
Income from Securities Lending Activity			
Gross Income	1,315,138	14,136	2,540
Brokers' Rebates	782,213	8,408	1,510
Management Fees	(374,985)	(4,031)	(723)
Net Income from Securities Lending Activity	1,722,366	18,513	3,327
Net Investment Income	1,722,754,363	18,521,800	3,327,059
TOTAL ADDITIONS	2,381,827,925	40,694,722	4,494,055
DEDUCTIONS			
Benefits			
Retirement	675,549,301	22,677,282	-
Disability	77,524,938	1,373,592	-
Survivor	31,801,044	1,302,301	-
Death	-	-	2,254,894
Health Care Expenses	-	-	-
	784,875,283	25,353,175	2,254,894
Refunds and Lump Sum Payments	42,223,739	-	-
Net Transfers to Other Ohio Systems	6,394,075	-	-
Administrative Expenses	18,622,302	5,652	43,293
	67,240,116	5,652	43,293
TOTAL DEDUCTIONS	852,115,399	25,358,827	2,298,187
Net Increase	1,529,712,526	15,335,895	2,195,868
NET ASSETS HELD IN TRUST FOR PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS			
Balance, Beginning of Year	8,953,363,488	101,513,452	17,054,072
Balance, End of Year	$ 10,483,076,014	$ 116,849,347	$ 19,249,940

See accompanying notes to the financial statements.

QEBA Fund	Health Care Fund	TOTAL
$ 157,620	$ 86,908,283	$ 466,365,125
-	-	303,114,258
-	90,387,665	90,387,665
-	31,844,425	31,844,425
157,620	209,140,373	891,711,473
187	41,274,235	1,632,479,604
-	6,056,878	240,022,997
187	47,331,113	1,872,502,601
-	(2,129,026)	(84,441,311)
187	45,202,087	1,788,061,290
-	34,479	1,366,293
-	20,507	812,638
-	(9,831)	(389,570)
-	45,155	1,789,361
187	45,247,242	1,789,850,651
157,807	254,387,615	2,681,562,124
141,086	-	698,367,669
-	-	78,898,530
-	-	33,103,345
-	-	2,254,894
-	221,167,270	221,167,270
141,086	221,167,270	1,033,791,708
-	-	42,223,739
-	-	6,394,075
1,254	2,518,770	21,191,271
1,254	2,518,770	69,809,085
142,340	223,686,040	1,103,600,793
15,467	30,701,575	1,577,961,331
87,129	325,004,169	9,397,022,310
$ 102,596	$ 355,705,744	$ 10,974,983,641

Notes to Financial Statements
June 30, 2011

1. Summary of Significant Accounting Policies

Basis of Accounting The financial statements of the School Employees Retirement System of Ohio (SERS) are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Administration costs are financed by investment earnings.

Use of Estimates In preparing financial statements in conformity with governmental accounting principles generally accepted in the United States of America, SERS' management makes estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions. Certain SERS investment assets, in particular global real estate and global private equity funds, use estimates in reporting fair value in the financial statements. These estimates are subject to uncertainty in the near term, which could result in changes in the values reported for those assets in the Statement of Plan Net Assets.

Employer Contributions Receivable SERS recognized long-term receivables from certain employers whose contributions were deducted from the money paid to them through the School Foundation Program, administered by the Ohio Department of Education. Collection of those contributions was transitioned from a calendar year basis, six months in arrears, to a fiscal year basis effective June 30, 2010. Employers were permitted to spread this six-month catch-up of the arrearage evenly over a six-year period beginning July 2010. All arrearages should be paid by June 2016.

Health Care Expenses Incurred and Unpaid Amounts accrued for health care expenses payable for recipients less than age 65 and for all prescription drug payments in the Health Care Fund are based upon estimates that have been developed from prior claims experience.

Allocation of Expenses to Plans Direct expenses are charged to the plan for which they are incurred. All indirect expenses are paid by the Pension Trust Fund and are reimbursed by the Medicare B, Death Benefit, and Health Care Funds, in proportion to their use of the assets.

Investments Investment purchases and sales are recorded as of the trade date. Dividend income is recognized on the ex-dividend date. Other investment income is recognized when earned.

Investments are reported at fair value. Fair value is the amount reasonably expected to be received for an investment in a current sale between a willing buyer and a willing seller. Fixed income securities, real estate investment trusts (REIT), derivatives, and common and preferred stocks are valued based on published market prices and quotations from national security exchanges and securities pricing services. International stocks are then adjusted to reflect the current exchange rate of the underlying currency. Short-term securities are valued at amortized cost, which approximates fair value. Investments for which no national exchanges or pricing services exist, such as private equity assets, are valued at fair value by the investment partnership based on the valuation methodology outlined in the partnership agreement. Real estate may be valued by the manager or independent appraisers. SERS performs due diligence reviews of the investment pricing, process, and infrastructure of private equity and real estate investments to assure that the asset values provided by the managers are reasonable.

Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the beginning of the year and the end of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment expenses consist of external expenses directly related to SERS' investment operations, as well as the internal administrative expenses associated with SERS' investment program.

Additional information on investments (including details of the investment policy and asset allocation) is contained within the Investment section of this *Comprehensive Annual Financial Report* (CAFR).

The monies held by the Pension Trust, Medicare B, Death Benefit, and Health Care Funds are pooled for the purpose of the investment of those plans. Each plan holds units of the investment pool, which are adjusted on a monthly basis. The value of one unit of the Pool on June 30, 2011 was $1,379.986. The unit holdings and net value of each of the funds at the close of the fiscal year were:

	Units	Value
Pension Trust Fund	7,436,643.53	$10,262,463,198
Medicare B Fund	79,421.87	109,601,062
Death Benefits Fund	13,899.15	19,180,634
Health Care Fund	180,351.06	248,881,915
Total	**7,710,315.61**	**$10,640,126,809**

Office Building, Equipment, and Fixtures (Non-Investment Assets) The cost of equipment and fixtures in excess of $5,000 are capitalized at cost when acquired. Improvements that increase the useful life of the property are capitalized. Maintenance and repairs are charged to expense as incurred. Software costs in excess of $25,000 are also capitalized. Intangible assets, such as internally-developed software, are capitalized in accordance with GASB 51, *Accounting and Financial Reporting for Intangible Assets.* Depreciation and amortization has been provided using the straight-line method over the following useful lives:

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

Reserves Ohio Revised Code Section 3309.60 establishes various reserves to account for future and current benefit payments. The state statute gives these reserves the title of “Funds,” but for accounting and reporting purposes they are treated as accounts. These are:

- **The Employees' Savings Account** Accumulated members' contributions are held in trust pending refund or transfer to another account other than the Guarantee Account or Expense Account.
- **The Employers' Trust Account** Accumulated employer contributions are held for future benefit payments.
- **The Annuity and Pension Reserve Account** This reserve contains the monies set aside to pay all annuities and pensions. Money is transferred to this account from the Employees' Savings Account, Employers' Trust Account, and Guarantee Account at the time of retirement.
- **The Survivors' Benefit Account** Monies in this account are set aside to finance payments to beneficiaries of deceased members. Money is transferred to this account from the Employees' Savings Account, Employers' Trust Account, and Guarantee Account in an amount to fund all liabilities at the end of each year.
- **The Guarantee Account** Income derived from the investment pool and any gifts or bequests are accumulated in this account. The balance in this account is transferred to other reserve accounts to aid in the funding of future benefit payments and administrative expenses.
- **The Expense Account** This account provides for the payment of administrative expenses with the necessary money allocated to it from the Guarantee Account.

RESERVE ACCOUNT BALANCES AS OF JUNE 30, 2011

	Pension Trust Fund	Medicare B Fund	Death Benefit Fund	QEBA Fund	Health Care Fund	**Reserve Account Totals**
Employees’ Svgs. Acct.	$ 2,913,906,794	$ –	$ –	$ –	$ –	**$ 2,913,906,794**
Employers’ Trust Acct.	(768,258,536)	–	–	–	355,705,744	**(412,552,792)**
Annuity and Pension Reserve Acct.	8,003,048,246	116,849,347	19,249,940	102,596	–	**8,139,250,129**
Survivors' Benefit Acct.	334,379,510	–	–	–	–	**334,379,510**
Guarantee Acct.	–	–	–	–	–	–
Expense Acct.	–	–	–	–	–	–
Fund Totals	**$10,483,076,014**	**$116,849,347**	**$ 19,249,940**	**$102,596**	**$ 355,705,744**	**$10,974,983,641**

2. Description of the System

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

The Retirement Board is responsible for the general administration and management of the retirement system. As of June 30, 2011, the Board is composed of nine members: four elected employee members; two elected retiree members; and three appointed investment expert members. One investment expert is appointed by the Governor, a second one by the State Treasurer, and the third one jointly by the Speaker of the House and President of the Senate of the General Assembly.

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

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

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

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

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

EMPLOYER AND EMPLOYEE MEMBERSHIP DATA (as of June 30, 2011)	
Employer Members	
Local	374
City	191
Educational Service Center	57
Village	49
Higher Education	15
Vocational/Technical	49
Community Schools	283
Other	10
Total	1,028
Employee Members and Retirees	
Retirees and beneficiaries currently receiving benefits	67,221
Terminated employees entitled to but not yet receiving benefits	12,410
Total	79,631
Active Employees	
Vested active employees	78,795
Non-vested active employees	46,542
Total	125,337

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

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

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

Disability benefits are available if the member:

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

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

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

Health Care SERS offers medical and prescription health care coverage to qualifying benefit recipients. This coverage is discretionary under state retirement law. The Retirement System is permitted, and reserves the right, to change or discontinue any health care plan or program at any time. The program is funded by employer contributions, benefit recipient premium payments, Medicare Part D subsidy, and investment earnings.

3. Contributions

State retirement law requires contributions by covered employees and their employers, and limits the maximum rate of contributions. The Retirement Board sets contribution rates within the allowable limits. The adequacy of employer contribution rates is determined annually by actuarial valuation using the entry age normal cost method. During FY2011, employees and their employers were required to contribute 10% and 14%, respectively, of active member payroll.

Employer and employee contributions were $419.1 million and $298.6 million, respectively, in 2011. The contribution amounts in the financial statements also include employee contributions for purchased service credit.

The Retirement Board, acting with the advice of the actuary, allocates the current employer contribution rate among the plans of the System. For FY2011, the allocation of the employer contribution rate to pension plan benefits was established as the rate necessary to cover normal cost and amortize the unfunded accrued liability. Of the 14% contribution rate paid by employers, 12.57% was allocated to the pension funds in the following rates:

Pension Trust Fund	11.77%
Medicare B Fund	.76%
Death Benefit Fund	.04%

The portion of the employer contribution not required to actuarially fund the pension plans (Pension Trust Fund, Medicare B Fund, and Death Benefit Fund) is available for the Health Care Fund. During FY2011, the amount of employer contributions directed to the Health Care Fund was 1.43% of covered payroll, or $42.2 million. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned during the year. Statutes provide that no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of total statewide SERS-covered payroll for the health care surcharge. For FY2011, the minimum compensation level was established at $35,800. The surcharge accrued for FY2011 and included in employer contributions in the *Statement of Changes in Plan Net Assets* is $44.7 million.

4. Cash Deposits and Investments

Custodial Credit Risk, Deposits Custodial credit risk for deposits is the risk that in the event of a bank failure, SERS' deposits may not be returned. In accordance with state law, the Board of Deposit designates SERS' depository bank, and the Treasurer of State serves as custodian and contracts depository services for all SERS' deposits. Therefore, SERS does not have a policy for custodial credit risk.

At June 30, 2011, the carrying amounts of SERS' operating and investment cash deposits totaled $66,357,322, and the corresponding bank balances totaled $14,015,234. Of the bank balances, the Federal Deposit Insurance Corporation insured $484,611. In accordance with state law, bank balances of $1,475,647 were collateralized at 102% with securities held in the name of SERS' pledging financial institutions. The remaining bank deposits of $12,054,976 were uninsured and uncollateralized.

Custodial Credit Risk, Investments Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, SERS will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. State law provides that the Treasurer of State is SERS' custodian. Therefore, SERS does not have a policy for investment custodial credit risk.

Credit Risk Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. ORC 3309.15 and the Board's "Statement of Investment Policy" (adopted July 2010) direct that the funds of SERS will be invested following the prudent person standard. This fiduciary standard dictates that the Board consider the probable safety of investments, avoid speculative

INVESTMENTS AND SHORT-TERM HOLDINGS

	Fair Value (in thousands)
Commingled - Bonds	$ 43,615
Commingled - Non-US Equity	811,908
Currency Contract	(7,282)
Foreign Warrants, Rights & Vouchers	2,262
Futures	1,723
Hedge Funds	1,336,571
Mortgage and Asset Backed	102,882
Mutual Funds	413,211
Non-US Bonds	155,487
Non-US Common and Preferred	1,965,295
Private Equity	829,010
Private Real Estate	911,377
Real Estate Investment Trusts	100,873
Swaps	560
US Agency	510,043
US Common & Preferred	2,190,916
US Corporate Bonds	803,183
US Government	202,018
Securities on Loan:	
Non-US Common and Preferred	50,838
Mutual Fund - Money Market	2,296
Real Estate Investment Trusts	10,304
US Agency	10,141
US Common & Preferred	300,671
US Corporate Bonds	339
US Government	14,377
Total Investments Fair Value	**$ 10,762,618**
Securities Lending Collateral Pool	**$ 395,874**

FAIR VALUE SUBJECT TO CREDIT RISK

	S&P Credit Quality Rating	***Fair Value (in thousands)***
US Corporate Obligations	AAA	$ 36,490
	AA	69,410
	A	218,324
	BBB	220,312
	BB	126,725
	B	92,072
	CCC	24,084
	CC	3,773
	C	311
	Not rated	12,021
Total		$ 803,522
Mortgage and Asset Backed	AAA	56,555
	AA	10,650
	A	17,579
	BBB	10,535
	BB	281
	B	2,290
	CCC	2,795
	CC	786
	Not rated	1,411
Total		$ 102,882
Foreign Obligations	AAA	61,339
	AA	8,787
	A	23,816
	BBB	44,062
	BB	7,924
	B	889
	CCC	2,791
	Not rated	5,879
Total		$ 155,487
Commingled - Bonds	AA	5,842
	A	26,943
	B	10,830
Total		$ 43,615
US Agency	AAA	513,487
	AA	1,065
	A	5,632
Total		$ 520,184
US Government	AAA	216,395
Mutual Fund - Money Market	AAA	412,398
Total Debt Securities		**$ 2,254,483**

FAIR VALUE SUBJECT TO INTEREST RATE RISK

Investment	Fair Value (in thousands)	Option Adjusted Duration (in years)
US Agency	$ 520,184	3.06
US Corporate Obligations	803,522	5.20
Commingled - Bonds	43,615	2.77
US Government	216,395	5.45
Foreign Obligations	155,487	5.40
Mortgage and Asset Backed	102,882	3.35
Mutual Fund - Money Market	412,398	N/A*
Total Debt Securities	**$ 2,254,483**	**3.66**

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

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

Currency	Cash & Cash Equivalents	Fixed Income	Non-US Equities	Real Estate	Private Equity
Australian Dollar	($ 49,194)	$ 14,764	$ 73,362	$ –	$ –
Brazilian Real	247	20,307	51,771	–	–
British Pound Sterling	(150,013)	–	248,308	9,232	–
Bulgarian Lev	–	–	511	–	–
Canadian Dollar	(56,548)	40,992	69,746	–	–
Chilean Peso	17	874	118	–	–
Chinese Yuan	7	–	–	–	–
Colombian Peso	49	1,459	–	–	–
Czech Koruna	138	–	3,200	–	–
Danish Krone	(11,784)	–	23,330	–	–
Egyptian Pound	–	–	243	–	–
Euro	(237,629)	11,490	408,941	57,883	66,634
Hong Kong Dollar	(14,914)	–	118,723	–	–
Hungarian Forint	49	–	4,808	–	–
Indian Rupee	780	6,203	9,441	–	–
Indonesian Rupiah	575	6,110	23,743	–	–
Israeli Shekel	(4,171)	–	6,053	–	–
Japanese Yen	(134,855)	475	283,328	–	–
Kazakhstan Tenge	1,895	–	–	–	–
Malaysian Ringgit	222	1,798	16,789	–	–
Mexican Peso	(5,672)	18,132	8,197	–	–
New Zealand Dollar	(3,503)	8,132	2,978	–	–
Norwegian Krone	(3,252)	–	8,244	–	–
Pakistan Rupee	30	–	2,124	–	–
Philippines Peso	205	6,537	2,455	–	–
Polish Zloty	(3,670)	4,499	18,344	–	–
Romanian Leu	3	–	–	–	–
Russian Ruble	43	–	5,420	–	–
Singapore Dollar	(5,804)	–	27,808	–	–
South African Rand	387	2,050	57,771	–	–
South Korean Won	1,119	10,828	101,624	–	–
Swedish Krona	(9,831)	–	18,765	–	–
Swiss Franc	(40,249)	–	82,838	–	–
Taiwan Dollar	970	–	31,391	–	–
Thailand Baht	537	–	18,190	–	–
Turkish Lira	343	–	30,382	–	–
	($723,473)	**$154,650**	**$1,758,946**	**$67,115**	**$66,634**

investments, and invest as persons of prudence, discretion, and intelligence would manage their own affairs. The Board accomplishes this through a combination of internal and external investment professionals.

Concentration of Credit Risk Concentration of credit risk is the risk of loss attributed to the magnitude of a plan's investment in a single issuer. SERS does not hold investments representing 5% or more of plan net assets in any one organization.

Interest Rate Risk Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. SERS does not have a policy for managing interest rate risk.

At June 30, 2011, SERS held interest-only strips that had a total fair value of $22,620,272. These securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. SERS also held principal-only strips that had a total fair value of $4,793,131. These principal-only strips are sensitive to interest rate increases that may result in decreasing mortgage prepayments, thus increasing the average maturity of this investment.

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

FUTURES CONTRACTS
As of June 30, 2011 and 2010 *(in thousands)*

Contract Type	Number of Contracts 2011	Number of Contracts 2010	Notional Value 2011	Notional Value 2010	Contract Value 2011	Contract Value 2010
Equity Index Futures Long	902	5,353	$ 82,896	$ 310,490	$ 2,674	$ 2,294
Equity Index Futures Short	–	(110)	–	(3,460)	–	(2,045)
Fixed Income Index Futures Long	33	–	4,240	–	(25)	–
Eurodollar Futures Long	5	70	1,230	17,385	(3)	(2)
Eurodollar Futures Short	(1,271)	(455)	(315,101)	(112,640)	(193)	3
US Treasury Futures Long	949	1,366	156,319	203,857	(555)	(104)
US Treasury Futures Short	(667)	(605)	(83,775)	(76,633)	(175)	33

FAIR VALUE OF FORWARD CURRENCY AND HEDGED CONTRACTS
As of June 30, 2011 and 2010 *(in thousands)*

	2011	2010
Forward Currency Purchases	$ 424,464	$ 499,429
Forward Currency Sales	1,097,216	1,213,048
Unrealized gain (loss)	(7,282)	(3,076)

SWAP CONTRACTS
As of June 30, 2011 and 2010 *(in thousands)*

Contract Type	Notional Value 2011	Notional Value 2010	Fair Value 2011	Fair Value 2010
Credit Default	$ 24,976	$ 18,811	($113)	($2,069)
Interest Rate	4,382,594	115,781	661	494
Total Return	5,963	–	12	–

Derivatives Derivatives are investment instruments whose cash flows or fair values are derived from the value of some other asset or index. SERS uses a variety of derivatives primarily to maximize yields and offset volatility due to interest rate and currency fluctuations. SERS is exposed to various types of credit, market, and legal risks related to these investments. The investment staff continually monitors these types of investments.

Foreign exchange forward currency contracts are legal agreements between two parties to purchase and sell a foreign currency, for a price specified at the contract date, with delivery and settlement in the future. SERS enters into these contracts to hedge the foreign currency movements of assets held in the underlying funds. The contracts do not subject SERS to risk due to exchange rate movements since gains and losses on the contracts offset gains and losses on the transactions being hedged. SERS could be at risk for replacing these contracts at current market rates, should the counterparty default. SERS seeks to control this risk through contracting only with counterparties who meet credit guidelines.

A futures contract is a contract to buy or sell units of an index or financial instrument on a specified future date at a price agreed upon when the contract is originated. SERS uses equity and fixed income futures during the fiscal year to rebalance its asset allocation and overlay its cash exposure in the US and Non-US equity portfolios. Only the most liquid futures are used by SERS to overlay the temporary and transactional cash held, and to rebalance asset allocations between asset classes.

Options give buyers the right, but not the obligation, to buy or sell an asset at a predetermined strike price over a specified period. The option premium is usually a small percentage of the underlying asset's value. When writing an option, SERS receives a premium up front and bears the risk of an unfavorable change in the price of the underlying asset during the option's life. When SERS purchases an option, it pays a premium to a counterparty who bears the risk of an unfavorable change in the price of the underlying asset during the option's life. As of June 30, 2011, SERS did not have option investments.

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

Securities Lending

SERS participates in a securities lending program that directly holds equity and fixed income investments using Goldman Sachs Agency Lending (GSAL) as a third-party lending agent. Securities are loaned to independent broker/dealers in exchange for cash collateral equal to approximately 102% of the market value of domestic securities on loan and 105% of the market value of international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. At the same time, SERS records a liability for the collateral held in the securities lending program. Total net proceeds from GSAL were $1,546,993 during FY2011.

At June 30, 2011 SERS had no credit risk exposure on the securities lending collateral because the collateral exceeded the value of the securities loaned. Securities on loan at year-end totaled $395,764,688 and total collateral held for those securities was $395,874,188. Under the terms of the lending agreement, SERS is fully indemnified against losses that might occur in the program due to the failure of a broker to return a security that was borrowed where the collateral is inadequate to replace the security. SERS is also indemnified should the borrower fail to pay distributions of earnings on the securities lent.

Securities on loan can be recalled on demand by SERS or returned by the borrower at any time. There is no matching of the securities lent with the invested cash collateral. The lending agent mitigates risk by focusing on intrinsic value lending, and BNY Mellon reinvests the cash collateral in accordance with contractual investment guidelines that are designed to ensure the safety of principal and obtain a moderate rate of return. Earnings generated from the collateral investments, less the amount of rebates paid to the dealers result in the gross earnings from lending activities, which is then split on an 85%/15% basis with GSAL. SERS is at risk to contribute additional funds should the earnings from the invested SERS collateral not be sufficient to pay the negotiated dealer rebate. At June 30, 2011, the GSAL collateral portfolio had an average weighted maturity of 24 days. SERS receives pro-rated income from participation in the securities lending program of a commingled investment. SERS has no direct responsibility for this program and the collateral held by this securities lending program is not held in the SERS' name. Total net direct proceeds from the commingled investment during FY2011 were $113,195.

Commitments As of June 30, 2011, unfunded commitments related to the real estate and private equity investment portfolios totaled $1.0 billion.

5. Capital Assets (Non-Investment Assets)

CAPITAL ASSETS ACTIVITY for the year ended June 30, 2011

Cost:	**Land**	**Office Building & Improvements**	**Furniture & Equipment**	**Total Capital Assets**
Balances, June 30, 2010	$3,315,670	$53,042,629	$7,439,113	$63,797,412
Additions	–	–	273,328	273,328
Disposals	–	–	(753,637)	(753,637)
Balances, June 30, 2011	3,315,670	53,042,629	6,958,804	63,317,103
Accumulated Depreciation :				
Balances, June 30, 2010	–	11,198,815	7,007,800	18,206,615
Additions	–	1,339,360	319,358	1,658,718
Disposals	–	–	(753,637)	(753,637)
Balances, June 30, 2011	–	12,538,175	6,573,521	19,111,696
Net Capital Assets, June 30, 2011	**$3,315,670**	**$40,504,454**	**$ 385,283**	**$44,205,407**

6. Pension Plan

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

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

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

A portion of each employer's contribution to OPERS is set aside for the funding of postemployment health care. The portion of the employer rate set aside for postemployment health care was 5% of covered member payroll from July 1 through December 31, 2010, and was decreased to 4% for the remainder of the fiscal year.

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

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

	Pension		Health Care	
Year Ended June 30	Annual Required Contribution	Percent Contributed	Annual Required Contribution	Percent Contributed
2011	$1,039,424	100%	$492,358	100%
2010	946,525	100	569,555	100
2009	771,989	100	771,988	100

7. Compensated Absences

As of June 30, 2011 and 2010, $1,650,272, and $1,585,439, respectively, were accrued for unused vacation and sick leave for SERS employees. The corresponding long-term portion of these liabilities is estimated at $828,549 and $708,047. The net increase of $64,833 from June 30, 2010 included increases of $965,665 from earned vacation and sick leave and decreases of $900,832 from usage of vacation and sick leave. Employees who retire or resign are entitled to full compensation for all earned unused vacation. Unused sick leave pay is forfeited upon termination. However, employees who retire or become disabled after five years of service are entitled to receive payment for a percentage of unused sick leave. If an employee dies after five years of service, the beneficiaries are entitled to receive a percentage of the unused sick leave payment.

8. Self-insured Health Care for Employees of SERS

SERS is self-insured for employee benefits for dental, medical, and hospitalization. A third-party administrator manages the program. SERS holds a stop-loss policy of $200,000 per employee per year.

9. Federal Income Tax Status

The SERS Pension Trust Fund is a qualified plan under Internal Revenue Code (IRC) Section 401(a) and is therefore exempt from federal income taxes. The Medicare B Fund is established pursuant to IRC Section 401(h). The Death Benefit Fund is an insurance fund and is in compliance with IRC Section 101(a). The QEBA Fund is a qualified entity, created in accordance with IRC Section 415(b). The Health Care Fund is structured to meet the requirements of IRC Section 105(e).

10. Risk Management

SERS is exposed to various risks of loss, including theft or destruction of assets, general liability, employee injuries, and legal challenges to fiduciary decisions. SERS self-insures some risks through deductibles and retention, and purchases insurance for the remainder. For the past three years, there has been no reduction in coverage, and no claims have exceeded purchased limits.

11. Contingent Liabilities

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

On June 3, 2011, SERS was named as a defendant in an action *(Deutsche Bank Trust Company Americas, et al. v. Huntington National Bank, et al.)* brought by Deutsche Bank in the United States District Court, Southern District of Ohio, Western Division. Deutsche Bank claims that SERS and other shareholders benefited from the 2007 leveraged buyout of the Tribune Company while creditors such as Deutsche were harmed and that the leveraged buyout helped cause the Tribune's bankruptcy in 2008. Deutsche has asked for SERS and other shareholders to divulge money received from the leveraged buyout. A Motion to Dismiss was filed by SERS on August 11, 2011. Deutsche filed an Amended Complaint on August 22, 2011. A Motion to Dismiss the Amended Complaint was filed by SERS on September 8, 2011.

SERS is also a defendant in various other cases relating to claims concerning individual benefits and accounts. While the final outcome of these lawsuits cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material adverse effect on SERS' financial position.

12. Funded Status and Funding Progress

The funded status of the Pension Trust, Medicare B, Death Benefit, and Health Care Funds as of June 30, 2011, the most recent actuarial valuation date, is as follows:

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

Fund	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
Pension and Death Benefit	$15,943	$10,397	$5,546	65.2%	$2,852	194.5%
Medicare B	382	116	266	30.3	2,852	9.3
Health Care	2,410	356	2,054	14.8	2,852	72.0

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

The *Schedules of Employer Contributions* on page 34 present trend information about the amounts contributed to the plan by employers in comparison to the Annual Required Contributions (ARC). The ARC is actuarially determined using the parameters of GASB Statement 43 and the assumptions adopted by the Retirement Board. The ARC represents a projected rate (cost) required on an ongoing basis to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

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

KEY METHODS AND ASSUMPTIONS USED IN ACTUARIAL VALUATIONS

Actuarial Information	**Pension & Death Benefit**	**Medicare B**	**Health Care**
Valuation date	June 30, 2011	June 30, 2011	June 30, 2011
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent closed	Level percent closed	Level percent open
Remaining amortization period	28 years	28 years	30 years
Assets valuation method	4-year smoothed market	4-year smoothed market	Market value of assets
Actuarial Assumptions:			
Investment rate of return (includes price inflation at 3.25%)	7.75%	7.75%	5.25%
Projected salary increases (includes wage inflation at 4.0%)	4.5%-24.75%	4.5%-24.75%	N/A
Health Care cost trend rate	N/A	N/A	9.0% initial, 5.0% ultimate

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

Required Supplementary Information

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

Valuation Date June 30	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
2011	$15,943	$10,397	$5,546	65.2%	$2,852	194.5%
2010	14,855	10,787	4,068	72.6	2,843	143.1
2009	14,221	9,723	4,498	68.4	2,787	161.4
2008	13,704	11,241	2,463	82.0	2,873	85.7
2007	13,004	10,513	2,562^	80.8	2,603	98.4
2006	12,327	9,423	2,974^	76.4	2,553	116.5

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

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

Valuation Date June 30	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
2011	$382	$116	$266	30.3%	$2,852	9.3%
2010	367	122	244	33.3	2,843	8.6
2009	361	113	248	31.3	2,787	8.9
2008	358	131	227	36.7	2,873	7.9
2007	299	127	172^	42.5	2,603	6.6
2006	300	119	181^	39.7	2,553	7.1

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

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

Valuation Date	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
06/30/2011	$2,410	$356	$2,054	14.8%	$2,852	72.0%
06/30/2010	2,369	325	2,044	13.7	2,843	71.9
06/30/2009	4,280	376	3,904	8.8	2,787	140.1
06/30/2008(1)	4,859	393	4,466	8.1	2,652	168.4
01/01/2008	4,513	391	4,122^	8.7	2,648	155.6
01/01/2007	4,308	340	3,968^	7.9	2,598	152.8

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

See notes to required supplementary information on page 35.

Schedule of Employer Contributions
Pension Benefits and Postretirement Death Benefit

Year ended June 30	Actuarial Annual Required Contributions	% Contributed
2011	$357,126,300	100%
2010	379,427,457	100
2009	269,380,809	100
2008	243,150,199	100
2007	260,779,627	90(1)
2006	272,358,393(2)	87(1)

Schedule of Employer Contributions
Medicare B

Year ended June 30	Actuarial Annual Required Contributions	% Contributed
2011	$22,172,922	100%
2010	22,619,935	100
2009	21,688,294	100
2008	17,519,556	100
2007	17,729,746	104
2006	21,677,505(2)	95(1)

Schedule of Employer Contributions and Other Contributing Entities
Postemployment Health Care

Year ended June 30	Actuarial Annual Required Contributions	% Contributed by Employers#	Federal Subsidy	Total % Contributed
2011	$169,146,052	51.4%	$ 0	51.4%
2010	315,535,278	19.1	24,414,855	26.8
2009	373,789,127	43.7	23,504,101	50.0
2008	307,874,094	51.4	21,953,659	58.6
2007	299,379,524	57.1	20,202,965	63.8

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

Note to Required Supplementary Schedules

Description of Schedule of Funding Progress

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

The *Schedule of Funding Progress* includes two ratios that provide information about whether the financial strength of the System is improving or deteriorating over time. An improvement is indicated when the funded ratio (assets expressed as a percentage of the actuarial accrued liability) is increasing and the ratio of the unfunded actuarial liability to payroll is decreasing.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at June 30, 2011.

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

Actuarial cost method:	Entry age normal
Amortization method:	Level percent closed
Remaining amortization period:	28 years
Asset valuation method:	4-year smoothed market, with a limit of actuarial value of assets to a minimum of 80% and a maximum of 120% of the market value of assets
Actuarial assumptions:	Investment rate of return^ of 7.75% Projected salary increases* of 4.50% to 24.75% Cost-of-living adjustments of 3.00%

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

Actuarial cost method:	Entry age normal
Amortization method:	Level percent closed
Remaining amortization period:	28 years
Asset valuation method:	4-year smoothed market, with a limit of actuarial value of assets to a minimum of 80% and a maximum of 120% of the market value of assets
Actuarial assumptions:	Investment rate of return^ of 7.75%

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

Actuarial cost method:	Entry age normal
Amortization method:	Level percent open
Remaining amortization period:	30 years
Asset valuation method:	Market value of assets
Actuarial assumptions:	Investment rate of return^ (Discount Rate) 5.25% compounded annually Medical Trend Assumption 9.0% initially, decreasing to 5.0% by 2017, level thereafter.

^ Includes price inflation at 3.25%
* Includes wage inflation at 4.00%

See accompanying independent auditor’s report.

Schedule of Administrative Expenses for the year ended June 30, 2011

	General Expenses	Investment Related Expenses	Total
Personnel Services			
Salaries	$ 9,314,806	$ 1,906,227	$ 11,221,033
Retirement Contributions	1,264,910	266,872	1,531,782
Insurance	1,755,883	210,780	1,966,663
Total Personnel Services	12,335,599	2,383,879	14,719,478
Professional Services			
Actuarial Advisors	264,888	-	264,888
Audit Services	106,232	-	106,232
Custodial Banking	152,153	-	152,153
Investment Related	-	3,815,133	3,815,133
Medical	513,886	-	513,886
Technical	2,164,740	236,519	2,401,259
Total Professional Services	3,201,899	4,051,652	7,253,551
Communications			
Postage	612,521	-	612,521
Telephone	118,660	-	118,660
Member / Employer Education	70,414	-	70,414
Printing and Publication	203,650	-	203,650
Total Communications	1,005,245	-	1,005,245
Other Services			
Computer Support Services	734,983	14,528	749,511
Office Equipment and Supplies	168,872	1,050	169,922
Training	103,615	17,880	121,495
Transportation and Travel	122,211	165,100	287,311
Memberships and Subscriptions	62,537	29,834	92,371
Property and Fiduciary Insurance	373,468	-	373,468
Facilities Expense	1,258,654	-	1,258,654
Maintenance	73,456	-	73,456
Administrative Banking Fees	23,888	-	23,888
Ohio Retirement Study Council	41,179	-	41,179
Miscellaneous	26,947	-	26,947
Total Other Services	2,989,810	228,392	3,218,202
Total Administrative Expenses before Depreciation	19,532,553	6,663,923	26,196,476
Depreciation			
Furniture & Equipment	319,358	-	319,358
Building	1,339,360	-	1,339,360
Total Depreciation	1,658,718	-	1,658,718
Total Administrative Expenses	$ 21,191,271	$ 6,663,923	$ 27,855,194

See accompanying independent auditor's report.

Schedule of Investment Expenses for the year ended June 30, 2011

Description of Expense	Net Assets Under Management	Direct Fees
US Equity	$ 2,703,304,605	$ 8,725,762
Non-US Equity	2,715,333,969	12,496,166
Global Private Equity	829,010,388	19,311,357
Global Fixed Income	1,849,611,290	4,060,308
Global Hedge Funds	1,372,259,624	21,295,183
Global Real Estate	998,389,238	11,888,612
Short-Term	171,890,393	–
Total Investment Management Fees		77,777,388
Custody Service Fees		882,549
Master Recordkeeper Fees		1,002,969
Investment Consulting and Performance/Analytics Fees		1,747,106
Investment Administrative Expenses		3,031,299
Total Other Investment Expenses (see page 36)		6,663,923
Total Investment Expenses		$ 84,441,311

Schedule of Payments to Consultants

SERS paid the following non-investment related consulting fees in fiscal year 2011:

Actuarial Advisors	$ 264,888
Audit Services	106,232
Legal Counsel	39,036
Medical Consultant	32,220
Disability Exams	481,666
Information Technology Consultants	712,197
Health Care Consultants	159,329
Image Processing Consultants	984,009
Other Consultants	422,322
Total	$3,201,899

See accompanying independent auditor’s report.

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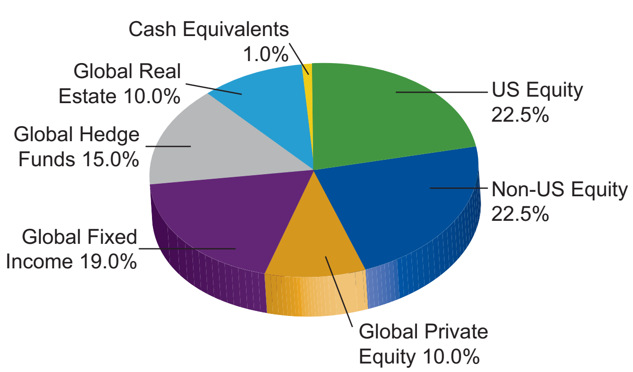
Melinda Sayer, Lincoln Elementary

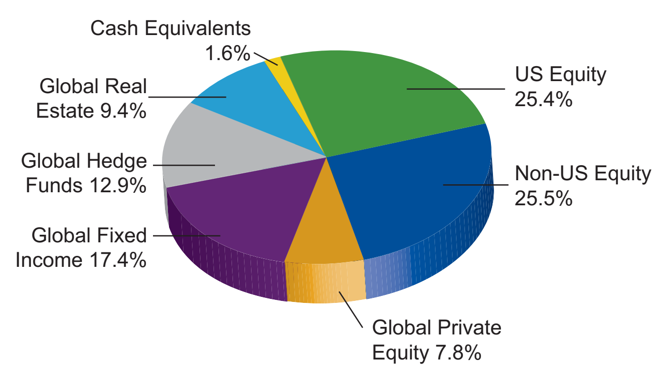
Investment Section

Investment Summary as of June 30, 2011

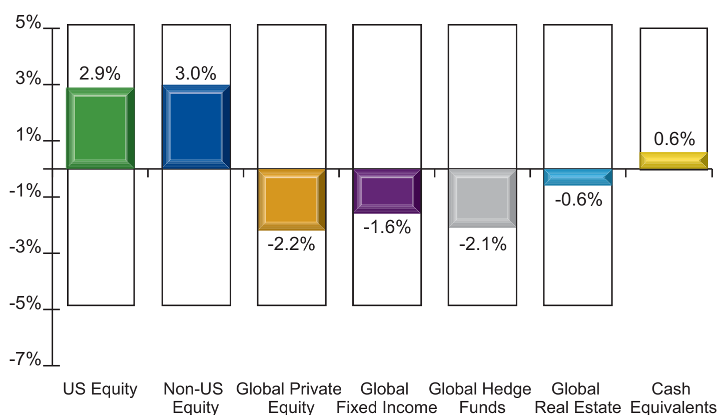
	Fair Value	Actual	Target	Range
US Equity	$ 2,703,304,605	25.4%	22.5%	17.5% - 27.5%
Non-US Equity	2,715,333,969	25.5	22.5	17.5 - 27.5
Global Private Equity	829,010,388	7.8	10.0	5 - 15
Global Fixed Income	1,849,611,290	17.4	19.0	14 - 24
Global Hedge Funds	1,372,259,624	12.9	15.0	10 - 20
Global Real Estate	998,389,238	9.4	10.0	5 - 15
Cash Equivalents	171,890,393	1.6	1.0	0 - 5
Total Portfolio	**$10,639,799,507**	**100.0%**	**100.0%**	

Asset Allocation – Total Fund as of June 30, 2011





Asset Allocation vs Policy



Note: Boxes represent permissible ranges around policy target weights.

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

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Toll-Free-866-280-7377 • www.ohsers.org

LISA J. MORRIS
Executive Director

HELEN M. NINOS
Deputy Executive Director

December 15, 2011

Retirement Board, Members, Retirees, and Beneficiaries of the Retirement System:

On behalf of the SERS Investment Department, I respectfully submit the Investment Section of the Comprehensive Annual Financial Report for the year ended June 30, 2011. Information in this section was compiled by SERS' Investment and Finance Staff, and BNY Mellon Performance and Risk Analytics.

Fiscal Year (FY) 2011 and FY2010 both had positive returns, but the returns for FY2011 were outstanding. It was the highest return for the Fund since 1986. Each portfolio in the Fund had positive returns in FY2011. In fact, each portfolio had double-digit, positive returns except for the global fixed income portfolio.

During the fiscal year, the Board approved the following actions:

- Global Equity Managers – hiring four Non-US equity managers, dismissing three Non-US equity managers, and dismissing a US equity manager with two portfolios.
- Global Real Estate Funds – investing in one co-investment opportunity managed by a current real estate manager, and a new investment in a closed-end fund managed by a new manager.
- Global Private Equity Funds – investing in five new private equity funds managed by existing managers. The Board also approved the liquidation of a portion of SERS' private equity portfolio.
- Global Hedge Funds – five new hedge funds were funded, 28 existing hedge funds received additional fundings, and three hedge funds were terminated.

Details about each portfolio are included on the following pages.

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

Respectfully,

Robert G. Cowman
Director of Investments

Investment Report

Chapter 3309 of the Ohio Revised Code and the Board-adopted Investment Policy govern investment activity at the School Employees Retirement System of Ohio (SERS). The Board is responsible for managing the assets of the Fund effectively, prudently, and for the exclusive benefit of SERS' members and beneficiaries.

INVESTMENT POLICY

The purpose of SERS' Statement of Investment Policy is to define SERS' investment philosophy and objectives. The policy establishes return objectives and risk tolerances within which the Fund is to be managed. The policy also defines the responsibilities of the fiduciaries that implement the strategies and manage SERS' investment portfolio.

INVESTMENT OBJECTIVES

The primary objective of the investment portfolio is to achieve investment returns exceeding the return of our Policy Benchmark within prudent risk parameters. On June 30, 2011, SERS' asset allocation and its corresponding benchmarks were as follows:

Asset Allocation		Benchmark
• 22.5%	US Equities	Russell 3000 Index
• 22.5%	Non-US Equities	MSCI All Country World Free ex-US Index 50% Hedged
• 10.0%	Global Private Equity	S&P 500 Index + 3% (one quarter in arrears)
• 19.0%	Global Fixed Income	Barclays Capital Aggregate Bond Index
• 10.0%	Global Real Estate	NCREIF Property Index (one quarter in arrears)
• 15.0%	Global Hedge Funds	HFRI Fund of Funds Composite Index
• 1.0%	Short-Term	Citigroup 30-Day US Treasury Bill Index

INVESTMENT STRATEGIES

Asset Allocation Previously, hedge funds had been reported in the US equity and global fixed income portfolios. During the fiscal year, the Board separated hedge funds from US equity and global fixed income. In addition, the allocation guideline for hedge funds was increased from 10% to 15% with reductions in the allocation to the US equity, Non-US equity, and global fixed income portfolios of 5% each.

Diversification Broad diversification within an investment portfolio is used to control the level of risk and volatility within the portfolio over the long term. SERS has broadly diversified the assets within its portfolios, and the strategies used within each portfolio have also been diversified.

Besides the broad diversification of assets and strategies within SERS' portfolio, SERS also employs a diverse group of investment managers. The purpose of employing multiple managers within SERS' portfolio is to further reduce risk and volatility within the portfolio over the long term.

SERS' hedge fund consultant, Aksia LLC, continued to assist the Board and Staff with the construction and diversification of SERS' hedge fund portfolio and the selection of hedge fund managers. Summit Strategies, SERS' general investment consultant, assists the Board with the development of Investment Policy, asset allocation guidelines, and provides quarterly performance measurement of the Fund and each portfolio.

INVESTMENT PERFORMANCE

Long-Term Performance Performance of SERS' Total Fund was positive again this fiscal year. Trailing three-, five- and ten-year Total Fund returns are all positive. FY2010 and FY2011 Total Fund returns exceeded SERS' actuarial rate of 8.0%.

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

Fiscal Year 2011 As previously mentioned, each of the portfolios in the Fund except for global fixed income had double-digit returns for the fiscal year. The return for the global fixed income portfolio for the fiscal year was very good even though it was not double digit. The return for the Total Fund was 20.9% for the fiscal year versus a 17.8% return for the Total Fund Benchmark.

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

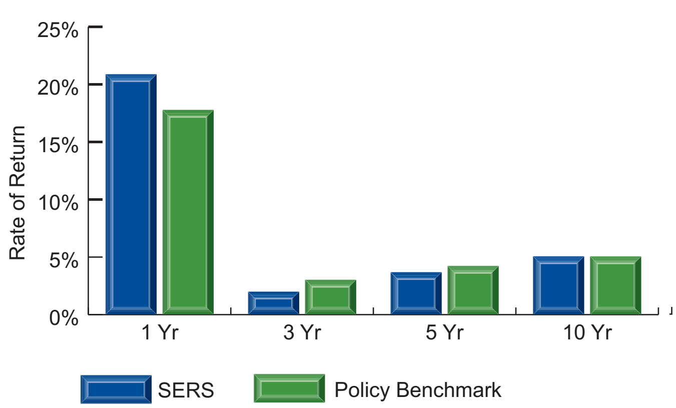
	2011	2010	2009	2008	2007	Annualized Rates of Return 3 Years	5 Years	10 Years
US Equity								
SERS(1)*	33.8%	17.2%	(26.8)%	(15.1)%	18.8%	4.7%	3.0%	3.4%
Russell 3000 Index	32.4	15.7	(26.6)	(12.7)	20.1	4.0	3.4	3.4
Non-US Equity								
SERS	25.7	15.4	(29.9)	(9.8)	34.3	0.6	4.3	7.1
Custom Non-US Equity Benchmark(2)*	24.2	12.1	(27.1)	(10.2)	29.6	0.5	3.4	6.0
Global Private Equity								
SERS(3)*	14.7	13.4	(17.2)	19.0	22.5	2.5	9.4	3.2
Custom Private Equity Benchmark(4)*	18.7	52.8	(35.1)	(2.1)	14.8	5.6	5.8	5.7
Global Hedge Funds								
SERS	11.4	14.5	(8.4)	n/a	n/a	5.3	n/a	n/a
HFRI Fund of Funds(5)*	6.7	9.2	(10.1)	(1.3)	14.4	1.5	n/a	n/a
Global Fixed Income								
SERS	8.0	17.0	4.8	3.2	6.6	9.8	7.8	6.8
Barclays Aggregate Bond Index	3.9	9.5	6.1	7.1	6.1	6.5	6.5	5.7
Global Real Estate								
SERS(6)*	25.2	(16.1)	(35.2)	8.3	14.3	(10.4)	(2.3)	4.5
NCREIF(7)*	16.0	(2.8)	(16.8)	7.8	16.0	(2.1)	3.3	8.0
Short-Term								
SERS(8)*	0.2	0.4	2.8	4.4	5.5	1.1	2.6	2.5
Citigroup 30-Day Treasury Bill Index	0.1	0.1	0.5	3.0	5.0	0.2	1.7	1.9
Total Fund *(Gross of Fees)*								
SERS(9)*	20.9	12.3	(21.8)	(5.3)	19.3	2.0	3.7	5.1
Policy Benchmark(10)*	17.8	14.7	(19.1)	(4.6)	18.0	3.0	4.2	5.1
Total Fund *(Net of Fees)*								
SERS(9)*	19.9	11.5	(22.4)	(5.7)	18.7	1.3	3.1	4.6
Policy Benchmark(10)*	17.8	14.7	(19.1)	(4.6)	18.0	3.0	4.2	5.1

Source: BNY Mellon Performance and Risk Analytics

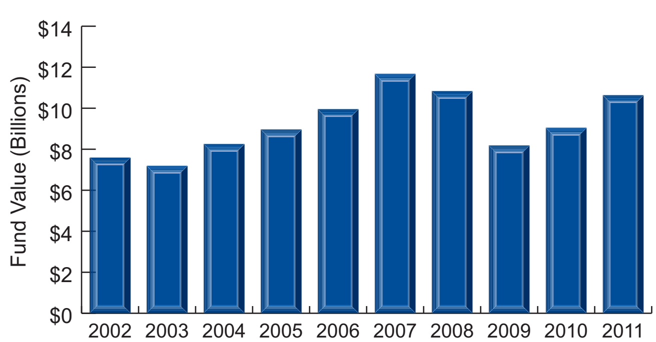
Investment results provided by BNY Mellon Performance and Risk Analytics are based upon a time-weighted rate of return methodology. Market value adjustments made to private equity, real estate, and hedge funds as of June 30 will be reflected in the investment returns in the next financial statement.

*See footnotes to table on page 53.

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



Total Fund at Fair Value



INVESTMENT SECTION

US Equity

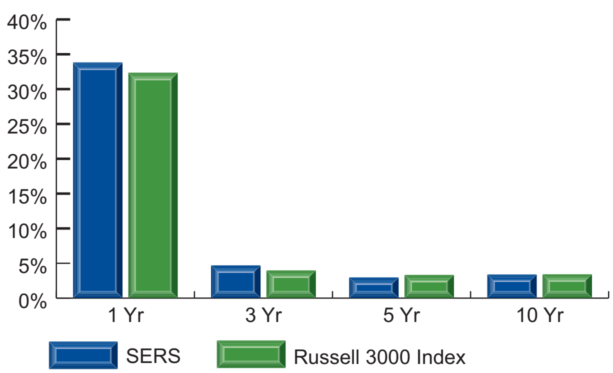
For the fiscal year ended June 30, 2011, the US equity portfolio gained a robust 33.8%. The portfolio beat its benchmark, the Russell 3000 Index, by 140 basis points. The outperformance during FY2011 extended the recent turnaround in US equity portfolio results. At the beginning of the fiscal year, the US equity portfolio trailed the benchmark by 55 basis points for the three-year period. The strong FY2011 returns turned the three-year track record from negative to positive. By the end of the fiscal year, the US equity portfolio was outperforming its benchmark on an annualized basis for the past three years by 72 basis points. The US equity portfolio still trails its benchmark on an annualized basis for the past five years by 36 basis points and ten years by three basis points; but as a result of significant portfolio changes and improved performance, both the five- and ten-year numbers continue to improve.

Despite a second round of quantitative easing by the Federal Reserve, the economy continued to struggle to maintain a tepid recovery. Despite the tepid recovery, the US equity markets roared ahead. The Russell 3000 Index (the broadest Russell Index encompassing large, mid and small cap stocks) shot up 32.4% over this period with its midcap component, the Russell Midcap Index, leading the way with a 38.5% return. However, as the second stimulus program neared an end, the rally fizzled. The market went flat during the fourth fiscal quarter ended June 30, 2011. The Russell 3000 Index return was 0% for the quarter while its small cap component, the Russell 2000, fell 1.6%.

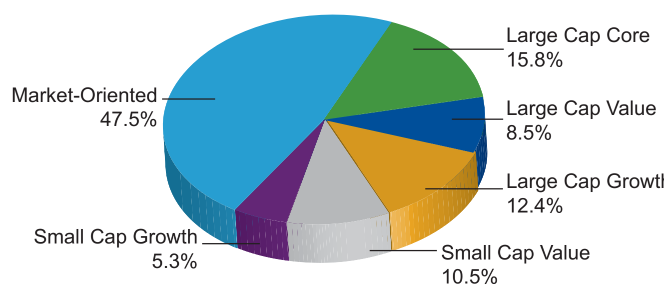
Growth significantly outperformed value across the entire market capitalization spectrum as economic risks came to the forefront and funds shifted away from riskier assets back into more defensive growth stocks. The Russell 3000 Growth Index grew 35.7% compared to the Russell 3000 Value Index, which increased 29.1%. The growth advantage grew consistently and significantly larger moving down along the market capitalization spectrum – again reflecting the shift to lower risk assets. However, despite the market's aversion to risk, size was a negative factor during the fiscal year, with the largest stocks lagging the midcap and small cap stocks.

After a flurry of activity the previous two years, no manager additions were made to the US equity portfolio during FY2011. Two strategies, managed by a single manager, were terminated during the year. With the separation of hedge funds from the global equities and global fixed income portfolios, the target allocation to US equity was reduced from 27.5% to 22.5% on the first day of the fiscal year, July 1, 2010, and remained at that level.

US EQUITY RETURNS



US EQUITY ALLOCATIONS



LARGEST INDIVIDUAL US EQUITY HOLDINGS AS OF JUNE 30, 2011

	Description	Shares	Market Price	Fair Value
1	Apple, Inc.	143,134	$ 335.67	$ 48,045,790
2	Exxon Mobil Corp.	500,372	81.38	40,720,273
3	Google, Inc.	57,401	506.38	29,066,718
4	IBM Corp.	155,350	171.55	26,650,293
5	Qualcomm, Inc.	419,415	56.79	23,818,578
6	EOG Resources, Inc.	226,408	104.55	23,670,956
7	3M Co.	248,231	94.85	23,544,710
8	Chevron Corp.	212,452	102.84	21,848,564
9	Johnson & Johnson Co.	328,414	66.52	21,846,099
10	Procter & Gamble Co.	338,763	63.57	21,535,164

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

Non-US Equity

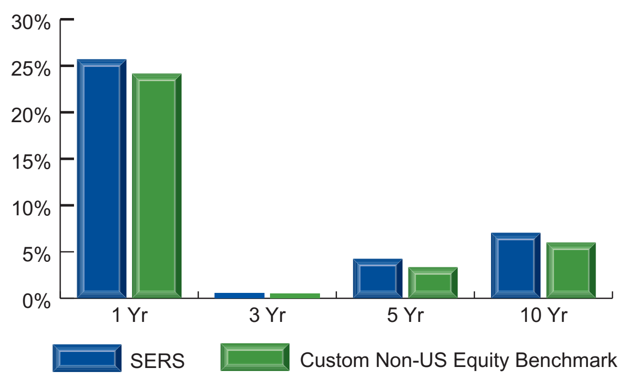
For the fiscal year ended June 30, 2011, SERS' Non-US equity portfolio had an investment return of 25.7%, outperforming the policy benchmark (the MSCI All Country World-excluding the US Index with developed countries 50% hedged) by 1.5%. On an annualized basis, SERS' Non-US equity portfolio outperformed over the three-, five-, and ten-year periods by 0.1%, 0.9%, and 1.1%, respectively.

In tandem with the US market, Non-US equities delivered strong performance returns for the fiscal year. The developed international equity index, MSCI EAFE, posted a return of 30.5% while the MSCI Emerging Markets Index returned 28.2% for the fiscal year. Sizeable gains in the first half of the year masked the challenging environment global investors navigated over the second half. Political instability in North Africa and the Middle East, Japan's earthquake, tsunami, and ensuing nuclear disaster, credit rating downgrades, and persistent sovereign debt concerns from Europe's periphery offered plenty of headwinds for equity markets. Though developed markets posted positive returns for each quarter of the year, the significant slowdown in economic momentum by year end had shaken investor confidence and rekindled prospects of another recession.

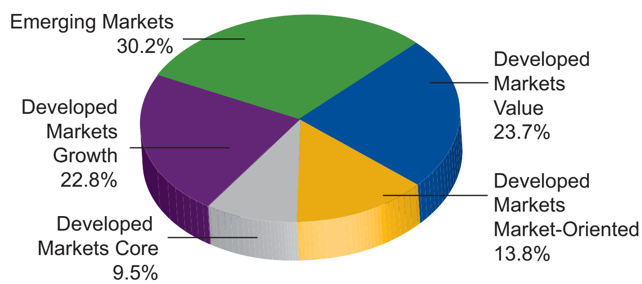
Volatility across currency markets increased over the last half of the fiscal year as anticipation of a global recovery deteriorated into skepticism. The US Dollar Index maintained its downward trend throughout much of the year as the dollar weakened against all major currencies. Currency fluctuations negatively impacted the performance of the portfolio. The low interest rate environment, weak economic fundamentals, and more recently, the credit downgrade all contributed to the dollar's weakness. The outlook for the US Dollar remains weak due to fears of further softening in the United States economy.

As of June 30, 2011, the Non-US equity allocation to the Total Fund Portfolio was 25.5% versus the policy target of 22.5%. During the fiscal year, the Board approved recommendations to terminate one currency manager and two equity managers. Four Non-US equity investment managers were hired.

NON-US EQUITY RETURNS



NON-US EQUITY ALLOCATIONS



LARGEST INDIVIDUAL NON-US EQUITY HOLDINGS AS OF JUNE 30, 2011

	Description	Country	Shares*	Market Price	Fair Value
1	Gazprom OAO ADR	Russian Federation	1,767,262	$ 14.58	$ 25,772,475
2	Novartis AG	Switzerland	379,940	61.16	23,238,596
3	Sanofi-Aventis U.S. LLC	France	261,463	80.38	21,016,277
4	GlaxoSmithKline PLC	United Kingdom	887,221	21.42	19,001,353
5	BP PLC	United Kingdom	2,483,103	7.36	18,284,071
6	China Mobile, Ltd.	Hong Kong	1,859,013	9.25	17,201,455
7	Vodafone Group PLC	United Kingdom	6,243,954	2.65	16,570,260
8	Novo Nordisk, Inc.	Denmark	125,511	125.47	15,748,020
9	KIA Motors Corp.	South Korea	221,830	67.72	15,022,074
10	Canon, Inc.	Japan	297,028	47.18	14,012,832

All monetary values are stated in US dollars.
A complete listing of holdings is available upon request.
**Includes shares owned directly and indirectly via commingled funds.*

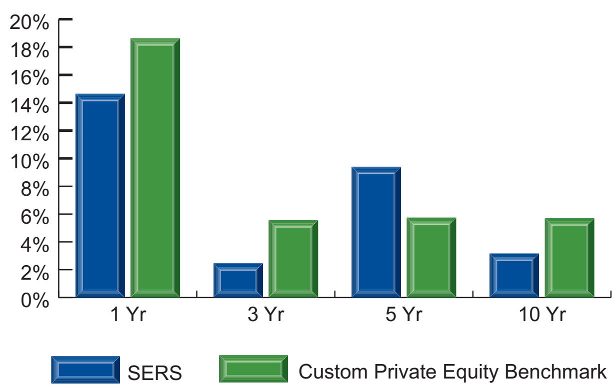
Global Private Equity

Global private equity consists of investments in venture capital, buyout and special situation limited partnerships, and other "non-public" investments in the US and outside the US. Private equity also includes investments in fund-of-funds, which invest in a diversified portfolio of venture capital and buyout limited partnerships, as well as additional public and non-public investments.

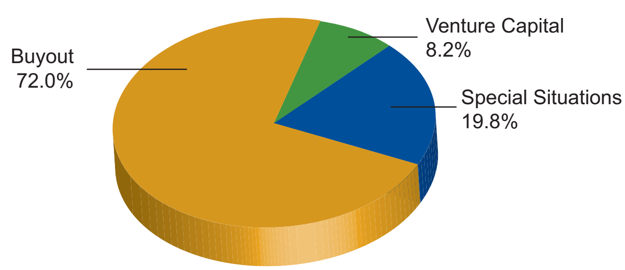
As of June 30, 2011, the market value of SERS' private equity portfolio was $829 million, or 7.8% of the Total Fund. Unfunded commitments to private equity partnerships totaled $730 million at fiscal year end. Over the past fiscal year, SERS made commitments to five private equity partnerships totaling $195 million. Of this capital, $145 million was committed to four partnerships focused on buyout opportunities. The buyout-focused investments represented four differentiated and historically successful strategies. The first commitment was to a US-focused, middle-market buyout fund, the second was to a Midwest-focused buyout fund, the third was to a pan-European-focused buyout fund, and the fourth was to a pan-European-focused, lower middle-market buyout fund. The final commitment was to a secondary-focused fund that will pursue investments on a global basis. In addition, the Board approved the liquidation of a portion of SERS' private equity portfolio.

During the fiscal year, SERS' private equity portfolio had an investment return of 14.7% versus the custom benchmark return of 18.7%. For the three-, five-, and ten-year periods, the private equity portfolio returned 2.5%, 9.4%, and 3.2% respectively. Private equity returns are reported one quarter in arrears.

GLOBAL PRIVATE EQUITY RETURNS



ALLOCATION BY STRATEGY



LARGEST INDIVIDUAL GLOBAL PRIVATE EQUITY HOLDINGS AS OF JUNE 30, 2011

	Description	Fair Value
1	Warburg Pincus Private Equity X, LP	$ 59,320,842
2	Thomas H. Lee Equity Fund VI, LP	56,752,818
3	GS Distressed Opportunities III, LP	50,281,409
4	Fourth Cinven Fund, LP	41,881,696
5	Green Equity Investors V, LP	40,234,220
6	Silver Lake Partners III, LP	33,652,206
7	Kohlberg Investors VI, LP	28,927,354
8	Coller International Partners V- A, LP	28,661,780
9	J.P. Morgan European Direct Corporate Finance Institutional Investors III	25,830,908
10	Odyssey Capital Partners III, LLC	24,089,753

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

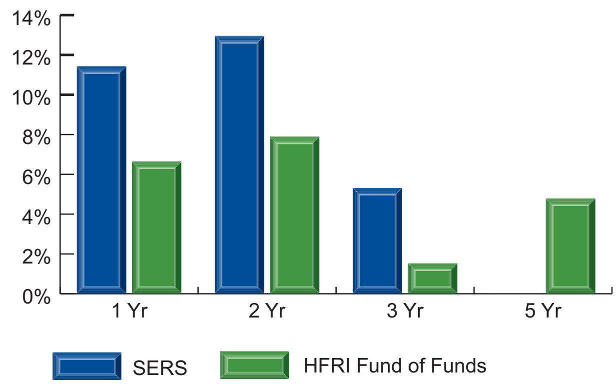
Global Hedge Funds

SERS invests in hedge funds for purposes of diversification, risk reduction, and return enhancement. The global hedge fund portfolio, consisting of 40 funds as of June 30, 2011, is highly diversified across geographical regions, sectors, and strategies, including equity long-short, event-driven, relative value, and tactical trading strategies. Hedge fund assets totaled approximately $1.4 billion on June 30, 2011.

SERS' Statement of Investment Policy targets hedge fund investments at 15% of total assets. As of June 30, 2011, hedge funds represented 12.9% of total assets. SERS invested $529.0 million in hedge funds and added five new funds to the portfolio during the fiscal year.

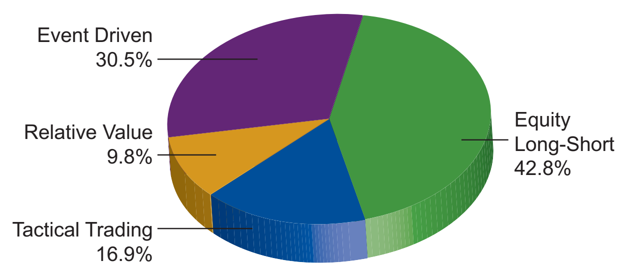
During the fiscal year, SERS' hedge fund portfolio had an investment return of 11.4% versus its benchmark return of 6.7%. For the three-year period, the hedge fund portfolio produced returns of 5.3% versus 1.5% for the benchmark.

GLOBAL HEDGE FUND RETURNS



Global hedge funds were a new investment strategy in fiscal year 2008, thus the five-year return is not available.

ALLOCATION BY STRATEGY



LARGEST INDIVIDUAL GLOBAL HEDGE FUND HOLDINGS AS OF JUNE 30, 2011

	Description	Fair Value
1	Diamondback Offshore Fund, Ltd.	$ 76,600,893
2	Regiment Capital Ltd.	67,269,863
3	Taconic Opportunity Offshore Fund Ltd.	64,094,194
4	King Street Capital, Ltd.	63,646,333
5	Visium Balanced Offshore Fund, Ltd.	60,181,951
6	Viking Global Equities III Ltd.	54,534,179
7	Bridgewater Pure Alpha Fund I	48,336,564
8	Eminence Fund, Ltd.	39,852,641
9	BlueTrend Fund Ltd.	39,197,279
10	BlueCrest Capital International Ltd.	38,366,418

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

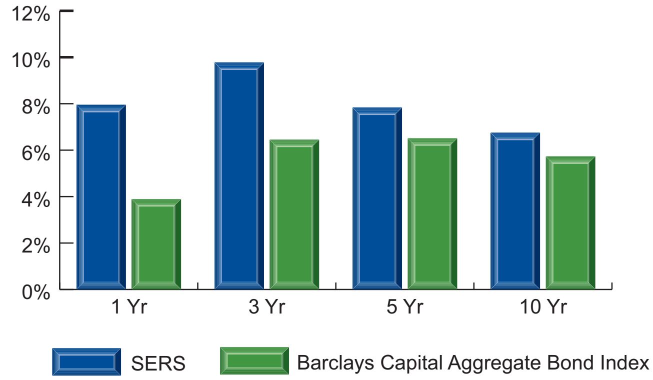
Global Fixed Income

SERS' fixed income portfolio is comprised principally of low-risk, high-quality debt securities. The portfolio is managed by a diverse group of top-tier active bond managers employing proven investment strategies to help SERS meet its goals and objectives.

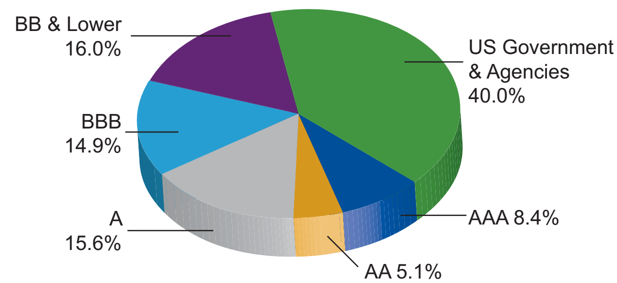
For the fiscal year ended June 30, 2011, SERS' fixed income portfolio outperformed the benchmark - Barclays Capital Aggregate Bond Index - by 410 basis points, returning 8.0% against the index return of 3.9%. Returns were primarily driven by an overweight to both investment-grade and high-yield corporate credit. SERS' investment managers collectively increased duration slightly from the prior fiscal year to 4.8 years.

The US Treasury market returned 2.2%, agency mortgages gained 3.8%, investment grade credit yielded 6.3%, emerging market bonds increased 14.1%, and the high-yield market returned 15.6% for the year ended June 30, 2011. Corporate and emerging market returns performed well throughout 2010 and into the first quarter of 2011 as the Federal Reserve provided liquidity into the market. Investors began favoring higher quality corporates, agency mortgages, and US Treasuries during the second quarter of 2011 after the Japanese earthquake interrupted the industrial supply chains, the European crisis intensified, and US economic growth slowed. The Federal Reserve kept the federal funds rate stable at 0 – 0.25% during the fiscal year to promote growth. The yield curve steepened slightly during the year with the spread between three-month and 30 year Treasuries at 435 basis points by year end.

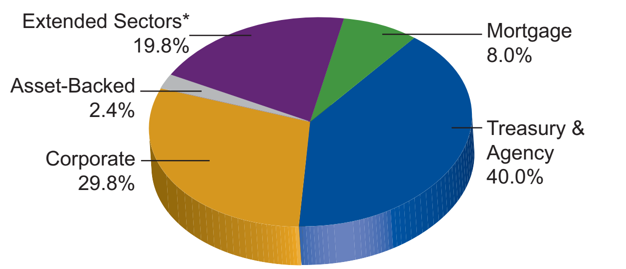
GLOBAL FIXED INCOME RETURNS



QUALITY DISTRIBUTION



SECTOR DISTRIBUTION



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

LARGEST INDIVIDUAL GLOBAL FIXED INCOME HOLDINGS AS OF JUNE 30, 2011

	Description	Rating	Par Value	Market Price	Fair Value
1	FNMA TBA 4.0% 07/01/2041	AAA	$ 19,000,000	$1.000	$ 19,000,000
2	FNMA TBA 4.5% 07/01/2041	AAA	16,000,000	1.035	16,552,480
3	FNMA TBA 5.0% 07/01/2041	AAA	13,400,000	1.063	14,237,500
4	US Treasury Note 1.0% 04/30/2012	AAA	12,670,000	1.007	12,754,129
5	GNMA TBA 4.5% 07/15/2041	AAA	11,700,000	1.055	12,347,127
6	FNMA Pool #0AD0167 5.5% 09/01/2021	AAA	11,195,870	1.088	12,180,099
7	FHLMC Discount Note 10/07/2011	AAA	12,000,000	1.000	11,998,692
8	Government of Canada 3.5% 06/01/2020	AAA	10,650,000	1.075	11,447,603
9	United Mexican States 10.0% 12/05/2024	A	92,068,800	0.113	10,391,291
10	FNMA TBA 3.5% 07/01/2026	AAA	10,000,000	1.018	10,181,300

All monetary values are stated in US dollars.

A complete listing of holdings is available upon request.

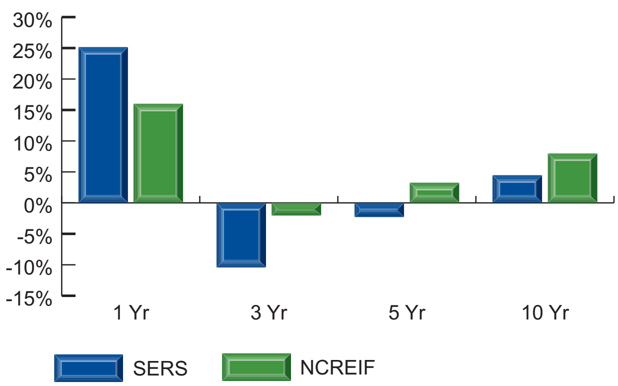
Global Real Estate

SERS' global real estate portfolio consists of investments in real estate limited partnerships and both private and public real estate investment trusts. The underlying return is predominately generated from core, income-producing, commercial properties. Additional return potential is added to the real estate portfolio through value-add, opportunistic, and global real estate security strategies. Investments in the global real estate portfolio are located across the US, Europe, and Asia.

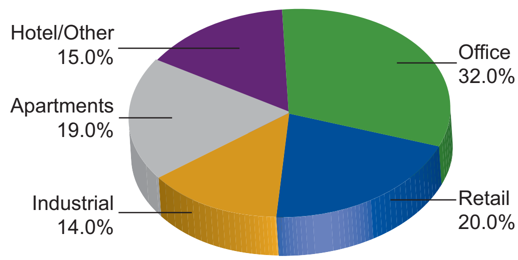
SERS' target allocation to real estate is 10% of the Total Fund with a range of +/-5%. As of June 30, 2011, the real estate portfolio was approximately $998.4 million, or 9.4% of the Total Fund. Unfunded commitments to real estate funds totaled approximately $256.4 million at fiscal year end. During the past fiscal year, SERS made $125.0 million in additional commitments to new or existing real estate managers that will invest in several property types across the US.

During the fiscal year, SERS' real estate portfolio produced a total return of 25.2% versus the real estate policy benchmark return of 16.0%. For three-, five-, and ten-year periods, the real estate portfolio produced returns of (10.4%), (2.3%), and 4.5% respectively. All returns, except global real estate securities, are reported one quarter in arrears.

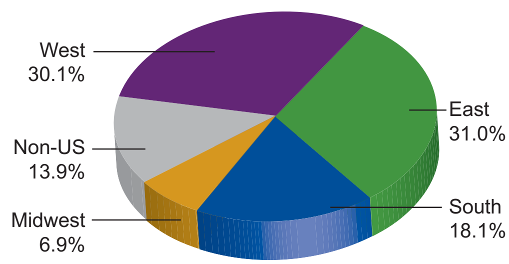
GLOBAL REAL ESTATE RETURNS



PROPERTY TYPE DIVERSIFICATION (excluding REITS)



REGIONAL DIVERSIFICATION (excluding REITS)



LARGEST INDIVIDUAL GLOBAL REAL ESTATE HOLDINGS AS OF JUNE 30, 2011

	Description	Fair Value
1	J.P. Morgan Strategic Property Fund	$ 108,319,273
2	UBS Realty Separate Account	72,297,516
3	RREEF America II	67,218,501
4	Clarion Lion Properties Fund	66,136,273
5	Prudential RISA II	64,180,755
6	Prudential RISA	44,888,435
7	Clarion Lion Industrial Trust	38,902,542
8	Rockspring TransEuropean Property Limited Partnership IV	35,083,922
9	Carlyle Realty Partners V	30,545,061
10	Colony Investors VIII	29,309,655

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

INVESTMENT SECTION

Investment Consultants & Investment Managers

Investment Consultants
- Aksia LLC
- Summit Strategies Group

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

Investment Managers - Non-US Equity
- Acadian Asset Management
- Arrowstreet Capital
- Dimensional Fund Advisors
- Genesis Asset Managers
- GlobeFlex Capital
- Harding Loevner
- Hexam Capital Partners
- Highclere International Investors
- LSV Asset Management
- Mondrian Investment Partners
- Morgan Stanley Investment Management
- State Street Global Advisors
- TT International Investment Management
- Walter Scott & Partners

Investment Manager - Futures
- Russell Implementation Services

Investment Managers - Foreign Currency
- State Street Global Advisors

Securities Lending Agents
- Goldman Sachs Agency Lending

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

Distribution Manager - T. Rowe Price

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

Investment Managers - Hedge Funds
- Advent Capital Management
- Angelo, Gordon & Co.
- Aristeia Capital
- BlueCrest Capital Management
- Brevan Howard Asset Management
- Bridgewater Associates
- Brookside Capital Investors
- Caspian Capital
- Cevian Capital
- D.E. Shaw Investment Management
- Davidson Kempner Capital Management
- Diamondback Capital Management
- Elm Ridge Capital Management
- Eminence Capital
- Glenview Capital Management
- GoldenTree Asset Management
- HealthCor Management
- JAT Capital Management
- Karsch Capital Management
- King Street Capital Management
- Lansdowne Partners
- Linden Advisors
- Loch Capital Management
- Marathon Asset Management
- Meditor Capital Management
- OMG Capital
- Pacific Investment Management Company
- Pharo Management
- Regiment Capital Management
- Samlyn Capital
- Stark Offshore Management
- Taconic Capital Advisors
- Theorema Asset Management
- Tudor Investment Corporation
- ValueAct Capital Management
- Viking Global Investors
- Visium Asset Management
- York Capital Management

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

Custodians
- BNY Mellon Asset Servicing
- Huntington National Bank

Master Recordkeeper
- BNY Mellon Asset Servicing

Investment Analytics
- BNY Mellon Performance & Risk Analytics

Summary Schedule of Brokers' Fees for US Equity Transactions for the year ended June 30, 2011

Broker Name	Fees Paid	# of Shares Traded	Avg. Commission per Share
Pershing, LLC	$ 220,104	6,068,361	$ 0.036
J.P. Morgan Clearing Corp.	164,402	7,511,847	0.022
Merrill Lynch, Pierce, Fenner & Smith, Inc.	163,332	10,681,942	0.015
Goldman, Sachs & Co.	162,565	10,658,520	0.015
BNY Mellon Capital Markets, LLC	141,918	11,100,368	0.013
Credit Suisse Asset Management Securities, Inc.	130,642	9,788,081	0.013
Instinet, LLC	112,178	5,170,947	0.022
Deutsche Bank Securities, Inc.	105,158	7,292,901	0.014
UBS Securities, LLC	101,234	4,623,782	0.022
Morgan Stanley & Co., LLC	90,754	3,371,480	0.027
Jefferies & Company, Inc.	73,358	3,812,359	0.019
ITG, Inc.	66,077	8,088,775	0.008
Citigroup Global Markets, Inc.	63,996	3,995,983	0.016
Barclays Capital, Inc.	60,529	2,245,857	0.027
State Street Global Markets, LLC	50,383	8,054,524	0.006
Credit Agricole Securities (USA), Inc.	50,160	3,161,264	0.016
Sanford C. Bernstein & Co., LLC	45,931	1,819,662	0.025
Cantor Fitzgerald & Co.	37,419	1,108,766	0.034
National Financial Services, LLC	31,388	820,528	0.038
Stifel, Nicolaus & Company, Inc.	29,136	1,021,469	0.029
Penson Financial Services, Inc.	26,664	817,019	0.033
Cowen and Company, LLC	26,634	1,050,130	0.025
RBC Capital Markets, LLC	22,091	948,970	0.023
Liquidnet, Inc.	22,042	780,757	0.028
Knight Capital Americas, LP	21,604	1,370,408	0.016
Investment Technology Group Ltd.	19,143	1,755,200	0.011
Raymond James & Associates, Inc.	18,797	505,832	0.037
Merrill Lynch Government Securities, Inc.	18,649	788,151	0.024
J.P. Morgan Securities, LLC	16,721	20,936,541	0.001
Renaissance Capital Investments, Inc.	16,377	851,059	0.019
Piper Jaffray & Co.	16,259	602,855	0.027
Robert W. Baird & Co., Inc.	15,803	756,192	0.021
Wells Fargo Securities, Inc.	15,055	456,936	0.033
SG Americas Securities, LLC	14,471	1,640,477	0.009
Citation Financial Group, L.P.	10,587	316,816	0.033
ISI Capital, LLC	10,285	276,783	0.037
Height Securities, LLC	9,687	322,890	0.030
Loop Capital Markets, LLC	8,530	389,497	0.022
ICAP Securities USA, LLC	8,016	200,400	0.040
Keybanc Capital Markets, Inc.	7,829	301,329	0.026
FBR Capital Markets & Co.	7,088	215,901	0.033
Nomura Securities North America, LLC	6,817	257,363	0.026
Chicago Analytic Trading Company, LLC	6,668	166,712	0.040
VTB Bank Europe, PLC	6,549	385,468	0.017
Oppenheimer & Co., Inc.	6,508	188,934	0.034
Brokers with less than $6,500 (78)	125,165	5,372,068	0.023
Total US	$ 2,384,703	152,052,104	$ 0.016

INVESTMENT SECTION

Summary Schedule of Brokers' Fees for Non-US Equity Transactions for the year ended June 30, 2011

Broker Name	Fees Paid	# of Shares Traded	Avg. Commission per Share
J.P. Morgan Securities, LLC	$ 204,005	54,594,835	$ 0.004
Morgan Stanley & Co., LLC	193,999	37,774,975	0.005
UBS Securities, LLC	181,967	39,490,263	0.005
Credit Suisse Asset Management Securities, Inc.	162,970	62,907,203	0.003
Citigroup Global Markets, Inc.	153,117	35,857,104	0.004
Nomura Securities North America, LLC	137,967	34,043,087	0.004
Macquarie Capital (USA), Inc.	135,294	22,027,817	0.006
Merrill Lynch Government Securities, Inc.	123,415	16,132,066	0.008
Instinet, LLC	109,839	23,687,864	0.005
Goldman, Sachs & Co.	97,694	20,378,323	0.005
Deutsche Bank Securities, Inc.	94,463	12,798,559	0.007
SG Americas Securities, LLC	85,426	39,876,106	0.002
State Street Global Markets, LLC	62,835	27,147,615	0.002
Credit Agricole Securities (USA), Inc.	62,170	6,613,529	0.009
Citi International Financial Services, LLC	60,694	6,951,667	0.009
ITG, Inc.	39,058	18,523,641	0.002
HSBC Securities (USA), Inc.	33,262	4,150,876	0.008
Barclays Capital, Inc.	32,512	2,157,746	0.015
Merrill Lynch, Pierce, Fenner & Smith, Inc.	31,102	7,350,201	0.004
BNP Paribas Securities Corp.	30,581	3,081,549	0.010
Jefferies & Company, Inc.	29,244	2,048,745	0.014
Sanford C. Bernstein & Co., LLC	28,859	4,042,708	0.007
Cantor Fitzgerald & Co.	27,115	925,441	0.029
ABN Amro Bank NV	26,188	4,063,243	0.006
Camara De Lequidacao E Custodia	23,078	911,400	0.025
Brockhouse & Cooper, Inc.	21,117	5,407,962	0.004
Mainfirst Securities US, Inc.	17,845	735,390	0.024
Liquidnet, Inc.	17,839	4,647,718	0.004
China International Capital Corp.	17,391	7,883,681	0.002
Capital Institutional Services, Inc.	17,389	3,375,800	0.005
Daiwa Capital Markets America, Inc.	16,304	1,515,728	0.011
Chicago Analytic Trading Company, LLC	16,118	963,200	0.017
Pershing, LLC	15,755	2,579,236	0.006
Redburn Partners (USA), LP	14,141	1,853,006	0.008
Exane, Inc.	14,123	629,337	0.022
Socgen-Crosby Securities, Inc.	12,440	895,154	0.014
National Securities Corp.	12,033	12,917,286	0.001
Liberum Capital, Inc.	11,991	2,900,922	0.004
RBC Capital Markets, LLC	11,906	469,779	0.025
Bouzet (DU) S A Societe De Bourse	11,809	1,322,075	0.009
J.P. Morgan Clearing Corp.	10,368	2,072,355	0.005
Brokers with less than $10,300 (92)	203,384	72,697,614	0.003
Total Non-US	$ 2,608,809	610,402,806	$ 0.004

Investment Notes

Investment Summary

Portfolio Type	Fair Value	% of Total Fair Value
US Equity	$ 2,703,304,605	25.4%
Non-US Equity	2,715,333,969	25.5%
Global Private Equity	829,010,388	7.8%
Global Fixed Income	1,849,611,290	17.4%
Global Hedge Funds	1,372,259,624	12.9%
Global Real Estate	998,389,238	9.4%
Short-Term	171,890,393	1.6%
Net Portfolio Value	$ 10,639,799,507	100.0%

Reconciliation to Statement of Plan Net Assets	
Net Portfolio Value	$10,639,799,507
Accrued Income and Expenses	216,216
Accounts receivable, securities sold	(218,109,740)
Accounts payable, securities purchased	316,443,494
Cash and cash equivalents	(380,847,314)
Investments per Statement of Plan Net Assets	$10,357,502,163

Investment Results

FOOTNOTES TO INVESTMENT RESULTS TABLE ON PAGE 43:

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

(2) Non-US equity historical benchmarks: inception to July 1997 - 100% MSCI EAFE (50% hedged) August 1997 to June 1999 - 96.7% MSCI EAFE (50% hedged) and 3.3% MSCI EMF July 1999 to December 1999 - 93.3% MSCI EAFE (50% hedged) and 6.7% MSCI EMF January 2000 to current - 100% MSCI ACWI ex-US (developed markets 50% hedged).

(3) Private equity returns are reported one quarter in arrears beginning with quarter ending June 30, 2002, and do not reflect the adjustment to fair market value. To implement quarter in arrears reporting, the returns for private equity were recorded as zero for the quarter ending June 30, 2002.

(4) From inception to December 1999, Custom Private Equity Benchmark consists of S&P 500 Index plus 500 basis points annualized. From January 2000 through the current period, the Custom Private Equity Benchmark consists of S&P 500 Index plus 300 basis points annualized. The custom benchmark is reported one quarter in arrears from June 30, 2002, through the current period. Methodology change results in a 0% return for the quarter ended June 30, 2002.

(5) Hedge fund investments began in June 2008 and were initially benchmarked to the HFRI Fund Weighted Index. Effective July 2010 the hedge fund benchmark became the HFRI Fund of Funds Composite Index.

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

(7) From inception to June 2002, benchmark consisted of 100% NCREIF Property Index (one quarter in arrears). From July 2002 to July 2009 the benchmark consisted of 80% NCREIF Property Index (one quarter in arrears) and 20% FTSE EPRA/NAREIT Developed Index. Beginning July 2010, the benchmark consists of 100% NCREIF Property Index (one quarter in arrears).

(8) For fiscal year 2001, the Short-Term return was impacted by cash flows from different asset classes in addition to overnight investments.

(9) The composite includes net of fee real estate and private equity history prior to July 1, 1999. Real estate and private equity classes are reported one quarter in arrears beginning with the quarter ending June 30, 2002. The Total Fund is impacted beginning June 30, 2002, with real estate and private equity March 31, 2002 market values and also with flows for the quarter ending June 30, 2002.

(10) SERS Policy Benchmark weightings for the past 10 years:

a) Effective July 1, 2010
22.5% Russell 3000 Index
22.5% MSCI ACWI ex-US Index (developed markets 50% hedged)
19.0% Barclays Capital Aggregate Bond Index
10.0% NCREIF Property Index
10.0% SERS Custom Private Equity Benchmark
15.0% HFRI Fund of Funds Index
1.0% Citigroup 30 Day US Treasury Bill Index

b) Effective February 1, 2009
27.5% Russell 3000 Index
27.5% MSCI ACWI ex-US Index (developed markets 50% hedged)
24.0% Barclays Capital Aggregate Bond Index
10.0% SERS Custom Real Estate Benchmark
10.0% SERS Custom Private Equity Benchmark
1.0% Citigroup 30 Day US Treasury Bill Index

c) Effective May 31, 2007
29.0% Russell 3000 Index
29.0% MSCI ACWI ex-US Index (developed markets 50% hedged)
24.0% Lehman Brothers Aggregate Index (In 2009 renamed as Barclays Capital Aggregate Bond Index)
10.0% SERS Custom Real Estate Benchmark
7.0% SERS Custom Private Equity Benchmark
1.0% Citigroup 30 Day US Treasury Bill Index

d) Prior to May 31, 2007
46.0% Russell 3000 Index
16.0% MSCI ACWI ex-US Index (developed markets 50% hedged)
23.0% Lehman Brothers Aggregate Index (In 2009 renamed as Barclays Capital Aggregate Bond Index)
10.0% SERS Custom Real Estate Benchmark
3.0% SERS Custom Private Equity Benchmark
2.0% Citigroup 30 Day US Treasury Bill Index

Statement of Investment Policy

I. Purpose of Policy Statement

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

This Policy Statement:

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

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

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

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

II. Investment Philosophy

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

III. Investment Objectives

The Investment Objectives of SERS are:

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

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

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

IV. Risk Management

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

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

V. Implementation Approach

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

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

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

VI. Investment Organization and Responsibilities

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

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

Responsibilities of the Board include:

1. establishing controls and systems to ensure that Total Fund fiduciaries comply with applicable laws;
2. establishing asset allocation and investment policies for SERS assets;
3. appointing and discharging the Executive Director, Board consultants, and Investment Managers and authorizing investments in Funds and full redemptions;
4. confirming or rejecting the Executive Director's proposed appointment of a Director of Investments;
5. designating the Director of Investments to be the Chief Investment Officer for SERS and then notify the Ohio Department of Commerce, Division of Securities in writing of the designation as required by the Ohio Revised Code;
6. monitoring and reviewing investment performance and policy compliance;
7. requesting, receiving and reviewing reports from Investment Staff, Board consultants and other entities, if applicable; and
8. reviewing, approving and revising an Annual Investment Plan (Annual Plan).

B. Responsibilities of ***Staff***

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

1. The ***Executive Director*** is responsible for:
   a. ensuring that reports of the Total Fund's investment performance are presented on a timely basis;
   b. retaining vendors, consultants and advisors as necessary to assist Staff;
   c. approving for Board consideration the recommendation of the Director of Investments' and Investment Staff to appoint or discharge Investment Managers or to invest in or redeem from Funds;
   d. discharging Investment Managers and redeeming from Funds on an emergency basis in accordance with paragraph VI.G., below, following a recommendation by the Director of Investments, the Investment Staff and with the concurrence of the Investment Consultant;
   e. appointing and discharging Investment Director and Investment Staff; and
   f. overseeing the investment function.
2. The ***Director of Investments*** is responsible for:
   a. overseeing the Investment Program and keeping the Executive Director advised;
   b. preparing and presenting the Annual Plan to the Board for approval;
   c. implementing the Annual Plan;
   d. investigating and researching new and emerging investment concepts and strategies, and recommending or implementing appropriate strategies;
   e. informing Investment Managers, Investment Consultants and others providing investment services to SERS about the requirements of applicable laws and Board policies, and monitoring their compliance with said laws and policies;
   f. adjusting allocations to Asset Classes, Investment Managers and Funds as needed, subject to any maximum allocation amounts established by the Board;
   g. recommending the appointment or discharge of Investment Managers and investment in or redemption from Funds to the Executive Director and the Board, as needed;

h. discharging Investment Managers and redeeming from Funds on an emergency basis in accordance with paragraph VI.G., below following a recommendation by Investment Staff and with the concurrence of the Investment Consultant and approval by the Executive Director;

i. activating back-up investment managers previously approved by the Board, and advising the Board of such actions at its next scheduled meeting;

j. approving investment manager style changes and additions and advising the Board at its next scheduled meeting; however, any change in mandate requires prior Board approval;

k. supervising Investment Staff;

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

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

n. regularly reporting the status of the Total Fund and its multi-period performance to the Board. Performance will be calculated on a gross-of-fees basis.

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

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

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

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

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

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

f. recommending to the Director of Investments and the Board the appointment or discharge of Investment Managers and investment in or redemption from Funds;

g. investing assets of the Cash Equivalents portfolio;

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

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

j. Maintain a list of Ohio-qualified Investment Managers and their investment products.

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

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

1. comply with all applicable federal and state laws and regulations, with this Policy Statement, and with all applicable professional codes and regulations;

2. have established ethics and conflict of interest policies and procedures, and proper internal compliance controls in place if applicable;

3. disclose to Investment Staff any actual or potential conflict of interest at the earliest opportunity;

4. disclose any investigation of, or litigation involving its operations, to Investment Staff as permitted by law; and

5. provide annual or other periodic disclosures as required.

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

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

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

1. manage assets within their control in compliance with all applicable federal and state laws and regulations, including but not limited to applicable ethics requirements, this Policy Statement, contractual obligations, and applicable professional codes of conduct;
2. inform the Director of Investments and Investment Staff of any substantial changes in investment strategy, portfolio structure, asset value, and of any organizational changes, including that of ownership, affiliation, organizational structure, financial condition, or changes in professional personnel staffing in the investment management organization;
3. present in-depth reports to Investment Staff;
4. recommend to Investment Staff changes to investment guidelines the Investment Manager believes would enhance investment performance on a risk adjusted basis; and
5. select such agents for the execution of transactions, at such prices, and at such commission rates as in the good faith judgment of the Investment Manager will be in the best interest of the Total Fund's assets, taking into consideration in the selection of such agents not only the available prices and rates of brokerage commissions, but also other factors relevant to the transaction.

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

Investment Consultants will:

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

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

The Compliance Officer is responsible for:

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

G. Emergency Situations

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

VII. Implementation Strategies

A. Asset Allocation

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

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

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

ASSET CLASS	**TARGET**	**RANGE**
Equity	**55%**	**50% – 60%**
Global Equities	45%	40% – 50%
Global Private Equity	10%	5% – 15%
Fixed Income	**30%**	**25% – 35%**
Global Bonds	19%	14% – 24%
Global Real Estate	10%	5% – 15%
Cash Equivalents	1%	0% – 5%

STRATEGY	**TARGET**	**RANGE**
Global Hedge Funds	15%	10% – 20%

B. Derivatives

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

C. Leverage

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

D. Rebalancing

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

E. Currency Hedging

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

F. Transition Management

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

G. Proxy Voting

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

H. Securities Lending

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

I. Investment Managers and Funds

The Board will approve and discharge Investment Managers and Funds and Backup Investment Managers based upon recommendations of Investment Staff or Investment Consultants as may be appropriate, and discussions with some Managers during Board presentations. Allocations to approved Investment Managers and Funds will be determined or adjusted by the Director of Investments in accordance Section VI.B.2.f. Allocations and adjustments are subject to any maximum allocation amounts established by the Board.

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

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

The Board will require that a list of Ohio-qualified Investment Managers and their investment products be maintained, and that public notice be given to Ohio-qualified Investment Managers of Investment Manager searches and search criteria.

SERS will give equal consideration to minority owned and controlled firms, and firms owned and controlled by women.

J. Approved Brokers

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

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

SERS will give equal consideration to minority owned and controlled firms, and firms owned and controlled by women.

K. Securities Litigation

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

L. Other

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

VIII. Performance

A. Performance Measurement Standard

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

B. Performance Benchmark – Total Fund

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

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

C. Performance Benchmarks – Asset Classes and Strategies

The long-term performance benchmark for each asset class is shown below. Performance benchmarks are determined as appropriate for SERS in cooperation with SERS' Investment Consultant. For purposes of this section, long-term refers to rolling three to five year periods. Performance in each asset class should meet or exceed the Benchmark measure.

Asset Class	Benchmark Measure
Global Equities	50% Russell 3000 Index; 50% MSCI ACWI ex U.S. Index with a 50% currency hedge for developed countries
Global Private Equity	Standard & Poor's 500 Index plus 300 basis points (one quarter in arrears)
Global Fixed-Income	Barclays Capital U.S. Aggregate Bond Index
Global Real Estate	NCREIF Property Index (one quarter in arrears)
Cash Equivalents	Citigroup 30-day T-Bill Index

Strategy	Benchmark Measure
Global Hedge Funds	HFRI Fund of Funds Composite Index

D. Performance Benchmarks – Individual Investment Managers

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

IX. Review and Evaluation

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

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

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

This policy supersedes the policy adopted August 2, 1985 and all revised policies dated 02/01/09; 08/01/08; 02/21/08; 10/01/07; 10/20/05; 09/15/00; 10/23/98; 6/19/98; 12/12/97; 7/25/97; 3/21/97;12/20/96; 11/22/96; 6/21/96; 4/25/96; 9/15/95;7/28/95; 6/16/95; 3/17/95; 1/20/95; 10/21/94;5/20/94; 3/06/92; 4/07/89; 9/04/87; 1/09/87.

Bruce Jarrell, Lincoln Elementary

Actuarial Section

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

November 7, 2011

Board of Trustees
School Employees Retirement System of Ohio
300 East Broad Street
Columbus, OH 43215

Dear Board Members:

The basic financial objective of the School Employees Retirement System of Ohio (SERS) is to establish and receive contributions which when expressed in terms of percents of active member payroll will remain approximately level from generation to generation of Ohio citizens, and which when combined with present assets and future investment return will be sufficient to meet the present and future financial obligations of SERS.

In order to measure progress toward this fundamental objective, SERS has an actuarial valuation performed each year. The valuation (i) measures present financial position, and (ii) establishes contribution rates that provide for the current cost and level percent of payroll amortization of the unfunded actuarial accrued liability over a reasonable period. The valuation performed as of June 30, 2011 indicates that a contribution rate of 13.45% of payroll for 125,337 school employees meets the basic financial objective.

The statutory employer contribution is 14% of pay. A SERS policy decision now provides the following allocations of the contribution:

- to basic benefits, the post-retirement death benefit and the Medicare Part-B supplement, the portion which will pay normal cost and 28-year amortization of unfunded actuarial accrued liabilities; and

- to health care, the remainder of employer contributions.

The actuarial valuation of the basic benefits, the post-retirement death benefit and the Medicare Part-B supplement are based upon two factors. The first is financial and participant data as of the valuation date and the second is economic and demographic assumptions. Economic assumptions address future rates of investment return and inflation; and demographic assumptions relate to future rates of retirement, turnover, death and disability among SERS members and their beneficiaries. We review the data for internal and year-to-year consistency as well as general reasonableness prior to its use in the actuarial valuations. It is also summarized and tabulated for the purpose of analyzing trends. The assumptions were adopted by the Board of Trustees and were based upon actual experience of SERS during the 2006-2010 fiscal years. Assets are valued according to a method that fully recognizes expected investment return and averages unanticipated market return over a four-year period.

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Board of Trustees
November 7, 2011
Page 2

The assumptions and methods utilized in this valuation, in our opinion, meet the parameters established by Governmental Accounting Standards Board Statements No. 25 and No.43.

The financial condition of health care is different and is being significantly affected by the provisions of Act 290 of 1988 and Act 270 of 2001. Act 290 established a health care surcharge, a program to determine a minimum annual pay for use in calculating employer contribution dollars. Act 270 placed limits on the amount of health care surcharge that can be assessed to each employer and in total.

On the basis of projections of health care fund activity and the surcharge limit established by Act 270, the allocated contributions are insufficient in the long-term to provide for a 20-year solvency period for the health care reserve fund. Such reserve is based on the projected claims and premium contributions for the next twenty years, as is described in the Statement of Funding Policy adopted by the Board on September 19, 2008. Since total claims are projected to exceed total contributions in future years, it is currently anticipated that future reserve fund amounts will be depleted in 2023.

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

We provided information used in the schedules of Actuarial Accrued Liabilities, Active Member Valuation Data, Retirees and Beneficiaries Added To and Removed From Rolls, Analysis of Financial Experience, the Schedule of Funding Progress, and the Schedule of Employer Contributions in the Financial Section. For fiscal years prior to June 30, 2008, the information was provided by previous actuaries.

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

Sincerely,

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

TJC:kc

PENSION

Summary of Actuarial Assumptions and Methods

The SERS Retirement Board adopted the following actuarial assumptions and methods April 20, 2011, on the recommendation of its actuary. These assumptions were based on an analysis of plan experience for the five-year period July 1, 2005 through June 30, 2010, and were adopted for use in the valuation as of June 30, 2011. All historical information and data shown in this report with a valuation date prior to June 30, 2008, were obtained from the previous actuaries' valuation reports.

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

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

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

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

Contributions During FY2011, active members and their employers were required to contribute 10% and 14%, respectively, of active member payroll. The Board allocates the employer contribution rate of 14% among basic benefits (pension, Medicare B, and death benefit) and health care in accordance with its funding policy. For the year ended June 30, 2011, the policy required the determination of a rate for basic benefits to cover normal cost and to amortize the unfunded actuarial accrued liabilities over a 28-year period. The remaining portion of the employer contribution was allocated to health care benefits.

Pension Trust Fund	11.77%
Death Benefit Fund	.04
Medicare B Fund	.76
Health Care Fund	1.43
	14.00%

The Ohio Revised Code (ORC) also provides for an employer contribution surcharge as an additional source of funding for health care. The surcharge is equal to 14% of the difference between a minimum pay amount and the member's pay, if below that minimum, pro-rated for partial service credit. For FY2011, the minimum pay amount was established at $35,800. The employer surcharge cap is applied at 2.0% of each employer's payroll and at 1.5% of total payroll statewide.

Asset Valuation Method Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. When these differences between assumed and actual experience have been observed to be sizeable and persistent, a change is made to the actuarial assumptions.

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

Economic Assumptions The following economic assumptions were used in the actuarial valuation as of June 30, 2011.

- **Investment Return** Net after all System expenses, the return on investments is compounded annually at 7.75%.
- **Inflation Rate** The inflation assumption is 3.25% per year. The real rate of return is the portion of total investment return, which is more than the inflation rate. Considering inflation recognition of 3.25%, the 7.75% investment return rate translates to an assumed real rate of return of 4.5%.
- **Benefit increases** Cost-of-living adjustments of 3.0% per year after retirement are assumed.
- **Payroll Growth** Salary increases attributable to payroll growth of 4.0% are projected and compounded annually. Additional projected salary increases ranging from 0.5% to 20.75% per year are attributable to seniority and merit. Pay increase assumptions for individual active members are shown for service durations in the following table:

Years of Service	Merit & Seniority	Salary Inflation	Total
0	18.00%	4.00%	22.00%
1	8.00	4.00	12.00
2	5.50	4.00	9.50
3	4.00	4.00	8.00
4	3.00	4.00	7.00
5	2.00	4.00	6.00
6	1.25	4.00	5.25
7	1.00	4.00	5.00
8	0.50	4.00	4.50
9	0.25	4.00	4.25
10-14	0.00	4.00	4.00
15 & over	0.00	4.00	4.00

Non-Economic Assumptions

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

Age	Male	Female
50	28.0%	25.0%
55	20.0	21.0
60	18.0	17.0
62	20.0	20.0
65	25.0	25.0
70	14.0	14.0
75	100.0	100.0

ACTUARIAL SECTION

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

	Death		Disability	
Age	Male	Female	Male	Female
30	0.020%	0.009%	0.068%	0.026%
40	0.027	0.018	0.210	0.100
50	0.065	0.036	0.410	0.260
60	0.199	0.111	0.550	0.400
70	0.593	0.343	0.550	0.400
74	0.851	0.510	0.550	0.400

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

Actuarial Accrued Liabilities

Accrued liabilities are the present value of plan promises to pay benefits in the future, based upon service already rendered. A liability has been established or accrued because the service has been performed, but the resulting monthly cash benefit may not be payable until years in the future. Accrued liabilities are the result of complex mathematical calculations performed by the plan's actuaries. The results of the computed actuarial accrued liabilities, using the entry age normal actuarial cost method, are disclosed in the following schedule.

ACTUARIAL ACCRUED LIABILITIES AS OF JUNE 30, 2011

Present value of:	Basic Benefits	Medicare B	Death Benefit	Total
Future benefits to present retirees and survivors	$ 7,981,722,012	$ 233,994,271	$ 24,033,156	$ 8,239,749,439
Benefits and refunds to present inactive members	542,823,443	10,619,189	1,713,916	555,156,548
Allowances to present active members				
Service	7,185,626,964	124,596,202	7,396,976	7,317,620,142
Disability	268,939,000	4,382,205	401,569	273,722,774
Survivor benefits	86,884,685	1,532,718	-	88,417,403
Withdrawal	(156,670,174)	7,071,692	(63,565)	(149,662,047)
Total Active AAL	7,384,780,475	137,582,817	7,734,980	7,530,098,272
Total AAL	$ 15,909,325,930	$ 382,196,277	$ 33,482,052	$ 16,325,004,259

Active Member Valuation Data

Actuarial Valuation as of June 30	Number of Active Members	Annual Payroll *(millions)*	Average Annual Salary	% Increase in Average Salary
2011	125,337	$2,852	$22,758	0.9%
2010	126,015	2,843	22,558	1.5
2009	125,465	2,787	22,216	4.2
2008	124,370	2,652	21,322	0.8
2007	123,013	2,603	21,163	2.2
2006	123,266	2,553	20,714	3.8

Retirees and Beneficiaries Added to and Removed from Rolls

	Added to Rolls		Removed from Rolls		Rolls at end of year		Percent increase	Average
Year	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	in Annual Allowances	Annual Allowances
2011	3,472	$49,577,810	2,378	$1,526,603	67,221	$777,910,924	6.6%	$11,572
2010	2,694	37,351,889	2,324	1,331,166	66,127	729,859,717	5.2	11,037
2009	3,103	41,970,065	2,164	504,642	65,757	693,838,994	6.4	10,552
2008	3,448	46,243,749	2,159	1,256,318	64,818	652,373,571	7.4	10,065
2007	3,596	44,864,781	2,588	4,249,533	63,529	607,386,140	7.2	9,561
2006	3,750	40,115,408	2,662	1,276,484	62,521	566,770,892	7.4	9,065

Analysis of Financial Experience

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

	Gain/(Loss) for Year in Millions					
Type of Risk Area	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
Age and Service Retirements If members retire at older ages than assumed, there is a gain. If younger ages, a loss.	$ (59.2)	$ (40.6)	$ (50.8)	$ (96.1)	$ 13.4	$ 37.9
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	(28.1)	(23.4)	(28.7)	(3.5)	0.9	1.2
Death-In-Service Benefits If claims costs are less than assumed, there is a gain. If more claims, a loss.	(0.7)	(0.5)	(0.6)	(0.6)	(0.3)	0.2
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	198.4	182.5	107.5	95.8	121.0	76.4
Investment Return If there is greater investment return than assumed, there is a gain. If less return, a loss.	(1,082.9)	390.5	(2,265.2)	(6.6)	504.3	44.7
Withdrawal If more liabilities are released by other separations from active membership than assumed, there is a gain. If smaller releases, a loss.	15.4	11.0	(11.9)	8.1	(73.2)	(52.9)
New Members Additional unfunded accrued liability will produce a loss.	(36.4)	(38.1)	(50.4)	(51.3)	(37.2)	(36.7)
Death after Retirement If retirees live longer than assumed, there is a loss. If not as long, a gain.	(1.0)	46.5	51.8	72.4	(10.2)	15.8
Other Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	(10.0)	(29.6)	200.1	81.2	(1.1)	(145.4)
Non-Recurring Items Adjustments for plan amendments, assumption changes, or method changes.	(436.2)	0.0	0.0	0.0	0.0	156.5
Total Gain/(Loss) During Year	$(1,440.7)	$ 498.3	$(2,048.2)	$ 99.4	$ 517.6	$ 97.7

Short-Term Solvency Test

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

If the contributions are level in concept and soundly executed, SERS will pay all promised benefits when due, which is the ultimate test of financial soundness. Testing for level contribution rates is the long-term test.

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the present assets (cash and investments) are compared with:

1. Active member contributions on deposit.
2. The liabilities for future benefits to present retired lives.
3. The liabilities for service already rendered by active members.

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

Solvency Test
Pension and Death After Retirement Benefits[1]

June 30	Aggregate Accrued Liabilities for *(in millions)* (1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Financed Portion)	Actuarial Value of Assets	Portion of Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)
2011	$2,749	$8,550	$4,643	$10,397	100%	89%	0%
2010	2,569	7,875	4,411	10,787	100	100	8
2009	2,470	7,520	4,231	9,723	100	96	0
2008	2,291	7,079	4,334	11,241	100	100	43
2007*	2,180	6,413	4,557	9,542	100	100	21
2006*	2,064	6,006	4,467	8,893	100	100	18

* Reported by prior actuarial firm.

Solvency Test
Medicare B Benefits[1]

June 30	Aggregate Accrued Liabilities for *(in millions)* (1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Financed Portion)	Actuarial Value of Assets	Portion of Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)
2011	$0	$245	$138	$116	100%	47%	0%
2010	0	239	128	122	100	51	0
2009	0	239	121	113	100	47	0
2008	0	241	117	131	100	54	0

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

HEALTH CARE

Summary of Actuarial Assumptions and Methods

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

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

Contributions Gains and losses are reflected in the unfunded accrued liability that is amortized by regular annual contributions as a level percentage of payroll within a 30-year period, on the assumption that payroll will increase 4.00% annually. The assumptions recommended by the actuary are, in the aggregate, reasonably related to the experience under the plan and to reasonable expectations of anticipated experience under the plan and to meet the parameters for the disclosures under GASB 43 and 45. The valuation indicates that the Annual Required Contribution (ARC) required to actuarially fund the plan is 5.59% of active payroll payable for the fiscal year ended June 30, 2011. Any net claims or premiums paid for retiree health care are considered contributions toward the ARC.

Year Ended	Annual Required Contribution (ARC) (a)	Employer Contribution (b)	Retiree Drug Subsidy (RDS) Contribution (c)	Total Contribution (d) = (b) + (c)	Percentage of ARC Contributed (d) / (a)
June 30, 2011	$169,146,052	$ 86,908,283	$ 0	$ 86,908,283	51.4%
June 30, 2010	315,535,278	60,142,014	24,414,855	84,556,869	26.8
June 30, 2009	373,789,127	163,411,488	23,504,101	186,915,589	50.0
June 30, 2008	307,874,094	158,393,761	21,953,659	180,347,420	58.6
June 30, 2007	299,379,524	170,948,274	20,202,965	191,151,239	63.8

Asset Valuation Method Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. When these differences between assumed and actual experience have been observed to be sizeable and persistent, a change is made to the actuarial assumptions.

Economic Assumptions The following economic assumptions were used in the actuarial valuation as of June 30, 2011.

- **Investment Return** Net after all plan expenses, the return on investments is compounded annually at 5.25%.
- **Inflation Rate** The inflation assumption is 3.25% per year. The real rate of return is the portion of total investment return which is more than the inflation rate. Considering inflation recognition of 3.25%, the 5.25% investment return rate translates to an assumed real rate of return of 2.00%.
- **Medical Trend Assumption** Initially health care cost increase of 9.0%, decreasing gradually to 5.0% in year 2017 and beyond.

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

Non-Economic Assumptions

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

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

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

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

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

Actuarial Accrued Liabilities

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

ACTUARIAL ACCRUED LIABILITIES AS OF JUNE 30, 2011	
Present value of benefits payable on account of present retired members and beneficiaries	$ 884,782,744
Present value of benefits payable on account of active members	2,400,539,451
Present value of benefits payable on account of deferred vested members	12,239,025
Total liabilities	$3,297,561,220

Robert Johnson, Avalon Elementary

Statistical Section

Statistical Section

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

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

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

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

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

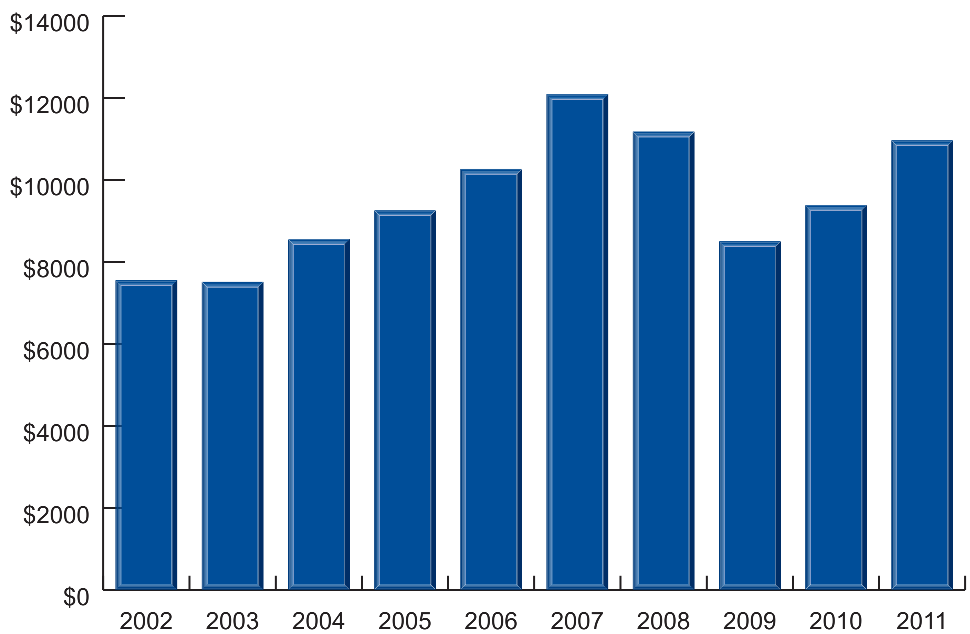
Net Assets by Fund

Last 10 years

	Pension Trust Fund	Medicare B Fund	Death Benefit Fund	QEBA Fund*	Health Care Fund	Total Fund
2011	$ 10,483,076,014	$ 116,849,347	$ 19,249,940	$ 102,596	$ 355,705,744	$ 10,974,983,641
2010	8,953,363,488	101,513,452	17,054,072	87,129	325,004,169	9,397,022,310
2009	8,024,889,206	93,243,651	15,974,467	74,585	376,459,222	8,510,641,131
2008	10,646,564,348	124,627,144	22,278,877	69,717	392,680,731	11,186,220,817
2007	11,546,062,014	139,902,535	25,270,739	4,899	386,355,370	12,097,595,557
2006	9,833,948,677	124,178,222	22,076,462	7,429	295,561,933	10,275,772,723
2005	8,866,129,871	114,696,809	20,758,872	36,868	267,482,155	9,269,104,575
2004	8,133,054,479	111,221,576	20,306,868	11,052	300,860,704	8,565,454,679
2003	7,096,479,273	103,481,031	18,897,237		303,556,610	7,522,414,151
2002	7,091,939,175	111,154,470	20,340,023		335,233,043	7,558,666,711

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

Total Net Assets *(in billions)*



STATISTICAL SECTION

Changes in Net Assets

Last 10 fiscal years

PENSION TRUST FUND	2011	2010	2009	2008
ADDITIONS				
Employer Contributions	$ 355,959,304	$ 378,201,685	$ 268,645,839	$ 259,394,723
Employee Contributions	303,114,258	301,649,643	295,788,567	284,910,486
Other Income	–	–	–	–
Total Investment Income/(Loss), Net	1,722,754,363	1,042,542,982	(2,434,825,781)	(731,527,482)
TOTAL ADDITIONS	2,381,827,925	1,722,394,310	(1,870,391,375)	(187,222,273)
DEDUCTIONS				
Pension Benefits	784,875,283	734,080,237	696,152,597	650,991,508
Refunds and Lump Sum Payments	42,223,739	37,159,685	34,213,067	38,907,918
Net Transfers to other Ohio Systems	6,394,075	5,085,923	3,224,094	4,723,303
Administrative Expenses	18,622,302	17,594,183	17,694,009	17,652,664
TOTAL DEDUCTIONS	852,115,399	793,920,028	751,283,767	712,275,393
Net increase (decrease)	1,529,712,526	928,474,282	(2,621,675,142)	(899,497,666)
Net assets held in trust:				
Balance, Beginning of Year	8,953,363,488	8,024,889,206	10,646,564,348	11,546,062,014
Balance, End of Year	**$ 10,483,076,014**	**$ 8,953,363,488**	**$ 8,024,889,206**	**$ 10,646,564,348**

HEALTH CARE FUND	2011	2010	2009	2008
ADDITIONS				
Employer Contributions	$ 86,908,283	$ 60,142,014	$ 163,411,488	$ 158,393,761
Other Income	122,232,090	96,449,404	97,284,347	94,660,706
Total Investment Income/(Loss), Net	45,247,242	31,472,744	(58,751,419)	(18,289,836)
TOTAL ADDITIONS	254,387,615	188,064,162	201,944,416	234,764,631
DEDUCTIONS				
Health Care Expenses	221,167,270	236,915,618	215,409,645	226,436,827
Administrative Expenses	2,518,770	2,603,597	2,756,280	2,002,443
TOTAL DEDUCTIONS	223,686,040	239,519,215	218,165,925	228,439,270
Net increase (decrease)	30,701,575	(51,455,053)	(16,221,509)	6,325,361
Net assets held in trust:				
Balance, Beginning of Year	325,004,169	376,459,222	392,680,731	386,355,370
Balance, End of Year	**$ 355,705,744**	**$ 325,004,169**	**$ 376,459,222**	**$ 392,680,731**

2007	2006	2005	2004	2003	2002
$ 232,846,344	$ 234,875,166	$ 255,633,456	$ 213,736,648	$ 182,919,583	$ 102,321,473
276,759,362	272,615,865	262,265,550	258,131,243	225,014,540	210,098,081
–	610,054	–	–	–	–
1,863,226,769	1,080,786,996	793,539,701	1,098,850,856	91,598,224	(619,870,709)
2,372,832,475	1,588,888,081	1,311,438,707	1,570,718,747	499,532,347	(307,451,155)
606,753,367	569,027,766	533,714,925	492,405,489	456,834,182	425,754,214
33,638,741	31,037,063	27,112,818	22,090,604	19,575,616	19,212,728
2,873,755	3,587,709	155,635	2,244,495	917,730	(365,587)
17,453,275	17,416,737	17,379,937	17,402,953	17,664,721	17,029,967
660,719,138	621,069,275	578,363,315	534,143,541	494,992,249	461,631,322
1,712,113,337	967,818,806	733,075,392	1,036,575,206	4,540,098	(769,082,477)
9,833,948,677	8,866,129,871	8,133,054,479	7,096,479,273	7,091,939,175	7,861,021,652
$ 11,546,062,014	**$ 9,833,948,677**	**$ 8,866,129,871**	**$ 8,133,054,479**	**$ 7,096,479,273**	**$ 7,091,939,175**

2007	2006	2005	2004	2003	2002
$ 170,948,274	$ 157,404,134	$ 126,355,575	$ 159,550,942	$ 171,313,952	$ 218,967,729
91,823,048	70,152,335	40,595,447	27,947,708	15,579,621	13,496,715
49,307,490	30,524,217	19,976,256	34,640,957	3,189,950	(15,550,768)
312,078,812	258,080,686	186,927,278	222,139,607	190,083,523	216,913,676
219,438,662	228,570,748	218,816,560	223,443,805	220,510,358	196,443,492
1,846,713	1,430,160	1,489,267	1,391,708	1,249,598	951,010
221,285,375	230,000,908	220,305,827	224,835,513	221,759,956	197,394,502
90,793,437	28,079,778	(33,378,549)	(2,695,906)	(31,676,433)	19,519,174
295,561,933	267,482,155	300,860,704	303,556,610	335,233,043	315,713,869
$ 386,355,370	**$ 295,561,933**	**$ 267,482,155**	**$ 300,860,704**	**$ 303,556,610**	**$ 335,233,043**

STATISTICAL SECTION

Changes in Net Assets (continued)

Last 10 fiscal years

MEDICARE B FUND	2011	2010	2009	2008
ADDITIONS				
Employer Contributions	$ 22,172,922	$ 22,619,935	$21,688,294	$ 18,337,305
Other Income	–	–	–	–
Total Investment Income/(Loss), Net	18,521,800	11,348,331	(27,612,707)	(8,388,671)
TOTAL ADDITIONS	40,694,722	33,968,266	(5,924,413)	9,988,634
DEDUCTIONS				
Pension Benefits	25,353,175	25,694,354	25,449,935	25,258,432
Administrative Expenses	5,652	4,111	9,145	5,593
TOTAL DEDUCTIONS	25,385,827	25,698,465	25,459,080	25,264,025
Net increase (decrease)	15,335,895	8,269,801	(31,383,493)	(15,275,391)
Net assets held in trust:				
Balance, Beginning of Year	101,513,452	93,243,651	124,627,144	139,902,535
Balance, End of Year	**$116,849,347**	**$101,513,452**	**$93,243,651**	**$124,627,144**

DEATH BENEFIT FUND	2011	2010	2009	2008
ADDITIONS				
Employer Contributions	$ 1,166,996	$ 1,225,772	$ 734,970	$ 835,348
Other Income	–	–	–	–
Total Investment Income/(Loss), Net	3,327,059	2,130,920	(5,218,168)	(1,600,480)
TOTAL ADDITIONS	4,494,055	3,356,692	(4,483,198)	(765,132)
DEDUCTIONS				
Death Benefits	2,254,894	2,236,215	1,780,430	2,185,460
Administrative Expenses	43,293	40,872	40,782	41,270
TOTAL DEDUCTIONS	2,298,187	2,277,087	1,821,212	2,226,730
Net increase (decrease)	2,195,868	1,079,605	(6,304,410)	(2,991,862)
Net assets held in trust:				
Balance, Beginning of Year	17,054,072	15,974,467	22,278,877	25,270,739
Balance, End of Year	**$19,249,940**	**$17,054,072**	**$15,974,467**	**$22,278,877**

QEBA FUND*	2011	2010	2009	2008
ADDITIONS				
Employer Contributions	$ 157,620	$133,164	$115,573	$172,260
Other Income	–	–	–	–
Total Investment Income, Net	187	231	1,109	1,129
TOTAL ADDITIONS	157,807	133,395	116,682	173,389
DEDUCTIONS				
Pension Benefits	141,086	119,458	110,465	107,772
Administrative Expenses	1,254	1,393	1,349	799
TOTAL DEDUCTIONS	142,340	120,851	111,814	108,571
Net increase (decrease)	15,467	12,544	4,868	64,818
Net assets held in trust:				
Balance, Beginning of Year	87,129	74,585	69,717	4,899
Balance, End of Year	**$ 102,596**	**$ 87,129**	**$ 74,585**	**$ 69,717**

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

2007	2006	2005	2004	2003	2002
$ 18,450,617	$ 20,535,685	$ 17,735,032	$ 17,390,201	$ 15,609,515	$ 16,178,916
–	62,510	–	–	–	–
22,332,826	13,538,975	10,290,424	14,996,522	872,761	(9,764,147)
40,783,443	34,137,170	28,025,456	32,386,723	16,482,276	6,414,769
25,055,794	24,652,637	24,547,223	24,307,188	23,826,601	23,596,306
3,336	3,120	3,000	338,990	329,114	355,585
25,059,130	24,655,757	24,550,223	24,646,178	24,155,715	23,951,891
15,724,313	9,481,413	3,475,233	7,740,545	(7,673,439)	(17,537,122)
124,178,222	114,696,809	111,221,576	103,481,031	111,154,470	128,691,592
$139,902,535	**$124,178,222**	**$114,696,809**	**$111,221,576**	**$103,481,031**	**$111,154,470**

2007	2006	2005	2004	2003	2002
$ 1,070,630	$ 1,054,246	$ 759,058	$ 744,272	$ 471,868	$ 456,274
–	6,889	–	–	–	–
4,265,549	2,571,377	1,964,827	2,912,708	158,596	(1,771,920)
5,336,179	3,632,512	2,723,885	3,656,980	630,464	(1,315,646)
2,083,437	2,259,722	2,217,881	2,200,147	2,027,422	1,905,283
58,465	55,200	54,000	47,202	45,828	49,514
2,141,902	2,314,922	2,271,881	2,247,349	2,073,250	1,954,797
3,194,277	1,317,590	452,004	1,409,631	(1,442,786)	(3,270,443)
22,076,462	20,758,872	20,306,868	18,897,237	20,340,023	23,610,466
$25,270,739	**$22,076,462**	**$20,758,872**	**$20,306,868**	**$18,897,237**	**$20,340,023**

2007	2006	2005	2004	2003	2002
$ 82,745	$ 41,850	$ 36,026	$ 18,600		
–	–	–	–		
32	9	2	–		
82,777	41,859	36,028	18,600		
85,106	71,298	9,572	6,259		
201	–	640	1,289		
85,307	71,298	10,212	7,548		
(2,530)	(29,439)	25,816	11,052		
7,429	36,868	11,052	–		
$ 4,899	**$ 7,429**	**$ 36,868**	**$ 11,052**		

STATISTICAL SECTION

Benefit and Refund Deductions from Net Assets by Type

Last 10 fiscal years

PENSION BENEFITS	2011	2010	2009	2008
Service Retirement	$ 675,549,301	$629,474,136	$595,262,076	$554,521,059
Disability Retirement	77,524,938	74,632,571	72,571,590	69,632,988
Survivor Benefits	31,801,044	29,973,530	28,318,931	26,837,461
Total Pension Benefits	$ 784,875,283	$734,080,237	$696,152,597	$650,991,508
Refunds				
Separation	$ 41,753,113	$ 36,344,287	$33,499,028	$38,147,667
Beneficiaries	470,626	815,398	714,039	760,251
Total Refunds	$ 42,223,739	$ 37,159,685	$34,213,067	$38,907,918

MEDICARE B REIMBURSEMENT	2011	2010	2009	2008
Service Retirement	$ 22,677,282	$ 23,024,413	$22,790,277	$ 22,542,191
Disability Retirement	1,373,592	1,364,728	1,340,431	1,334,470
Survivor Benefits	1,302,301	1,305,213	1,319,227	1,381,771
Total Medicare B Reimbursement	$ 25,353,175	$ 25,694,354	$25,449,935	$ 25,258,432

DEATH BENEFITS	2011	2010	2009	2008
Service	$ 2,040,327	$ 1,969,489	$1,538,800	$ 1,965,949
Disability	214,567	266,726	241,630	219,511
Total Death Benefits	$ 2,254,894	$ 2,236,215	$1,780,430	$ 2,185,460

HEALTH CARE EXPENSES	2011	2010	2009	2008
Medical	$ 119,184,041	$120,931,746	$112,696,150	$129,186,181
Prescription	100,474,453	113,971,467	99,283,588	95,603,763
Other	1,508,776	2,012,405	3,429,907	1,646,883
Total Health Care Expenses	$ 221,167,270	$236,915,618	$215,409,645	$226,436,827

2007	2006	2005	2004	2003	2002
$514,824,466	$481,929,589	$450,815,396	$413,743,800	$382,324,194	$355,422,159
66,278,496	62,669,473	59,656,369	56,956,255	53,859,560	51,081,315
25,650,405	24,428,704	23,243,160	21,705,434	20,650,428	19,250,740
606,753,367	$569,027,766	$533,714,925	$492,405,489	$456,834,182	$425,754,214
$ 33,316,422	$ 29,065,065	$ 26,667,001	$ 21,496,787	$ 19,269,813	$ 18,483,724
322,319	1,971,998	445,817	593,817	305,803	729,004
$ 33,638,741	$ 31,037,063	$ 27,112,818	$ 22,090,604	$ 19,575,616	$ 19,212,728

2007	2006	2005	2004	2003	2002
$ 22,350,668	$ 22,007,666	$ 21,896,392	$ 21,742,514	$ 21,342,363	$ 21,135,767
1,317,953	1,278,217	1,245,341	1,216,754	1,163,920	1,155,196
1,387,173	1,366,754	1,405,490	1,347,920	1,320,318	1,305,343
$ 25,055,794	$ 24,652,637	$ 24,547,223	$ 24,307,188	$ 23,826,601	$ 23,596,306

2007	2006	2005	2004	2003	2002
$ 1,880,256	$ 2,062,198	$ 2,018,318	$ 1,992,963	$ 1,813,287	$ 1,693,283
203,181	197,524	199,563	207,184	214,135	212,000
$ 2,083,437	$ 2,259,722	$ 2,217,881	$ 2,200,147	$ 2,027,422	$ 1,905,283

2007	2006	2005	2004	2003	2002
$128,160,112	$131,562,641	$113,102,587	$125,213,303	$119,676,586	$107,055,941
89,957,159	95,589,547	105,195,298	97,155,916	99,511,288	87,642,652
1,321,391	1,418,560	518,675	1,074,586	1,322,484	1,744,899
$219,438,662	$228,570,748	$218,816,560	$223,443,805	$220,510,358	$196,443,492

Employee and Employer Contribution Rates

Last 10 fiscal years

Fiscal Year	Employee Rate	Employer Rate: Pension	Medicare B	Death Benefit	Health Care	Total
2011	10%	11.77%	0.76%	0.04%	1.43%	14%
2010	10	12.74	0.76	0.04	0.46	14
2009	10	9.06	0.75	0.03	4.16	14
2008	10	9.13	0.66	0.03	4.18	14
2007	10	9.96	0.68	0.04	3.32	14
2006	10	9.76	0.78	0.04	3.42	14
2005	10	9.84	0.70	0.03	3.43	14
2004	10	8.36	0.70	0.03	4.91	14
2003	9	7.46	0.69	0.02	5.83	14
2002	9	5.83	0.71	0.02	7.44	14

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

Demographics of New Pension Benefit Recipients

Last 10 fiscal years

Average Service Benefit

Year Ended June 30	Service Credit	Monthly Amount	Age	Salary
2011	22.7	$ 1,203	63.4	$ 30,579
2010	23.5	1,159	64.0	29,644
2009	21.9	1,098	62.6	28,211
2008	22.2	1,095	62.5	27,815
2007	22.1	1,109	62.6	27,827
2006	22.3	1,041	63.0	26,007
2005	22.6	1,042	62.6	26,040
2004	22.5	957	62.4	24,132
2003	22.2	916	62.2	22,965
2002	22.4	892	62.3	22,065

Average Disability Benefit

Year Ended June 30	Service Credit	Monthly Amount	Age	Salary
2011	15.4	$ 1,272	55.7	$ 29,417
2010	18.0	1,258	55.4	29,055
2009	16.0	1,306	53.0	29,074
2008	15.0	1,269	53.0	28,538
2007	16.0	1,239	53.0	27,097
2006	16.0	1,252	53.0	27,093
2005	20.4	1,178	53.3	25,960
2004	20.8	1,090	52.5	24,096
2003	21.4	1,127	52.7	24,557
2002	21.2	1,048	52.2	22,637

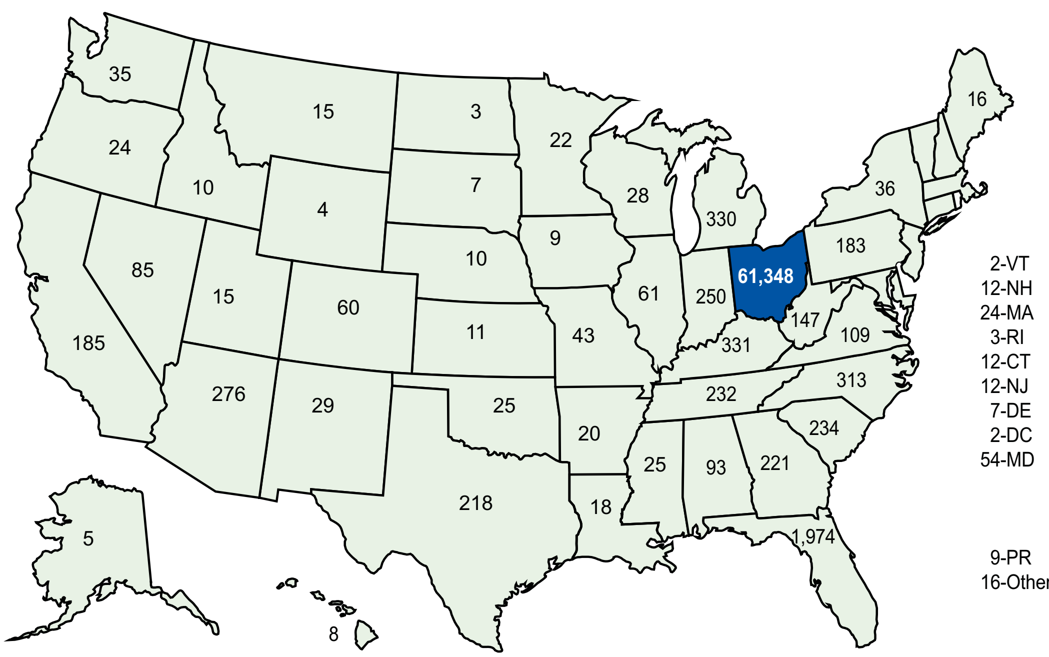
Demographics of Active and Retired Members

Fiscal Year 2011

	Active Members			Percentage of Distribution		
	Male	Female	Total	Male	Female	Total
Under 20	438	305	743	0%	0%	0%
20 to 29	5,493	5,833	11,326	4	5	9
30 to 39	5,758	10,439	16,197	5	8	13
40 to 49	8,809	26,255	35,064	7	21	28
50 to 54	5,588	17,776	23,364	5	14	19
55 to 59	5,033	14,150	19,183	4	11	15
60 to 64	3,706	8,849	12,555	3	7	10
65 to 69	1,606	2,843	4,449	1	3	4
70 and over	943	1,513	2,456	1	1	2
	37,374	87,963	125,337	30%	70%	100%

	Retired Members and Beneficiaries			Percentage of Distribution		
	Male	Female	Total	Male	Female	Total
Under 55	915	1,085	2,000	1%	2%	3%
55 to 59	1,170	1,631	2,801	2	2	4
60 to 64	2,135	5,774	7,909	3	9	12
65 to 69	2,800	8,327	11,127	4	12	16
70 to 74	3,130	9,160	12,290	5	13	18
75 to 79	2,804	8,360	11,164	4	12	16
80 to 84	2,377	7,256	9,633	4	11	15
85 to 89	1,431	5,161	6,592	2	8	10
90 to 94	545	2,435	2,980	1	4	5
95 to 99	80	573	653	0	1	1
100 and over	2	70	72	0	0	0
	17,389	49,832	67,221	26%	74%	100%

Retired Members and Beneficiaries by State



Retired Members by Type of Benefit

Amount of Monthly Benefit	Total	Service	Disability	Survivor
$ 1 - $ 250	12,457	11,198	145	1,114
251 - 500	12,197	10,223	689	1,285
501 - 750	10,414	8,688	887	839
751 - 1000	7,949	6,639	816	494
1001 - 1500	10,538	8,927	1,245	366
1501 - 2000	5,719	4,852	720	147
over 2000	7,639	6,731	776	132
	66,913	57,258	5,278	4,377
Average Monthly Benefit		$ 973	$1,216	$ 606
Average Age		74.7	64.7	71.0

Retirees, Spouses, and Dependents Receiving Health Care Coverage

Attained Age	Number of Males	Number of Females	Total Number
Under 30	205	183	388
30 - 39	11	7	18
40 - 49	103	127	230
50 - 59	1,022	1,349	2,371
60 - 64	1,114	2,371	3,485
65 - 69	1,944	4,964	6,908
70 - 74	2,954	6,272	9,226
75 - 79	2,869	5,834	8,703
80 - 84	2,245	5,363	7,608
85 - 89	1,451	4,343	5,794
90 - 94	585	2,145	2,730
95 - 99	92	538	630
100 and over	4	56	60
	14,599	33,552	48,151

Principal Participating Employers

Current fiscal year and nine fiscal years ago

	Fiscal Year 2011			Fiscal Year 2002		
	Covered Employee Members	Rank	Percentage of Total System	Covered Employee Members	Rank	Percentage of Total System
Participating School's Name						
Columbus City Schools	3,805	1	3.04%	4,038	2	3.36%
Cleveland Metropolitan School District	3,040	2	2.43	4,419	1	3.68
Cincinnati Public Schools	2,791	3	2.23	3,017	3	2.51
University Of Akron	2,314	4	1.85	1,316	7	1.10
Akron Public Schools	1,622	5	1.29	1,687	5	1.40
Toledo Public Schools	1,430	6	1.14	1,986	4	1.65
Dayton City Schools	1,322	7	1.05	1,638	6	1.36
South-Western City Schools	1,144	8	0.91	1,228	8	1.02
Columbus State Community College	1,041	9	0.83	–		–
Lakota Local Schools	978	10	0.78	–		–
Parma City Schools	–		–	1,026	9	0.85
Canton City Schools	–		–	951	10	0.79
All Other	105,850		84.45	98,948		82.28
Total	125,337		100.00%	120,254		100.00%

In fiscal year 2011 "All other" consisted of:

	Covered Employee Members	Number of School Districts
Local School Districts	38,562	373
City School Districts	45,376	185
Educational Service Centers	7,516	57
Exempted Village Districts	5,413	49
Higher Education	2,660	13
Vocational/Technical Schools	2,978	49
Community Schools	3,042	283
Other	303	9

Average Benefit Payments

Last 10 fiscal years

Retirement Effective Dates	Years of Credited Service 5-9	10-14	15-19	20-24	25-29	30 +
Period 7/1/10 to 6/30/11						
Average Monthly Benefit	$ 211	$ 456	$ 706	$ 1,018	$ 1,354	$ 2,490
Average Final Average Salary	1,462	1,998	2,168	2,455	2,782	3,255
Number of Retirees	493	473	315	375	540	901
Period 7/1/09 to 6/30/10						
Average Monthly Benefit	$ 196	$ 427	$ 680	$ 993	$ 1,283	$ 2,216
Average Final Average Salary	1,343	1,848	2,105	2,422	2,681	2,906
Number of Retirees	393	349	275	315	346	725
Period 7/1/08 to 6/30/09						
Average Monthly Benefit	$ 204	$ 419	$ 681	$ 938	$ 1,250	$ 2,178
Average Final Average Salary	1,402	1,802	2,115	2,264	2,504	2,765
Number of Retirees	364	341	379	492	528	732
Period 7/1/07 to 6/30/08						
Average Monthly Benefit	$ 209	$ 373	$ 635	$ 969	$ 1,219	$ 2,122
Average Final Average Salary	1,434	1,648	1,989	2,327	2,426	2,803
Number of Retirees	356	350	424	530	657	811
Period 7/1/06 to 6/30/07						
Average Monthly Benefit	$ 202	$ 415	$ 632	$ 938	$ 1,232	$ 2,082
Average Final Average Salary	1,382	1,751	1,959	2,260	2,449	3,121
Number of Retirees	344	312	364	417	578	722
Period 7/1/05 to 6/30/06						
Average Monthly Benefit	$ 188	$ 368	$ 629	$ 849	$ 1,138	$ 1,947
Average Final Average Salary	1,328	1,569	1,895	2,070	2,267	2,905
Number of Retirees	288	318	328	403	403	675
Period 7/1/04 to 6/30/05						
Average Monthly Benefit	$ 179	$ 363	$ 600	$ 847	$ 1,081	$ 1,949
Average Final Average Salary	1,254	1,585	1,860	2,058	2,201	3,033
Number of Retirees	253	281	352	382	700	674
Period 7/1/03 to 6/30/04						
Average Monthly Benefit	$ 168	$ 370	$ 572	$ 809	$ 1,011	$ 1,731
Average Final Average Salary	1,192	1,611	1,777	1,941	2,037	2,612
Number of Retirees	207	284	336	318	606	613
Period 7/1/02 to 6/30/03						
Average Monthly Benefit	$ 148	$ 317	$ 552	$ 755	$ 983	$ 1,780
Average Final Average Salary	1,015	1,373	1,686	1,811	1,988	2,663
Number of Retirees	204	285	328	346	618	533
Period 7/1/01 to 6/30/02						
Average Monthly Benefit	$ 156	$ 333	$ 560	$ 752	$ 958	$ 1,653
Average Final Average Salary	1,057	1,368	1,690	1,747	1,895	2,426
Number of Retirees	162	313	355	351	666	548

Betsy Pierce, Blacklick Elementary

Plan Summary

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

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

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

COVERED EMPLOYEES

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

Compulsory or Mandatory Coverage

Compulsory coverage is required for any employee who:

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

Exemption from Coverage

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

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

Optional Coverage

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

Exclusion from Coverage

The following employees are excluded from SERS coverage:

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

CONTRIBUTIONS

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

SERVICE CREDIT

The amount of a member's service credit determines:

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

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

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

Contributing Service Credit

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

Free Service Credit

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

Purchased Service Credit

The following additional service credit may be available for purchase:

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

Other Ohio State Retirement System Service Credit

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

Early Retirement Incentive Program

An employer may establish an Early Retirement Incentive program (ERI), which would allow employees 50 years old to retire early under Tier 1 or employees 55 years old to retire early under Tier 2, or increase the service credit of those employees eligible to retire. Under an ERI, an employer may purchase up to five years of service credit for its eligible employees. If an employer has an ERI, it notifies all eligible employees of the plan and its requirements.

AGE AND SERVICE RETIREMENT

Eligibility

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

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

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

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

Calculating a Benefit

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

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

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

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

The formula used in calculating a benefit is as follows:

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

Payment Plans

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

Partial Lump Sum Option Payment

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

Reemployment

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

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

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

DISABILITY BENEFITS

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

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

Eligibility

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

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

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

Benefit Payment

Old Disability Plan

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

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

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

New Disability Plan

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

Total Service Credit	Percentage of the Member's FAS
5-21 years	45.0%
22	48.4
23	50.6
24	52.8
25	55.0
26	57.2
27	59.4
28 or more years	60.0

Termination of Benefits

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

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

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

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

At the end of the period, the member can apply for a service retirement benefit.

DEATH BENEFIT

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

SURVIVOR BENEFITS

Eligibility

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

A beneficiary qualifies for benefits in the following order:

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

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

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

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

Monthly benefit payments are available if the member:

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

The following survivors are eligible for monthly benefits:

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

Benefit Payments

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

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

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

SCHEDULE III

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

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

COST-OF-LIVING ADJUSTMENT

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

HEALTH CARE

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

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

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

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

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

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

Long Term Care Insurance

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

Members, and benefit recipients, may purchase a separate long-term care (LTC) insurance policy, which can pay a specified amount per day for custodial care to assist with the activities of daily living.

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