School Employees Retirement System of Ohio

Comprehensive Annual Financial Report

For the year ended June 30, 2013

Serving the People Who Serve Our Schools®

The Retirement Board
School Employees Retirement System of Ohio
300 East Broad St., Suite 100
Columbus, Ohio 43215

We have reviewed the *Independent Auditor's Report* of the School Employees Retirement System of Ohio, Franklin County, prepared by McGladrey LLP, for the audit period July 1, 2012 through June 30, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The School Employees Retirement System of Ohio is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

January 28, 2014

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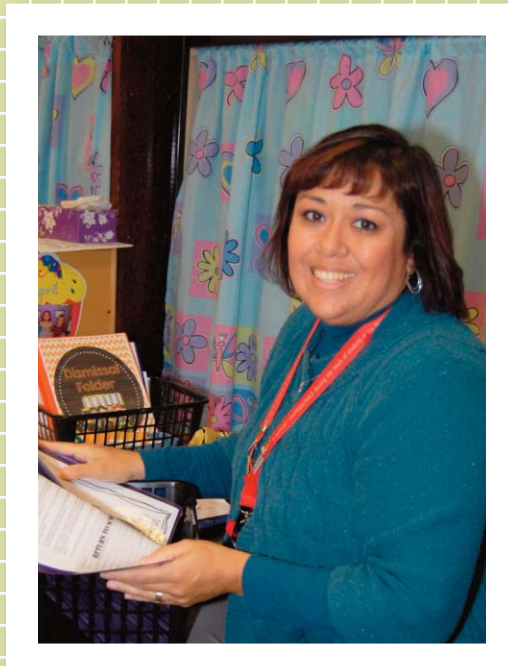


Teresa Shirey, Mentor City School, SERS Member

School Employees Retirement System of Ohio

Comprehensive Annual Financial Report

For the year ended June 30, 2013
Prepared by SERS Staff
Lisa J. Morris, Executive Director
300 E. Broad St., Suite 100, Columbus, Ohio 43215-3716
www.ohsers.org

Serving the People Who Serve Our Schools®

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

Table of Contents

Pictured on the cover: Michelle Cormack and William Shultz, Mentor Public School, SERS Members


Cindy Nye, Zanesville City School District, SERS Retiree

Introductory Section

Left to right: Standing – Lisa Morris, Christine Holland, Barbra Phillips, Nancy Edwards, Catherine Moss
Seated – Daniel Wilson, Beverly A. Woolridge, James Rossler

Chair:
Beverly A. Woolridge
Term Expires June 30, 2013

Vice-Chair:
James A. Rossler, Jr.
Term Expires Nov. 4, 2016

Appointed Member:
Nancy D. Edwards
Term Expires Dec. 5, 2016

Retiree Member:
Catherine P. Moss
Term Expires June 30, 2016

Employee Member:
Barbra M. Phillips
Term Expires June 30, 2013

Employee Member:
Christine D. Holland
Term Expires June 30, 2015

Appointed Member:
Daniel L. Wilson
Term Expires Sept. 27, 2016

Retiree Member:
Seat Vacant
Term Expires June 30, 2015

Employee Member:
Madonna D. Faragher
Term Expires June 30, 2015

Advisors

Independent Auditor
McGladrey LLP - Cleveland, Ohio

Actuary
Cavanaugh Macdonald Consulting, LLC - Kennesaw, Georgia

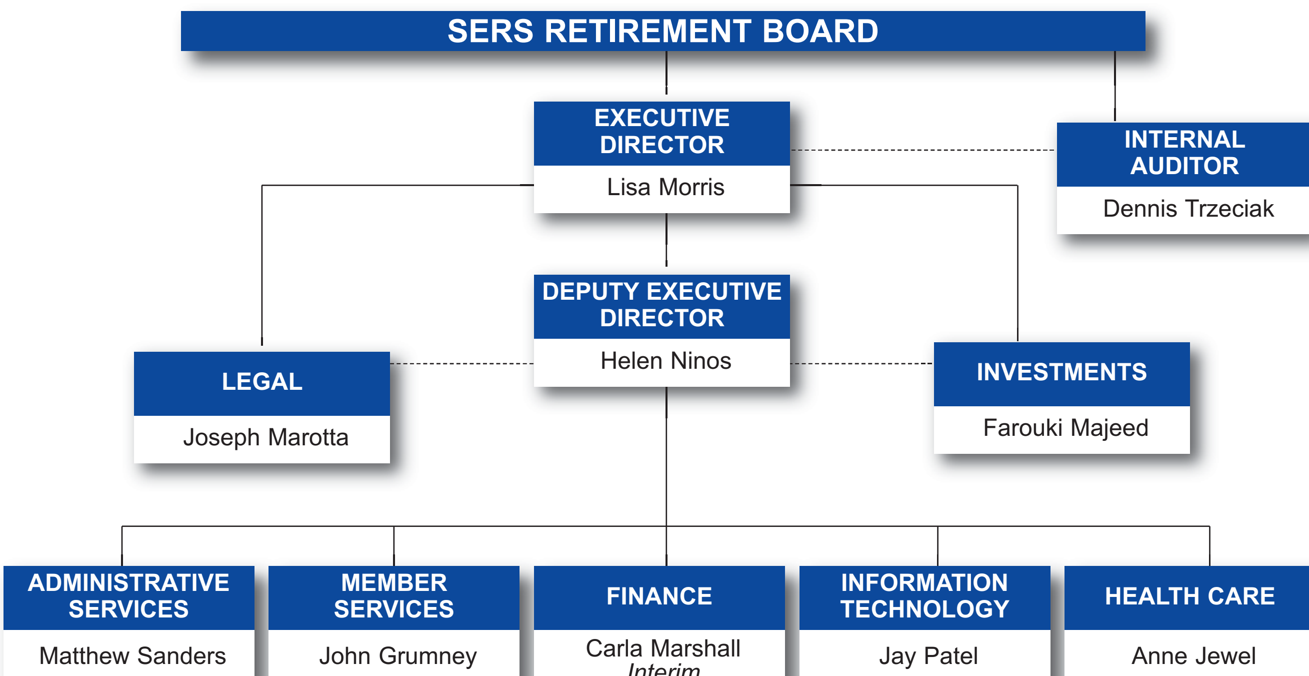
Investment Consultant
Summit Strategies Group - St. Louis, Missouri

Hedge Fund Consultant
Aksia LLC - New York, New York

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

Investment Consultants and Investment Managers and Brokers' Fees - see pages 50-52

Clockwise, beginning at the lower left: Lisa Morris, John Grumney, Joe Marotta, Farouki Majeed, Matthew Sanders, Dennis Trzeciak, Anne Jewel, Jay Patel, Helen Ninos



Government Finance Officers Association

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, 2012

Executive Director/CEO

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2013

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
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 12, 2013

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, 2013. 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 post-retirement health care program also is provided, although it is not required by law.

MAJOR INITIATIVES AND HIGHLIGHTS - 2013

SERS Conducts a Fiduciary Audit of Its Investment Operations During the search for a new chief investment officer (CIO), staff authorized a fiduciary audit of the entire investment and investment accounting structure. It had been eight years since the last fiduciary audit was performed. SERS initiated this audit to give the new CIO an accurate performance baseline from which to assess the investment department's operations.

A fiduciary audit examines all aspects of the investment department's operations. It includes compliance with laws, regulations, and policies; cost management; securities lending; domestic and foreign custodial arrangements; manager contracts; ethics; and the roles of staff, Board members, Board committees, consultants, actuaries, and external managers. In addition, SERS' operations are compared with those of other similar U.S. public funds.

The results of the audit were complimentary of SERS' investment operations. Even in areas where improvement was suggested, SERS had already identified those areas and was making appropriate changes. In several areas, SERS' operations achieved best-practice or leading-practice status.

A staff team has examined the results of the audit, and created a monitoring mechanism for review and implementation of the recommendations. Progress on implementing these recommendations is reported to the Board each month.

Strategic Planning Focuses on Collaboration, Communications, and Customer Service Through the efforts of the Board/Staff Collaboration Team, a new *Board Member Orientation* has been created. It lists and explains the responsibilities of Board members, making it easier for new members to understand SERS' operations and the expectations associated with being a Board member.

Using data from SERS' member and retiree satisfaction surveys, the Strategic Communications Team has developed a new model for delivering messages to SERS' diverse active member population. Printed and electronic communication materials are being developed for people of different ages and service levels with the goal of members taking an active role in preparing for retirement.

To improve SERS' customer service to members and retirees, the Member Services Department began a remote counseling program. Counselors visited Dayton and Marietta to talk with members who are close to retirement. Because of the positive reviews, more trips are being planned next year. Member Services also hired an on-staff trainer to conduct instructional and educational training for staff members who work with members and retirees. This ensures that members and retirees receive a consistent level of quality assistance regardless of whether they are assisted on the phone or in person.

Reaching Out to Members in New Ways SERS is embracing the Internet to connect with members and retirees across the state. In FY2013, staff conducted 32 webinars for 509 attendees. Webinars, internet presentations during which members and retirees can ask questions of SERS' staff, allow SERS to interact with more members. Anyone with a computer and an Internet connection can participate in a webinar.

SERS' staff participated in webinars to explain pension reform changes to members and employers, and detail health care coverage changes for 2014. For the first time this year, SERS' counseling staff developed a webinar for members who had questions about retirement but could not make the trip to Columbus for in-person counseling.

Staff Negotiates Lower 2014 Health Care Premiums; Vision Coverage Added During annual premium and plan design discussions with health care providers, SERS' staff was able to negotiate lower premiums for most retirees covered by Aetna. In addition, Aetna will offer the SilverSneakers® fitness program. Beginning in 2014, SERS will offer vision coverage provided by VSP® Vision Care. This coverage option also is available to SERS retirees with 10 or more years of service credit who are not enrolled in a SERS health care plan.

New Summary Annual Financial Report Simplifies Financial Information In FY2013, SERS' staff produced the inaugural edition of the *Summary Annual Financial Report (SAFR)*. This eight-page companion to the *Comprehensive Annual Financial Report (CAFR)* provides a concise, yet broad overview of the financial health of SERS for the fiscal year. The SAFR is posted on SERS' website, and will be published annually following the completion of the CAFR.

Halfway to a New Member Benefits Computer System Over the last two years, staff from all departments has been meeting with vendors to design the new SERS Member and Retiree Tracking (SMART) membership benefit computer system. It is a Web-based application system that enables staff to provide better customer support to members and retirees. It also gives members and retirees more tools to manage their relationship with SERS. The new system is expected to be fully functional in April 2015.

Going Green, Saving Green For the fourth consecutive year, SERS' headquarters building in downtown Columbus was recognized with a United States Environmental Protection Agency Energy Star award. This award acknowledged that SERS maintained one of the most energy efficient buildings in the country when compared to similar facilities.

SERS also is preparing to be evaluated for Leadership in Energy and Environmental Design for Existing Buildings (LEED-EB) certification. Developed by the U.S. Green Building Council in 2000, the LEED-EB program focuses on the ongoing operation and maintenance of existing buildings in an environmentally conscious manner. SERS has partnered with an environmental engineering firm to reconfigure the building's systems to lower the operating costs and reduce environmental impacts.

To improve recycling efforts, SERS has changed from a single stream process to a co-mingled process, which is considered a preferred recycling practice. Instead of separating recyclables by type, all different types of recyclables are now placed in one receptacle. This change has reduced waste disposal by 89%.

Finally, flower beds around the building were redesigned and now include drought-resistant native Ohio plants and shrubs that meet LEED standards.

SERS Hosts Attendees of International Benchmarking Conference In May, SERS led building tours for 115 guests who attended the CEM Benchmarking Conference. During the tours, guides gave brief presentations on SERS' culture, branding, investments, call center operations, energy efficiency efforts, and legislative and media outreach. Staff from every department participated.

As a member of CEM, SERS receives feedback about operational efficiency that is used to improve customer service and reduce costs in all departments.

New Standards in Place for Securing Sensitive Information In FY2013, SERS achieved two information security milestones. First, SERS implemented a security program that complies with the Health Insurance Portability and Accountability Act (HIPAA) of 1996 and the related Health Information Technology for Economic and Clinical Health (HITECH). All policies and procedures relating to health care were updated, and annual security training will be provided for staff that handles protected health care information. Second, staff used National Institute of Standards and Technology industry-best guidelines to evaluate SERS' internal practices for securing sensitive information. Staff has scheduled annual tests to measure progress in improving previously noted deficiencies.

Change in External Audit Firm Every five years the Ohio Auditor of State's office issues a request for proposal on behalf of SERS for audit services. In April 2013, McGladrey LLP was retained as SERS' external audit firm, replacing CliftonLarsonAllen LLP. It should be noted that there were no disagreements between management and CliftonLarsonAllen LLP on any accounting or auditing related issues.

INVESTMENTS

SERS' investment portfolio is diversified by asset class, investment approach, and individual investments within each asset class to reduce overall portfolio risk and volatility. At year end, SERS' investment portfolio at fair value was $11.1 billion. Investment return was 12.9% (net) for the fiscal year versus the benchmark return of 12.1% and the actuarial assumed return of 7.75%. The strongest sectors of the portfolio were equities and global private equity. Net investment income was $1.33 billion compared to a net loss of $37.9 million in FY2012. For more information on SERS' portfolio performance and investment strategy and policy, please turn to the *Investment Section* of this report.

FUNDING

SERS' primary objective is to assure that at the time benefits commence sufficient funds will be available to provide retirement, disability, and survivor benefits for its members; yet sustain contribution rates that remain level from generation to generation. This was the impetus behind our pension reform bill, which increased age and service credit requirements to qualify for retirement, but did not increase employee and employer contributions or reduce the fixed 3% annual cost of living adjustment.

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 (GASB) statements. For FY2013, the funded ratios for the three benefits mandated by statutes increased. The funding level for pension benefits increased from 62.8% over a 30-year period to 65.3% over a 29-year period. The funding level for health care benefits, which are permitted by statute, decreased from 13.2% to 13.0% over a 30-year period. Historical information related to progress on meeting the funding objective can be found in the *Required Supplementary Information* in the *Financial Section* of this report.

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 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 (CAFR)* for the fiscal year ended June 30, 2012. This was the 28th 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 CAFR. 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 CAFR 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 2013 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 guidance of the Retirement Board is vital to the administration of SERS. This was a year of significant changes to Board membership as three members resigned and a fourth opted not to run for re-election. We appreciate the services of Richard Sensenbrenner, Mark Anderson, Beverly Woolridge, and Mary Ann Howell. Taking their seats are Daniel Wilson, Christine Holland, Debra Basham, and Frank Weglarz (November 2013).

In closing, we recognize that our strength is a reflection of the quality of our staff. From bottom to top, they are knowledgeable, hard-working and dedicated to serving the people who serve Ohio schools. With their commitment and the assistance of our employers and stakeholders we will continue to fulfill our mission of providing our members, retirees, and beneficiaries with pensions that are soundly financed, prudently administered, and delivered with understanding and responsiveness.

Respectfully submitted,

Lisa J. Morris	Carla J. Marshall
Executive Director	Interim 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 130th General Assembly:

HCR 19 Social Security-State Retirement Systems (06/19/2013, Senate Insurance, First Hearing)

This bill memorializes Congress to oppose any legislation that requires Social Security coverage for members of any of Ohio's state retirement systems.

HB 59 Biennial Budget (06/30/2013, Signed by Governor)

This bill added the Director of Budget and Management to the required distribution of certain annual reports, and changed the required minimum school year from 182 days to 910 hours for grades K-6, and 1001 hours for grades 7-12.

HB 162 Retirement System Offenses (06/19/2013, House Judiciary, Second 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.

Federal Legislation

From the 113th Congress:

HR 1628 Public Employee Pension Transparency Act (04/18/2013 Referred to House Committee on Ways and Means)

This bill requires public pension funds to file annual reports with the U.S. treasury secretary with details about their assets, liabilities, and funding status using a prescribed methodology. Non-compliant states and localities would be denied federal tax benefits for their bonds. It also prohibits federal bailouts of state and local pension plans. Companion bill to S 779.

HR 1795 Social Security Fairness Act (04/26/2013 Referred to House Committee on Ways and Means)

This bill repeals the offset and windfall. Companion bill to S 896.

HR 2720 Alexis Agin Identity Theft Protection Act (07/18/2013 Referred to the House Committee on Ways and Means)

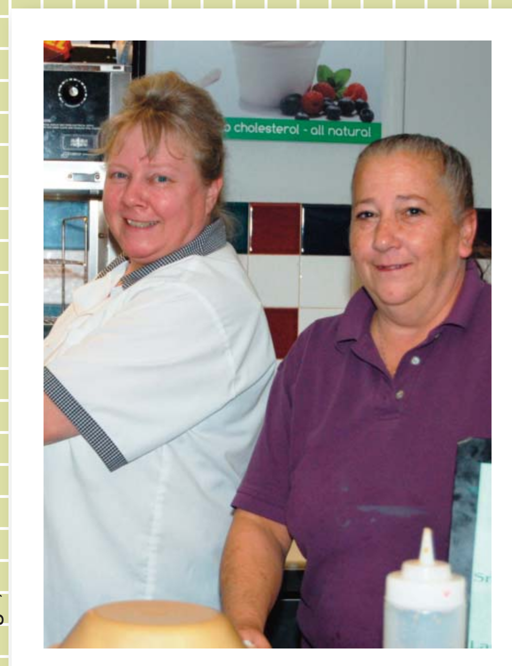
This bill requires the Social Security Administration to restore access to the full Death Master File to public retirement systems and other selected entities.

S 779 Public Employee Pension Transparency Act (04/23/2013 Referred to Senate Committee on Finance)

This bill requires public pension funds to file annual reports with the U.S. treasury secretary with details about their assets, liabilities, and funding status using a prescribed methodology. Non-compliant states and localities would be denied federal tax benefits for their bonds. It also prohibits federal bailouts of state and local pension plans. Companion bill to HR 1628.

S 896 Social Security Fairness Act (05/08/2013 Referred to Senate Committee on Finance)

This bill repeals the offset and windfall. Companion bill to HR 1795.



Lori Hartman and Sunday Elzholz, Lakeland Community College, SERS Members

Financial Section

McGladrey LLP

McGladrey

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of School Employees Retirement System of Ohio (SERS), which comprise the statement of net position as of June 30, 2013, and the related statement of changes in net position for the year ended June 30, 2013, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of SERS as of June 30, 2013, and the changes in net position for the year ended June 30, 2013, in accordance with accounting principles generally accepted in the United States of America.

Member of the RSM International network of independent accounting, tax and consulting firms.

Independent Auditor's Report (Continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedules of funding progress and employer contributions and related notes, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Additional Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information, including the schedules of administrative expenses, investment expenses, and payments to consultants, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The additional information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

The introductory, investments, actuarial and statistical sections, as listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

The financial statements of the School Employees Retirement System of Ohio, as of and for the year ended June 30, 2012, were audited by other auditors whose report dated December 11, 2012 expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2013 on our consideration of SERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SERS' internal control over financial reporting and compliance.

McGladrey LLP

Cleveland, Ohio
December 9, 2013

Management's Discussion and Analysis (Unaudited)

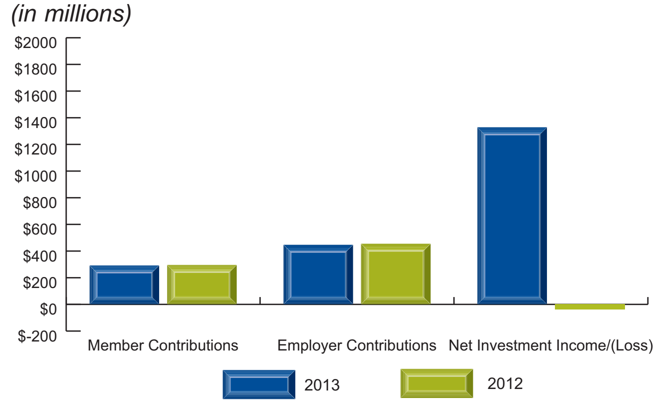
This discussion and analysis of the School Employees Retirement System of Ohio's (SERS) financial performance provides a narrative overview of financial activities for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with the information 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 Net Position* 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 Net Position* 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 FY2013 & 2012
(in millions)



FINANCIAL HIGHLIGHTS

- Total additions to plan net assets were $2,206.1 million, comprised of contributions of $876.6 million and net investment income of $1,329.5 million.
- Total deductions from plan net assets for fiscal year 2013 totaled $1,213.1 million, an increase of 4.7% over fiscal year 2012 deductions.
- The net increase in plan net assets was $992.9 million compared to a net decrease of $288.1 million in 2012.

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.

CONDENSED SUMMARY OF TOTAL NET POSITION
(in millions)

			Change	
ASSETS	2013	2012	Amount	Percent
Cash	$ 502.5	$ 411.4	$ 91.1	22.1%
Receivables	275.7	400.3	(124.6)	(31.1)
Investments	11,459.9	10,653.6	806.3	7.6
Capital Assets, Net	51.8	48.5	3.3	6.8
Other Assets	0.1	52.8	(52.7)	(99.8)
Total Assets	12,290.0	11,566.6	723.4	6.3
LIABILITIES				
Benefits & Accounts Payable	17.1	14.3	2.8	19.6
Other Liabilities	593.1	865.4	(272.3)	(31.5)
Total Liabilities	610.2	879.7	(269.5)	(30.6)
Net Assets Held in Trust	$11,679.8	$10,686.9	$ 992.9	9.3%

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 Net Position by Fund" depicts the proportion that each source added to the individual fund's assets during FY2013.

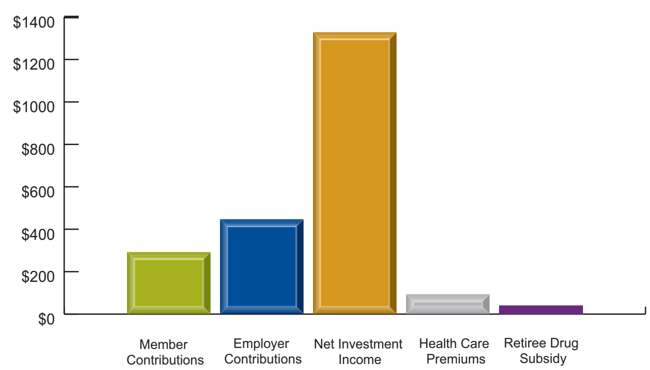
For financial statement purposes, employee contributions consist of 10% of payroll, and member purchases of restored and optional service credits. Employer contributions include 14% of payroll, the employer's share of optional and compulsory purchased service credit, early retirement incentives, and the health care surcharge. Active membership was unchanged, continuing the trend of flat or declining membership numbers that we have experienced for several years. Coupled with the flat membership numbers was a small decrease (1.5%) in total payroll.

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 decreased from 0.55% for FY2012 to 0.16% for FY2013. 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 from the actuary's recommendation. 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. Since payroll decreased, the surcharge also decreased from $42.8 million in FY2012 to $42.0 million in FY2013.

Along with employer contributions and investment income, additions to the Health Care Fund include health care premiums paid by retirees. Premiums decreased 9.8% over the previous fiscal year and enrollment declined 2.4% from 46,439 retirees and dependents to 45,332. Premium decreases for SERS' Medicare retirees went into effect in January 2013 with the goal of stabilizing enrollment. To attract new enrollees to one of SERS' Medicare Advantage plans, members who retire or begin receiving a pension benefit after January 7, 2013, must be eligible for Medicare Part B and be enrolled in SERS' health care coverage to receive the Part B reimbursement.

The other source of contributions to the Health Care Fund includes a net reimbursement of $17.2 million from the federal program for Medicare Part D qualified prescription drug plans (PDP). The net reimbursement decreased 26.2% from the previous fiscal year. In FY2013, SERS also received $24.1 million from its primary Medicare Advantage provider based on a risk-sharing contract effective January 1, 2011. Premiums for this program are estimated at the beginning of the contract and then adjusted at year-end based on actual claims experience and Medicare reimbursements. If experience is favorable, SERS receives a payment for the adjusted premium; however if experience is not favorable, SERS would have to pay an additional premium to the provider.

Additions to Plan Net Position FY2013
(in millions)

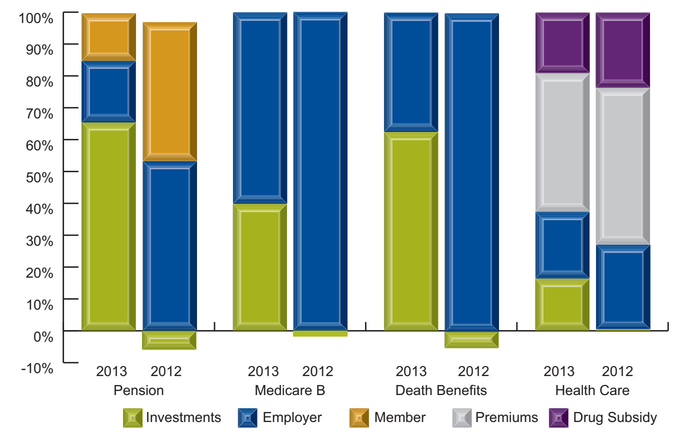


CONDENSED SUMMARY OF CHANGES IN TOTAL NET POSITION
(in millions)

			Change	
ADDITIONS	2013	2012	Amount	Percent
Contributions	$ 876.6	$ 908.2	$ (31.6)	(3.5)%
Net Investment Income/(Loss)	1,329.5	(37.9)	1,367.4	3,607.9
Total Additions	2,206.1	870.3	1,335.8	153.5
DEDUCTIONS				
Benefits	1,120.4	1,083.9	36.5	3.4
Refunds & Transfers	71.3	52.9	18.4	34.8
Admin. Expenses	21.5	21.6	(0.1)	(0.5)
Total Deductions	1,213.2	1,158.4	54.8	4.7
Net Increase/(Decrease)	992.9	(288.1)	1,281.0	444.6
Balance, Beginning of Year	10,686.9	10,975.0	(288.1)	(2.6)
Balance, End of Year	$11,679.8	$10,686.9	$ 992.9	9.3%

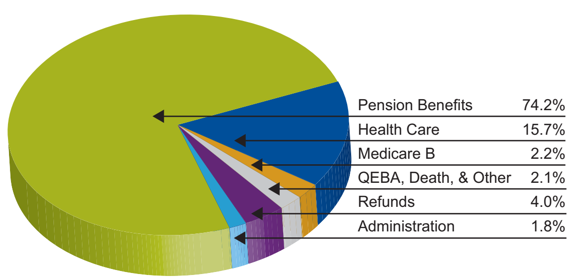
Investment income (loss) is allocated, in accordance with the actuary's recommendation, to all funds except the QEBA. Investment net income (loss) is presented net of investment fees and is comprised of interest, dividends, and realized and unrealized investment gains and losses. SERS' investment portfolio, with the exception of cash and short-term investments, is handled by external investment managers. Income from interest and dividends increased $10.5 million to $235.7 million in FY2013, and overall SERS had an investment gain of $1,329.5 million compared to the investment loss of $37.9 million in FY2012. Investment expenses are comprised of external manager, custody and master record keeper fees; and internal investment and accounting expenses and this expense increased from $84.2 million in FY2012 to $88.1 million in FY2013. More information on investment results can be found in the Investment Section.

Comparison of Additions to Net Position 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 community school employees. Included in the deductions from net position 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.

Deductions from Plan Net Position FY2013



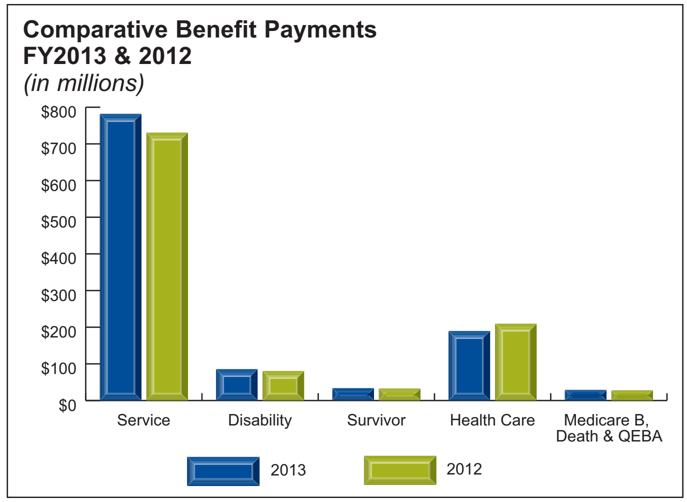
Payments to service, disability, and survivor benefit recipients increased $55.4 million, or 6.5%. Service retirement payments increased 6.9% while disability and survivor benefits payments increased by 5.2% and 1.8%, respectively. Each year, a portion of the increase in payment amounts comes from the 3% cost-of-living allowance calculated on the base benefit amount. After several years of increases in new retirees, the number was nearly unchanged from FY2012. Increases in past years were due in part to the uncertainty of the effective date of pension reform legislation that was introduced in 2011. As forecasted last year, once SERS' pension reform bill was signed by the governor, members could better plan their retirement future since age and service credit changes for eligibility would not take effect until August 1, 2017.

Total refunds paid increased 2.2% from FY2012 to FY2013. A lump sum of employee contributions is only distributed to members who have terminated public employment, applied for a refund, and waited for expiration of the 90-day waiting period that begins with the last day of service. SERS' members cannot take partial distributions. Reemployed retirees who are eligible for an annuity may elect a lump sum distribution, which includes the employee's contributions, a portion of the employer's contributions, and interest. The uncertain U.S. economy experienced in the past few years has opposing effects on refunds – members may be less likely to leave employment when job prospects are slim; and yet those who do leave may be more likely to withdraw their contributions for living expenses.

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 one that calculates and pays the benefit. Generally, a member will have a career position with OPERS or STRS, thus SERS transfers more monies to those systems than it receives. Net transfers to these retirement systems increased 348%. A change in the calculation, due to pension reform, of the amount transferred to and from SERS for retirements after January 7, 2013, is the reason for the increase.

SERS reimburses a portion of the Medicare Part B premium to retirees eligible for SERS' health care program who provide proof of enrollment in Medicare Part B. SERS paid $45.50 of the 2013 minimum monthly Medicare Part B premium of $104.90. The reimbursement amount, established by statute, has not changed since 2001; therefore, changes in expenses are driven by eligible retirees' enrollment in Medicare Part B or termination of a benefit. Medicare Part B expenses increased $486,700, or 1.9%, in FY2013. Future changes in the Part B reimbursement total may ensue as the eligibility will be tied to a retiree enrolling in one of SERS' health care plans.

SERS pays a $1,000 death benefit to the designated beneficiary of service and disability retirees. Death benefit payments increased $101,000, or 4.4%, in FY2013.



The majority of retirees are enrolled in Medicare Advantage plans; however, SERS maintains a traditional, self-insured preferred provider organization plan for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care expense decreased $19.5 million, or 9.3%, to $190.5 million. Formulary changes in the prescription drug program that encouraged retirees to use generic drugs accounted for 76% of the overall decrease in health care expense.

ACTUARIAL

The annual actuarial valuation measures the total liability for all benefits earned to date. The accrued liability is a present value estimate of all the benefits that have been earned to date but not yet paid. The actuarial accrued liability (AAL) for the four funds increased as follows:

AAL *(in millions)*

Fund	AAL FY2013	AAL FY2012	Increase	% Increase
Pension	$ 16,826	$ 16,338	$ 488	3.0%
Medicare B	387	383	4	1.0
Death	34	34	–	0.0
Health Care	2,918	2,691	227	8.4

The unfunded accrued liability (UAL) is the present value of the future benefits payable that are not covered by the actuarial value of assets as of the valuation date. The funded ratio reflects the percentage of the accrued liability covered by the actuarial value of assets. A decrease in the UAL indicates progress towards funding.The unfunded liability and funded ratio changed as follows:

UAL *(in millions)*

Fund	UAL FY2013	UAL FY2012	Increase/ (Decrease)	% Increase/ (Decrease)	Funded Ratio FY2013	Funded Ratio FY2012
Pension	$ 5,838	$ 6,072	$ (234)	(3.9)%	65.3%	62.8%
Medicare B	268	270	(2)	(0.7)	30.6	29.5
Death	15	16	(1)	(6.3)	55.9	52.9
Health Care	2,539	2,336	203	8.7	13.0	13.2

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 Net Position as of June 30, 2013

	Pension Trust Fund	Medicare B Fund	Death Benefit Fund
ASSETS			
Cash & Operating Short Term Investments	$ 443,317,800	$ 5,780,366	$ 863,909
Receivables			
Contributions			
Employer	70,690,813	1,527,504	79,643
Employee	15,538,213	-	-
Investments Receivable	129,270,431	1,381,866	232,615
Other Receivables	896,658	-	-
Total Receivables	216,396,115	2,909,370	312,258
Investments at Fair Value			
US Equity	3,946,681,750	42,177,350	7,100,907
Non-US Equity	2,775,321,522	29,659,272	4,993,385
Private Equity	1,054,056,367	11,264,477	1,896,468
Fixed Income	1,785,523,157	19,081,507	3,212,530
Real Estate	1,126,287,678	12,036,397	2,026,428
Total Investments at Fair Value	10,687,870,474	114,219,003	19,229,718
Securities Lending Collateral at Fair Value	336,235,833	3,593,281	604,959
Capital Assets			
Land	3,315,670	-	-
Property & Equipment, at Cost	59,366,150	-	-
Accumulated Depreciation & Amortization	(21,043,669)	-	-
Computer System Under Development	10,136,213	-	-
Capital Assets, Net	51,774,364	-	-
Prepaids and Other Assets	133,497	-	-
TOTAL ASSETS	11,735,728,083	126,502,020	21,010,844
LIABILITIES			
Accounts Payable & Accrued Expenses	3,551,245	1,986	3,154
Benefits Payable	1,086,157	39,267	437,547
Investments Payable	234,305,100	2,503,969	421,564
Obligations under Securities Lending	336,210,999	3,593,016	604,914
TOTAL LIABILITIES	575,153,501	6,138,238	1,467,179
NET POSITION HELD IN TRUST FOR PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS	$ 11,160,574,582	$ 120,363,782	$ 19,543,665

See accompanying notes to the financial statements

QEBA Fund	Health Care Fund	TOTAL
$ 146,340	$ 52,391,497	$ 502,499,912
-	39,381,779	111,679,739
-	-	15,538,213
13	3,498,961	134,383,886
-	13,194,442	14,091,100
13	56,075,182	275,692,938
-	106,728,943	4,102,688,950
-	75,052,196	2,885,026,375
-	28,504,533	1,095,721,845
-	48,285,373	1,856,102,567
-	30,457,863	1,170,808,366
-	289,028,908	11,110,348,103
-	9,092,726	349,526,799
-	-	3,315,670
-	-	59,366,150
-	-	(21,043,669)
-	-	10,136,213
-	-	51,774,364
-	1,600	135,097
146,353	406,589,913	12,289,977,213
1,603	11,980,590	15,538,578
-	-	1,562,971
-	6,336,243	243,566,876
-	9,092,054	349,500,983
1,603	27,408,887	610,169,408
$ 144,750	$ 379,181,026	$ 11,679,807,805

Statement of Changes in Net Position for the year ended June 30, 2013

	Pension Trust Fund	Medicare B Fund	Death Benefit Fund
ADDITIONS			
Contributions			
Employer	$ 380,083,642	$ 20,672,040	$ 1,398,442
Employee	292,958,056	-	-
Other Income			
Health Care Premiums	-	-	-
Federal Subsidies & Other Receipts	-	-	-
	673,041,698	20,672,040	1,398,442
Income from Investment Activity			
Net Appreciation in Fair Value	1,137,363,745	12,189,193	2,072,460
Interest and Dividends	226,535,564	2,434,585	413,474
	1,363,899,309	14,623,778	2,485,934
Investment Expenses	(84,732,071)	(908,046)	(154,372)
Net Income from Investment Activity	1,279,167,238	13,715,732	2,331,562
Income from Securities Lending Activity			
Gross Income (Loss)	(1,771,190)	(18,982)	(3,227)
Brokers' Rebates	1,097,368	11,761	1,999
Management Fees	(553,068)	(5,927)	(1,008)
Net Income (Loss) from Securities Lending Activity	(1,226,890)	(13,148)	(2,236)
Net Investment Income	1,277,940,348	13,702,584	2,329,326
TOTAL ADDITIONS	1,950,982,046	34,374,624	3,727,768
DEDUCTIONS			
Benefits			
Retirement	781,736,903	23,460,682	-
Disability	85,514,086	1,425,456	-
Survivor	33,821,893	1,318,639	-
Death	-	-	2,410,943
Health Care Expenses	-	-	-
	901,072,882	26,204,777	2,410,943
Refunds and Lump Sum Payments	48,979,203	-	-
Net Transfers to Other Ohio Systems	22,301,557	-	-
Administrative Expenses	19,239,612	6,317	45,510
	90,520,372	6,317	45,510
TOTAL DEDUCTIONS	991,593,254	26,211,094	2,456,453
Net Increase	959,388,792	8,163,530	1,271,315
NET POSITION HELD IN TRUST FOR PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS			
Net Position, Beginning of Year	10,201,185,790	112,200,252	18,272,350
Net Position, End of Year	$ 11,160,574,582	$ 120,363,782	$ 19,543,665

See accompanying notes to the financial statements.

QEBA Fund	Health Care Fund	TOTAL
$ 258,320	$ 45,489,443	$ 447,901,887
-	-	292,958,056
-	94,353,519	94,353,519
-	41,351,527	41,351,527
258,320	181,194,489	876,564,989
-	31,578,489	1,183,203,887
154	6,329,325	235,713,102
154	37,907,814	1,418,916,989
-	(2,350,259)	(88,144,748)
154	35,557,555	1,330,772,241
-	(49,176)	(1,842,575)
-	30,468	1,141,596
-	(15,356)	(575,359)
-	(34,064)	(1,276,338)
154	35,523,491	1,329,495,903
258,474	216,717,980	2,206,060,892
219,998	-	805,417,583
-	-	86,939,542
-	-	35,140,532
-	-	2,410,943
-	190,468,991	190,468,991
219,998	190,468,991	1,120,377,591
-	-	48,979,203
-	-	22,301,557
1,603	2,178,370	21,471,412
1,603	2,178,370	92,752,172
221,601	192,647,361	1,213,129,763
36,873	24,070,619	992,931,129
107,877	355,110,407	10,686,876,676
$ 144,750	$ 379,181,026	$ 11,679,807,805

Notes to Financial Statements
June 30, 2013

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.

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 Net Position.*

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 (REITs), 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, 2013 was $1,556.31. The unit holdings and net value of each of the funds at the close of the fiscal year were:

	Units	Value
Pension Trust Fund	7,037,586.41	$10,952,679,041
Medicare B Fund	75,209.19	117,048,955
Death Benefits Fund	12,662.09	19,706,164
Health Care Fund	190,315.36	296,190,047
Total	**7,315,773.05**	**$11,385,624,207**

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 statute gives these reserves the title of "Funds," but for accounting and reporting purposes they are treated as accounts. These are:

- **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.
- **Employers' Trust Account** Accumulated employer contributions are held for future benefit payments.
- **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.
- **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.
- **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.
- **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, 2013

	Pension Trust Fund	Medicare B Fund	Death Benefits Fund	QEBA Fund	Health Care Fund	**Reserve Account Totals**
Employee's Svgs Acct.	$ 3,048,382,943	$ -	$ -	$ -	$ -	**$ 3,048,382,943**
Employer's Trust Acct.	(977,493,522)	-	-	-	379,181,026	**(598,312,496)**
Annuity and Pension Reserve Acct.	8,740,240,105	120,363,782	19,543,665	144,750	-	**8,880,292,302**
Survivors' Benefit Acct.	349,445,056	-	-	-	-	**349,445,056**
Guarantee Acct.	-	-	-	-	-	**-**
Expense Acct.	-	-	-	-	-	**-**
Fund Totals	**$11,160,574,582**	**$120,363,782**	**$19,543,665**	**$144,750**	**$379,181,026**	**$11,679,807,805**

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 K-12 school districts, 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, 2013, 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.

Several separate plans comprise the Retirement System. They include the Pension Trust Fund, the Medicare B Fund, the Death Benefit Fund, and the Qualified Excess Benefit Arrangement (QEBA) Fund. 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 Following the passage of Senate Bill 341, SERS' pension reform legislation, new age and service requirements for retirement became effective January 7, 2013. For members who retire on or after August 1, 2017, the new requirements are:

- age 67 with 10 years of service credit, or age 57 with 30 years of service credit, to retire with full benefits
- age 62 with 10 years of service credit, or age 60 with 25 years of service credit, to retire early with actuarially-reduced benefits

To protect the benefits of longtime members, SERS included a grandfather provision and a buy-up option that give members the opportunity to retire under the previous age and service credit requirements after August 1, 2017.

EMPLOYER AND EMPLOYEE MEMBERSHIP DATA (as of June 30, 2013)

Employer Members	
Local	374
City	191
Educational Service Center	56
Village	49
Higher Education	15
Vocational/Technical	49
Community Schools	314
Other	16
Total	1,064
Employee Members and Retirees	
Retirees and beneficiaries currently receiving benefits	70,771
Terminated employees entitled to but not yet receiving benefits	7,246
Total	78,017
Active Employees	
Vested active employees	58,818
Non-vested active employees	62,824
Total	121,642

The grandfather provision allows members, who reach 25 years of service on or before August 1, 2017, to retire under the previous age and service credit eligibility requirements. These age and service requirements are:

- any age with 30 years of service credit to retire with full benefits; or
- age 60 with five (5) years of service credit, or age 55 with 25 years of service credit to retire with actuarially reduced benefits

The buy-up option allows members who will have fewer than 25 years of service credit as of August 1, 2017, to retire under previous retirement eligibility requirements if they pay the actuarial difference between the benefit they would have received under the new requirements and the benefit they may receive under the previous requirements. Members who want to buy-up must complete their payment on or before August 1, 2017.

The current 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. For SERS, FAS equals the average of the highest three years of salary. If the member does not meet the age and service requirements to retire with full benefits, 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.

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.

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 FY2013, employees and their employers were required to contribute 10% and 14%, respectively, of active member payroll.

Employer and employee contributions were $405.9 million and $293.0 million, respectively, in 2013. The contribution amounts also include 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 FY2013, 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, 13.84% was allocated to the pension funds in the following rates:

Pension Trust Fund	13.05%
Medicare B Fund	.74%
Death Benefit Fund	.05%

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 FY2013, the amount of employer contributions directed to the Health Care Fund was .16% of covered payroll, or $3.5 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 FY2013, the minimum compensation level was established at $20,525. The surcharge accrued for FY2013 and included in employer contributions in the *Statement of Changes in Net Position* is $42.0 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 Deposits 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, 2013, the carrying amounts of SERS' operating and investment cash deposits totaled $25,771,797, and the corresponding bank balances totaled $9,815,152. Of the bank balances, the Federal Deposit Insurance Corporation insured $303,780. In accordance with state law, bank balances of $1,274,887 were collateralized at 102% with securities held in the name of SERS' pledging financial institutions. The remaining bank deposits of $8,236,485 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.

INVESTMENTS AND SHORT-TERM HOLDINGS	*Fair Value* (in thousands)
Bond Mutual Funds	$ 526,361
Commercial Paper	909
Foreign Obligations	166,382
Foreign Stocks	1,752,354
Forward Contracts	(1,933)
Futures Contracts	(1,278)
Hedge Funds	1,545,001
International Investments - Commingled Equity	1,164,653
Mortgage and Asset Backed	192,385
Municipal Obligations	47,218
Negotiable Certificates of Deposit	24,288
Options	7,374
Private Equity	1,095,722
Private Real Estate	1,041,444
Swaps	(796)
US Agency	490,484
US Common & Preferred Stock	2,655,858
US Corporate Obligations	674,701
US Government	204,015
Total Investments Fair Value	**$ 11,585,142**

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 January 2012) 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 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.

FAIR VALUE SUBJECT TO CREDIT RISK

Fair Value Based Upon S&P Credit Quality Rating (in thousands)

	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Not Rated	Total
Bond Mutual Funds	$476,728	$ 6,724	$ 15,471	$ -	$ 27,438	$ -	$ -	$ -	$ -	$ -	$ -	$ 526,361
Commercial Paper	-	-	909	-	-	-	-	-	-	-	-	909
Foreign Obligations	16,380	7,467	17,457	91,111	16,013	-	-	-	-	-	17,954	166,382
Mortgage and Asset Backed	63,552	33,422	25,291	15,044	9,065	11,551	15,653	7,429	192	1,916	9,270	192,385
Municipal Obligations	1,028	11,241	33,355	1,594	-	-	-	-	-	-	-	47,218
Negotiable Certificates of Deposit	24,052	-	-	-	-	-	-	-	-	-	236	24,288
US Agency	-	488,199	2,285	-	-	-	-	-	-	-	-	490,484
US Corporate Obligations	34,061	41,577	136,173	318,066	89,935	45,213	6,184	-	-	-	3,492	674,701
US Government	-	204,015	-	-	-	-	-	-	-	-	-	204,015
Total Debt Securities	**$615,801**	**$792,645**	**$230,941**	**$425,815**	**$142,451**	**$56,764**	**$21,837**	**$7,429**	**$192**	**$1,916**	**$30,952**	**$2,326,743**

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, 2013, SERS held interest-only strips that had a total fair value of $35,675,530. 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 $12,576,508. 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.

FAIR VALUE SUBJECT TO INTEREST RATE RISK

Investment	Fair Value *(in thousands)*	Option Adjusted Duration *(in years)*
Bond Mutual Funds	$ 526,361	0.53
Commercial Paper	909	0.32
Foreign Obligations	166,382	5.58
Mortgage and Asset Backed	192,385	1.30
Municipal Obligations	47,218	8.95
Negotiable Certificates of Deposit	24,288	0.43
US Agency	490,484	2.69
US Corporate Obligations	674,701	6.13
US Government	204,015	7.11
Total Debt Securities	**$ 2,326,743**	**3.66**

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.

FAIR VALUE SUBJECT TO FOREIGN CURRENCY RISK (in thousands)

Currency	Cash & Cash Equivalents	Fixed Income	Non-US Equities	Real Estate	Private Equity
Australian Dollar	($ 58,670)	$ 10,608	$ 74,256	$ –	$ –
Brazilian Real	(6,192)	27,164	25,876	–	–
British Pound Sterling	(134,314)	1,593	163,401	6,990	–
Bulgarian Lev	3	–	299	–	–
Canadian Dollar	(34,467)	10,848	43,472	–	–
Chilean Peso	22	1,170	–	–	–
Colombian Peso	33	4,176	–	–	–
Czech Koruna	–	–	–	–	–
Danish Krone	(6,890)	–	13,548	–	–
Egyptian Pound	–	–	–	–	–
Euro	(267,343)	21,137	313,643	50,155	102,025
Hong Kong Dollar	(17,133)	–	135,543	–	–
Hungarian Forint	147	2,998	1,481	–	–
Indian Rupee	114	–	19,793	–	–
Indonesian Rupiah	304	5,751	17,788	–	–
Israeli Shekel	(2,151)	–	2,734	–	–
Japanese Yen	(202,480)	–	307,219	–	–
Malaysian Ringgit	74	8,785	2,607	–	–
Mexican Peso	(641)	31,469	9,127	–	–
New Zealand Dollar	(681)	2,041	3,672	–	–
Nigerian Naira	1,384	201	–	–	–
Norwegian Krone	(13,475)	–	16,450	–	–
Peruvian New Sol	342	99	–	–	–
Philippines Peso	119	4,646	2,260	–	–
Polish Zloty	135	6,256	3,314	–	–
Romanian Leu	274	111	–	–	–
Russian Ruble	135	6,714	–	–	–
Singapore Dollar	(5,865)	–	15,063	–	–
South African Rand	153	7,247	17,842	–	–
South Korean Won	120	–	79,438	–	–
Swedish Krona	(20,065)	–	22,399	–	–
Swiss Franc	(52,517)	–	87,550	–	–
Taiwan Dollar	2,283	–	25,129	–	–
Thailand Baht	11	4,370	23,888	–	–
Turkish Lira	342	7,046	33,547	–	–
Uruguayan Peso	1	451	–	–	–
	($816,888)	**$164,881**	**$1,461,339**	**$57,145**	**$102,025**

FUTURES CONTRACTS
As of June 30, 2013 and 2012 *(in thousands)*

Contract Type	Number of Contracts 2013	Number of Contracts 2012	Notional Value 2013	Notional Value 2012	Contract Value 2013	Contract Value 2012
Equity Index Futures Long	1,090	1,484	$ 89,241	$100,922	$ (786)	$ 3,834
Equity Index Futures Short	–	–	–	–	–	–
Fixed Income Index Futures Long	77	–	20,770	–	(98)	–
Eurodollar Futures Long	47	288	11,631	71,277	22	246
Eurodollar Futures Short	–	(220)	–	(54,193)	–	(279)
US Treasury Futures Long	911	801	132,271	109,130	(1,655)	270
US Treasury Futures Short	(576)	(818)	(79,438)	(112,082)	1,240	(31)

FAIR VALUE OF FORWARD CURRENCY AND HEDGED CONTRACTS
As of June 30, 2013 and 2012 *(in thousands)*

	2013	2012
Forward Currency Purchases	$ 572,182	$ 517,769
Forward Currency Sales	1,409,895	1,110,807
Unrealized gain (loss)	(1,933)	(7,716)

OPTIONS CONTRACTS
As of June 30, 2013 and 2012 *(in thousands)*

Contract Type	Notional Value 2013	Notional Value 2012	Fair Value 2013	Fair Value 2012
Currency Written Put Options	$ –	$ (571)	$ –	$ (29)
Currency Purchased Put Options	–	571	–	69
Fixed Income Purchased Call Options	142,200	–	6,186	–
Fixed Income Purchased Put Options	47,400	4,697	1,188	29

SWAP CONTRACTS
As of June 30, 2013 and 2012 *(in thousands)*

Contract Type	Notional Value 2013	Notional Value 2012	Fair Value 2013	Fair Value 2012
Credit Default	$ 83,360	$ 40,444	$ (320)	$ (211)
Interest Rate	123,750	85,500	(476)	(647)
Total Return	–	–	–	–

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.

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 $1,867,412 during FY2013.

At June 30, 2013, 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 $349,500,983 and total collateral held for those securities was $349,526,799. 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, 2013, the GSAL collateral portfolio had an average weighted maturity of 14 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 SERS' name. Total net direct proceeds from the commingled investment during FY2013 were $191,374.

Commitments As of June 30, 2013, unfunded commitments related to the real estate and private equity investment portfolios totaled $913 million.

5. Capital Assets (Non-Investment Assets)

CAPITAL ASSETS ACTIVITY for the year ended June 30, 2013

Cost:	Land	Office Building & Improvements	Furniture & Equipment	Computer System Under Development	Total Capital Assets
Balances, June 30, 2012	$ 3,315,670	$ 53,022,110	$6,211,228	$ 5,551,719	$68,100,727
Additions	-	-	314,150	4,584,494	4,898,644
Disposals	-	-	(181,338)	-	(181,338)
Balances, June 30, 2013	$ 3,315,670	$ 53,022,110	$6,344,040	$ 10,136,213	$72,818,033
Accumulated Depreciation:					
Balances, June 30, 2012	$ -	$ 13,856,670	$5,806,735	$ -	$19,663,405
Additions	-	1,335,186	226,416	-	1,561,602
Disposals	-	-	(181,338)	-	(181,338)
Balances, June 30, 2013	$ -	$ 15,191,856	$5,851,813	$ -	$21,043,669
Net Capital Assets, June 30, 2013	**$ 3,315,670**	**$ 37,830,254**	**$ 492,227**	**$ 10,136,213**	**$51,774,364**

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 was created by and is governed by Chapter 145 of the Ohio Revised Code. It 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 the OPERS website: www.OPERS.org/investments/cafr.shtml.

Employees covered by OPERS are required to contribute 10% of their salary to the plan and employers are 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 4% of covered member payroll for the first half of FY2013, and 1% for the second half.

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
2013	$1,372,062	100%	$303,341	100%
2012	1,155,384	100	462,155	100
2011	1,039,424	100	492,358	100

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 above.

7. Compensated Absences

As of June 30, 2013, and 2012, $2,156,598, and $1,784,101, respectively, were accrued for unused vacation and sick leave for SERS employees. The corresponding long-term portion of these liabilities is estimated at $1,126,177 and $818,296. The net increase of $372,497 from June 30, 2012 included increases of $1,188,043 from earned vacation and sick leave and decreases of $815,546 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. By court order, the litigation remains stayed while proceedings continue in the bankruptcy court. The case was consolidated in the United States District Court, Southern District of New York. On November 6, 2012, the defendants filed a Motion to Dismiss the individual creditor actions. On September 23, 2013, the Court granted defendants' Motion to Dismiss the individual creditor actions. On September 30, 2013, the plantiffs appealed the Court's decisions to the United States Court of Appeals for the Second Circuit.

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, 2013, the most recent actuarial valuation date, is as follows:

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

Fund	Value of Plan Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
Pension Trust	$10,988	$16,826	$5,838	65.3%	$2,747	212.5%
Medicare B	119	387	268	30.6	2,747	9.8
Death Benefit	19	34	15	55.9	2,747	0.5
Health Care	379	2,918	2,539	13.0	2,747	92.4

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. SERS does not make any assumptions for individuals transferring in or out of its plan relative to calculating the actuarial accrued liability. 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 35 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 Benefit**	**Death Benefit**	**Medicare B**	**Health Care**
Valuation date	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent closed	Level percent closed	Level percent closed	Level percent open
Remaining amortization period	29 years	29 years	29 years	30 years
Assets valuation method	4-year smoothed market	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%	7.75%	5.25%
Projected salary increases (includes wage inflation at 4.0%)	4.0%-22.0%	4.0%-22.0%	4.0%-22.0%	4.0%-22.0%
Health Care cost trend rate				
Pre-Medicare	N/A	N/A	N/A	8.50% initial to 5.0% by 2018
Medicare	N/A	N/A	N/A	6.75% initial to 5.0% by 2018

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.

13. Recently Issued Accounting Pronouncements

GASB Statement No. 67, *Financial Reporting for Pension Plans*, is effective for fiscal years beginning after June 15, 2013, and establishes standards for measuring and recognizing liabilities, deferred outflows and inflows of resources, and expenses/expenditures. For defined benefit pensions, Statement No. 67 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements (RSI) about pensions are also addressed in Statement No. 67.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* is effective for fiscal years beginning after June 15, 2014. Currently, the pension liability on a government entity's balance sheet is determined based on the difference between the contributions they are required to make to a pension plan in a given year versus what they actually funded. Statement No. 68 reflects the view that pension costs and obligations should be recorded as employees earn them, rather than when the government contributes to a pension plan or when retirees receive benefits. Under Statement No. 68 the pension liability is determined considering various factors including cost-of-living increases, future salary increases, and future service credits. The impact on the net pension liability of differences between expected and actual investment returns will be recognized in pension expense over a closed, five-year period. Statement No. 68 also requires more extensive note disclosures and required supplementary information.

Required Supplementary Information

Schedule of Funding Progress *(in millions)*
Pension Benefits

Valuation Date June 30	Valuation Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
2013	$10,988	$16,826	$5,838	65.3%	$2,747	212.5%
2012	10,266	16,338	6,072	62.8	2,788	217.8
2011	10,378	15,910	5,532	65.2	2,852	194.0
2010	10,766	14,823	4,057	72.6	2,843	142.7
2009	9,704	14,190	4,486	68.4	2,787	161.0
2008	11,218	13,674	2,456	82.0	2,873	85.5

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

Valuation Date June 30	Valuation Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
2013	$119	$387	$268	30.6%	$2,747	9.8%
2012	113	383	270	29.5	2,788	9.7
2011	116	382	266	30.3	2,852	9.3
2010	122	367	244	33.3	2,843	8.6
2009	113	361	248	31.3	2,787	8.9
2008	131	358	227	36.7	2,873	7.9

Schedule of Funding Progress *(in millions)*
Post-retirement Death Benefits

Valuation Date June 30	Valuation Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
2013	$19	$34	$15	55.9%	$2,747	0.5%
2012	18	34	16	52.9	2,788	0.6
2011	19	33	14	57.6	2,852	0.5
2010	21	32	11	65.6	2,843	0.4
2009	19	31	12	61.3	2,787	0.4
2008	23	30	7	76.7	2,873	0.2

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

Valuation Date June 30	Valuation Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
2013	$379	$2,918	$2,539	13.0%	$2,747	92.4%
2012	355	2,691	2,336	13.2	2,788	83.8
2011	356	2,410	2,054	14.8	2,852	72.0
2010	325	2,369	2,044	13.7	2,843	71.9
2009	376	4,280	3,904	8.8	2,787	140.1
2008	393	4,859	4,466	8.1	2,652	168.4

Schedule of Employer Contributions
Pension Benefits

Year ended June 30	Actuarial Annual Required Contributions	% Contributed
2013	$380,083,642	100%
2012	376,816,938	100
2011	355,959,304	100
2010	378,201,685	100
2009	268,645,839	100
2008	242,314,851	100

Schedule of Employer Contributions
Medicare B

Year ended June 30	Actuarial Annual Required Contributions	% Contributed
2013	$20,672,040	100%
2012	21,450,368	100
2011	22,172,922	100
2010	22,619,935	100
2009	21,688,294	100
2008	17,519,556	100

Schedule of Employer Contributions
Post-retirement Death Benefits

Year ended June 30	Actuarial Annual Required Contributions	% Contributed
2013	$1,398,442	100%
2012	1,454,763	100
2011	1,166,996	100
2010	1,225,772	100
2009	734,970	100
2008	835,348	100

Schedule of Employer Contributions and Other Contributing Entities
Postemployment Health Care

Year ended June 30	Actuarial Annual Required Contributions	% Contributed by Employers[1]	Federal Subsidies and Other Receipts	Total % Contributed
2013	$171,402,038	26.5%	$ –	26.5%
2012	155,857,785	36.2	–	36.2
2011	169,146,052	51.4	–	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

[1] 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, 2013.

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

Actuarial cost method:	Entry age normal
Amortization method:	Level percent closed
Remaining amortization period:	29 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 4.00% to 22.00% 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:	29 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 4.00% to 22.00% Cost-of-living adjustments of 3.00%

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

Actuarial cost method:	Entry age normal
Amortization method:	Level percent closed
Remaining amortization period:	29 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 4.00% to 22.00% Cost-of-living adjustments of 3.00%

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^ 5.25% compounded annually
Medical Trend Assumptions:	Pre-Medicare - 8.50% initially, decreasing to 5.00% by 2018 Medicare - 6.75% initially, decreasing to 5.00% by 2018

^ 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, 2013

	General Expenses	Investment Related Expenses	Total
Personnel Services			
Salaries	$ 9,772,717	$ 2,024,418	$ 11,797,135
Retirement Contributions	1,400,634	274,769	1,675,403
Benefits	2,375,752	266,911	2,642,663
Total Personnel Services	13,549,103	2,566,098	16,115,201
Professional Services			
Actuarial Advisors	199,656	-	199,656
Audit Services	183,274	383,040	566,314
Custodial Banking	-	867,389	867,389
Investment Related	-	2,831,105	2,831,105
Medical	638,755	-	638,755
Technical	1,375,588	114,115	1,489,703
Total Professional Services	2,397,273	4,195,649	6,592,922
Communications			
Postage	574,955	-	574,955
Telephone	117,279	-	117,279
Member / Employer Education	54,439	-	54,439
Printing and Publication	190,967	-	190,967
Total Communications	937,640	-	937,640
Other Services			
Computer Support Services	654,401	-	654,401
Office Equipment and Supplies	175,894	719	176,613
Training	285,344	11,224	296,568
Transportation and Travel	115,957	95,995	211,952
Memberships and Subscriptions	73,713	45,501	119,214
Property and Fiduciary Insurance	320,283	-	320,283
Facilities Expense	998,386	-	998,386
Maintenance	57,775	-	57,775
Staff Support	114,816	50,900	165,716
Administrative Banking Fees	163,167	-	163,167
Ohio Retirement Study Council	46,827	-	46,827
Miscellaneous	19,231	-	19,231
Total Other Services	3,025,794	204,339	3,230,133
Total Adminstrative Expenses before Depreciation	19,909,810	6,966,086	26,875,896
Depreciation			
Furniture & Equipment	226,415	-	226,415
Building	1,335,187	-	1,335,187
Total Depreciation	1,561,602	-	1,561,602
Total Administrative Expenses	$ 21,471,412	$ 6,966,086	$ 28,437,498

See accompanying independent auditor's report.

Schedule of Investment Expenses for the year ended June 30, 2013

Description of Expenses	Net Assets Under Management	Direct Fees
US Equity	$ 2,805,699,193	$ 9,996,760
Non-US Equity	2,756,846,093	12,189,396
Global Private Equity	1,095,721,869	18,023,798
Global Hedge Funds	1,536,294,426	23,942,623
Global Fixed Income	1,855,497,428	4,477,994
Global Real Estate	1,177,596,782	12,289,745
Opportunistic Investments	13,723,225	258,346
Short-Term	144,219,375	-
Total Investment Management Fees		$ 81,178,662
Custody Service Fees		867,389
Master Recordkeeper Fees		1,186,661
Investment Consulting and Performance/Analytics Fees		1,420,076
Investment Administrative Expenses		3,491,960
Total Other Investment Expenses (see page 36)		6,966,086
Total Investment Expenses		$ 88,144,748

Schedule of Payments to Consultants

SERS paid the following non-investment related consulting fees in fiscal year 2013:

Actuarial Advisors	$ 199,656
Audit Services	183,274
Legal Counsel	195,189
Medical Consultant	43,579
Disability Exams	605,235
Information Technology Consultants	272,292
Health Care Consultants	166,433
Other Consultants	878,400
Total	$2,544,058

See accompanying independent auditor's report.

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August DiCosimo, Akron City Schools, SERS Member

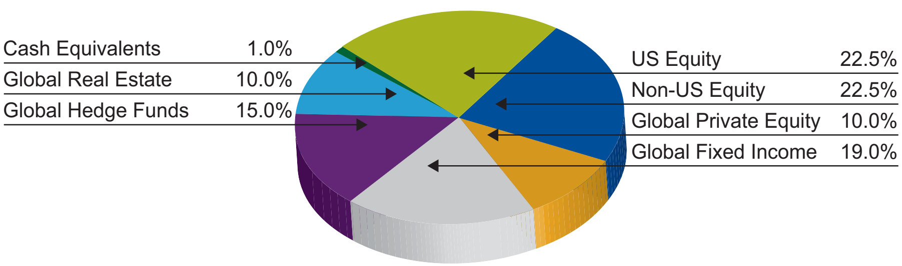
Investment Section

Investment Summary as of June 30, 2013

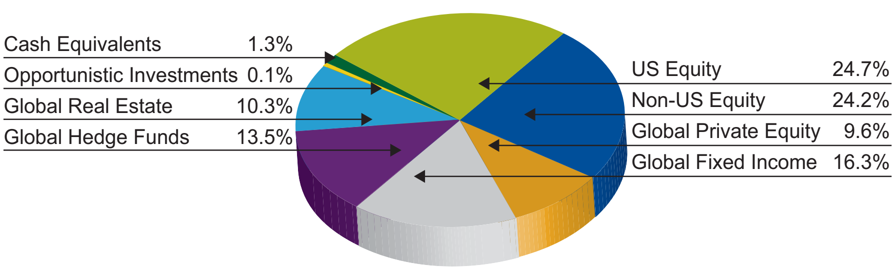
	Fair Value	Actual	Policy	Range
US Equity	$ 2,805,699,193	24.7%	22.5%	17.5% - 27.5%
Non-US Equity	2,756,846,093	24.2%	22.5%	17.5% - 27.5%
Global Private Equity	1,095,721,869	9.6%	10.0%	5% - 15%
Global Hedge Funds	1,536,294,426	13.5%	15.0%	10% - 20%
Global Fixed Income	1,855,497,428	16.3%	19.0%	14% - 24%
Global Real Estate	1,177,596,782	10.3%	10.0%	5% - 15%
Opportunistic Investments	13,723,225	0.1%	0.0%	0% - 5%
Cash Equivalents	144,219,375	1.3%	1.0%	0% - 5%
Net Portfolio Value	**$11,385,598,391**	**100.0%**	**100.0%**	

Asset Allocation – Total Fund as of June 30, 2013

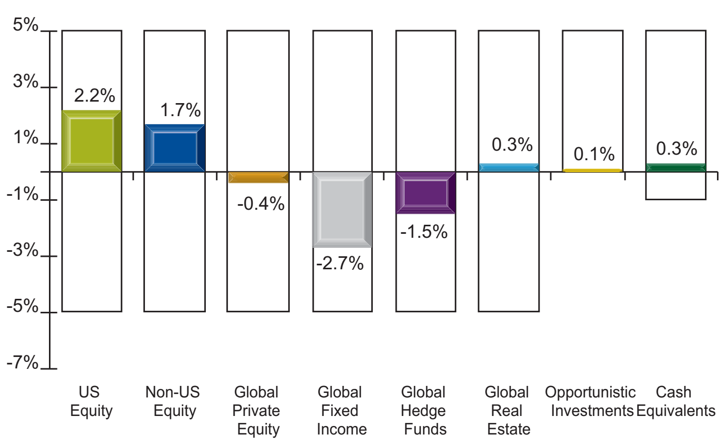
POLICY ALLOCATION



ASSET ALLOCATION



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 5, 2013

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, 2013. Information in this section was compiled by SERS' Investment and Finance Staff, and BNY Mellon Performance and Risk Analytics. Investment results are based upon a time-weighted rate of return methodology, and assets are shown at fair value.

SERS' portfolio generated strong performance in FY2013. The Total Fund return of 12.9% (net) for FY2013 exceeded the benchmark by 80 basis points. All asset classes, except Private Equity and Real Estate, outperformed their respective benchmarks. Private Equity and Real Estate generated attractive returns but trailed their benchmarks. The three-year Total Fund return of 10.7% (net) also exceeded the policy benchmark (10.3%) and the actuarial rate (7.75%).

In FY2013, staff completed a number of key new initiatives. A Strategic Investment Plan was approved by the Board with the objective of generating value-added returns by improving the risk and return characteristics of each portfolio, optimizing the manager line-up, and reducing fees. Staff achieved significant progress on these initiatives. A fiduciary audit of the investment operations was conducted by an external consultant. The resulting report largely confirmed that SERS is following best practices, and in some cases leading practices, and it contained recommendations for improvements that are being implemented.

Details about each portfolio are included on the following pages.

The improvements and initiatives completed in FY2013 should position the Fund for superior performance. I wish to thank the Investment staff for their cooperation and accomplishments this year, and I appreciate the support of the Board and the Executive team. We look forward to working with the Board and the Executive team in the coming year to serve our members with excellence.

Respectfully,

Farouki Majeed
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 Board approves the *Statement of Investment Policy*. The purpose of SERS' *Statement of Investment Policy* is to define SERS' investment philosophy and objectives. The policy establishes return objectives, risk tolerances, and other guidelines within which the Fund is to be managed by staff. The policy also defines the responsibilities of the fiduciaries who 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. Over the long term it is expected that investment returns also should meet or exceed the actuarial interest rate, which is currently 7.75%. On June 30, 2013, 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)
• 15.0%	Global Hedge Funds	HFRI Fund of Funds Composite Index
• 19.0%	Global Fixed Income	Barclays Capital Aggregate Bond Index
• 10.0%	Global Real Estate	NCREIF Property Index (one quarter in arrears)
• 1.0%	Short-Term	Citigroup 30-Day US Treasury Bill Index

INVESTMENT STRATEGIES

Asset Allocation SERS' Board adopted new asset allocation targets in early 2009 based on an asset liability study conducted by the investment consultant. The asset allocation was adjusted once again during FY2011 when the allocation targets for hedge funds was increased from 10% to 15% with corresponding reduction in equities and fixed income. No additional changes to the asset allocation were made in FY2013.

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 adopted a broadly diversified asset allocation policy, and the strategies used within each asset class also have been diversified.

Besides the broad diversification of assets and strategies within SERS' portfolio, SERS also employs a diverse group of investment managers with the goal of outperforming the respective benchmark while managing relative risks.

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 on matters of Investment Policy and asset allocation recommendations. Summit also provides quarterly performance reviews of the Fund and each portfolio.

INVESTMENT PERFORMANCE

Long-Term Performance Performance of SERS' Total Fund exceeded expectations this fiscal year with a net return of 12.9%. One-year and three-year Total Fund returns exceeded both the policy benchmark and the actuarial rate. The actuarial rate for the Fund was changed from 8.0% to 7.75% in July 2011. Three-year and ten-year returns are positive but lag the benchmarks due to the negative performance during the financial crisis years.

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.

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

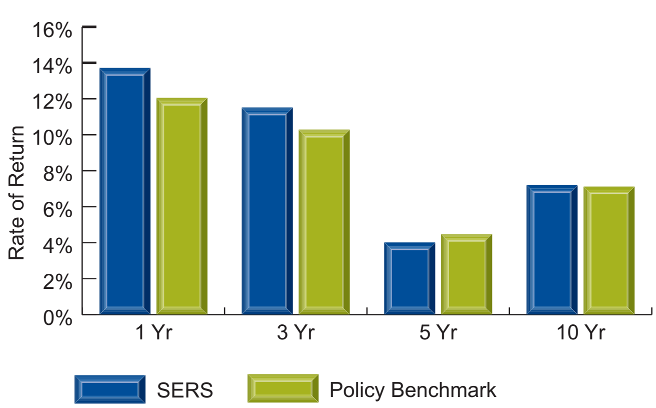
	2013	2012	2011	2010	2009	Annualized Rates of Return 3 Years	5 Years	10 Years
US Equity								
SERS(1)*	23.4%	1.9%	33.8%	17.2%	(26.8)%	18.9%	7.6%	7.7%
Russell 3000 Index	21.5	3.8	32.4	15.7	(26.6)	18.6	7.3	7.8
Non-US Equity								
SERS	16.6	(11.6)	25.7	15.4	(29.9)	9.0	1.0	9.7
Custom Non-US Equity Benchmark(2)*	16.2	(11.9)	24.2	12.1	(27.1)	8.3	0.7	8.7
Global Private Equity								
SERS(3)*	14.3	16.5	14.7	13.4	(17.2)	15.1	7.4	11.6
Custom Private Equity Benchmark(4)*	17.0	11.5	18.7	52.8	(35.1)	15.7	9.0	11.6
Global Hedge Funds								
SERS	11.0	0.8	11.4	14.5	(8.4)	7.6	5.5	n/a
Custom Hedge Fund Benchmark(5)*	7.2	(4.4)	6.7	9.2	(10.1)	3.0	1.4	n/a
Global Fixed Income								
SERS	2.7	7.4	8.0	17.0	4.8	6.0	7.8	5.7
Barclays Aggregate Bond Index	(0.7)	7.5	3.9	9.5	6.1	3.5	5.2	4.5
Global Real Estate								
SERS(6)*	10.7	9.0	25.2	(16.1)	(35.2)	14.3	(3.0)	5.9
NCREIF(7)*	10.5	13.4	16.0	(2.8)	(16.8)	13.3	3.3	9.1
Short-Term								
SERS	0.2	0.2	0.2	0.4	2.8	0.2	0.7	2.1
Citigroup 30 Day Treasury Bill Index	0.1	0.0	0.1	0.1	0.5	0.1	0.2	1.5
Total Fund (Gross of Fees)								
SERS	13.7	0.9	20.9	12.3	(21.8)	11.5	4.0	7.2
Policy Benchmark(8)*	12.1	1.6	17.8	14.7	(19.1)	10.3	4.5	7.1
Total Fund (Net of Fees)								
SERS	12.9	0.1	19.9	11.5	(22.4)	10.7	3.3	6.6
Policy Benchmark(8)*	12.1	1.6	17.8	14.7	(19.1)	10.3	4.5	7.1

Source: BNY Mellon Performance and Risk Analytics

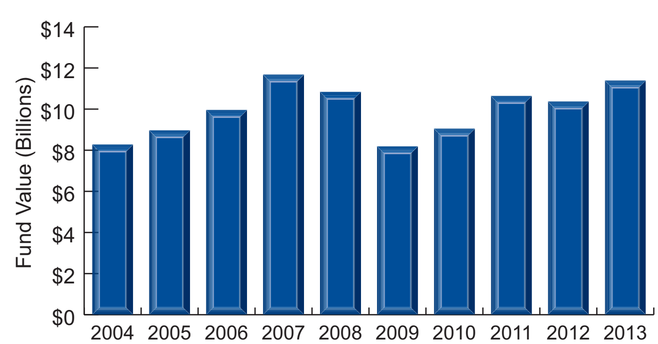
Investment results provided by BNY Mellon Performance and Risk Analytics are based upon a time-weighted rate of return methodology. Market value adjustments made to private equity, real estate and hedge funds as of June 30 will be reflected in the investment returns in the next financial statement.

*See footnotes to table on page 53.

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



Total Fund at Fair Value



US Equity

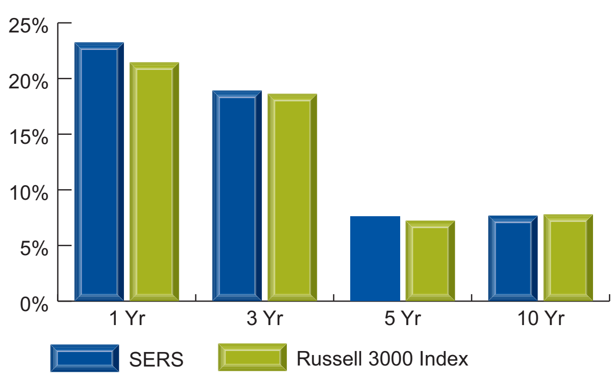
For the fiscal year ended June 30, 2013, the SERS US equity portfolio gained 23.4% (gross of fees). The portfolio exceeded the Russell 3000 Index, which rose 21.5%, by 1.9% during the period. The outstanding relative performance of the US equity portfolio versus its benchmark (Russell 3000) during the past fiscal year increased the annual return advantage of the portfolio over the three-year period, moved the five-year relative return number solidly into positive territory, and reduced the ten-year relative return deficit. The US equity portfolio leads the Russell 3000 Index by 0.3% for the three-year period and 0.3% for the five-year period. It trails the benchmark by 0.1% for the ten-year period.

All of the Russell US equity indices recorded outstanding fiscal year returns, but smaller was better. The Russell Microcap Index rose 25.4%, while the Russell 2000 Small Cap Index rose 24.2%, followed by the Russell 1000 Large Cap Index which rose 21.2%. Growth or value factor selection was extremely important in the large cap space, with value outperforming growth in each quarter and by 8.3% for the fiscal year. Growth and value was much more balanced in the small cap space with value again outperforming, but by a modest 1.1% over the course of the fiscal year. The market was up throughout the year with the Russell 3000 advancing during each fiscal quarter. Large cap stocks led the way during the first half of the year, while small cap stocks led the second half of the year.

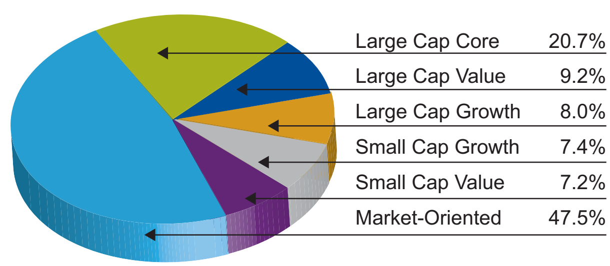
In FY2013, nine out of ten of SERS' active managers outperformed their respective benchmarks across both large cap and small cap segments. The passive portfolio, consisting of passive index and an enhanced index, was a drag on the portfolio's performance due to under-performance of the enhanced index. The INTECH enhanced index account lagged the Russell 1000 benchmark by 84 basis points, while the SSgA index fund trailed by 2 basis points.

As of June 30, 2013, the US equity allocation was 24.7% compared to policy target of 22.5%. During the year, the portfolio was realigned resulting in the termination of two managers and increasing the index fund allocation. No new US equity managers were hired during the year.

US EQUITY RETURNS



US EQUITY ALLOCATIONS



LARGEST INDIVIDUAL US EQUITY HOLDINGS AS OF JUNE 30, 2013

	Description	Shares	Market Price	Fair Value
1	Apple, Inc.	106,470	$396.53	$42,218,549
2	Exxon Mobil Corp.	446,226	90.35	40,316,519
3	Google, Inc.	42,422	880.37	37,347,056
4	Microsoft Corp.	939,964	34.55	32,471,056
5	Qualcomm, Inc.	502,062	61.09	30,670,968
6	Berkshire Hathaway, Inc.	236,462	111.92	26,464,827
7	Johnson & Johnson Co.	293,631	85.86	25,211,158
8	General Electric Co.	1,081,992	23.19	25,091,394
9	Pfizer, Inc.	847,631	28.01	23,742,144
10	JPMorgan Chase & Co.	438,965	52.79	23,172,962

All monetary values stated in U.S. dollars.

A complete listing of holdings is available upon request.

Non-US Equity

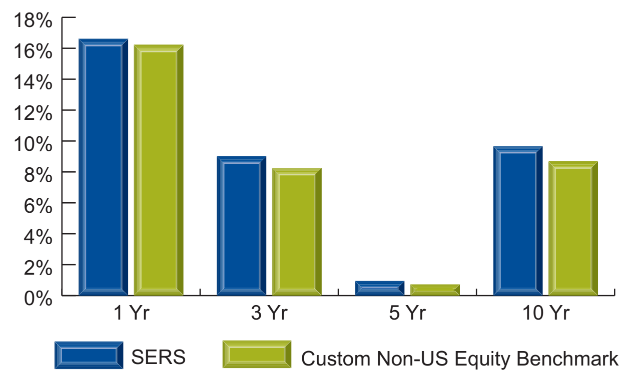
For the fiscal year ended June 30, 2013, SERS' Non-US equity portfolio earned a return of 16.6% (gross of fees), which was 0.4% above its policy benchmark, the MSCI All Country World-excluding the United States Index (MSCI ACWI ex-US) with developed countries 50% hedged. On an annualized basis, the portfolio outperformed the index over both the three- and five-year periods by 0.7% and 0.3%, respectively.

Despite anemic growth and considerable uncertainty that plagued markets worldwide, international equities rallied over the first half of the fiscal year. Regular doses of monetary quantitative easing in both emerging and developed markets drove returns that rewarded risky assets, and midway through the fiscal year, international equity markets, both developed and emerging, were up nearly 14%. While developed markets continued to deliver modest performance over the second half of the year, signs of economic weakness in emerging markets resulted in a persistent stretch of underperformance that significantly detracted from the strong returns earned early on. At fiscal year-end, the annual return for developed markets topped 17%, while the 9.4% contraction emerging economies suffered over the last two quarters resulted in a disappointing fiscal year return of just 3.2%.

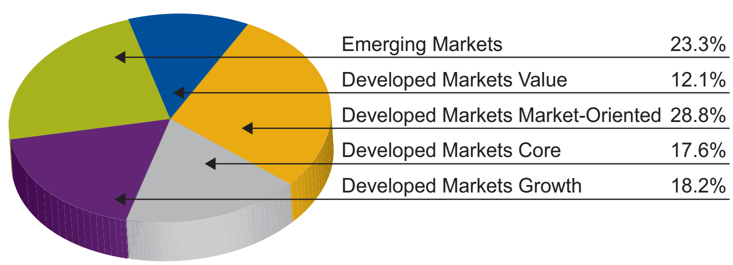
The U.S. Dollar continued to rally over the year as the economy strengthened against a benign inflation environment. Accordingly, SERS' currency hedge provided protection against the rising U.S. Dollar, adding 1.6% to the portfolio's annual return. The portfolio also benefitted from its modest overweight to growth stocks, which outperformed value stocks, and from an overweight to smaller capitalized (cap) stocks, which outperformed large cap stocks (as measured by MSCI ACWI ex-US Index).

As of June 30, 2013, the Non-US equity allocation to the Total Fund Portfolio was 24.2% versus its policy target of 22.5%. The Non-US portfolio was strategically rebalanced over the year, which resulted in the termination of six actively managed accounts. Nearly 90% of the redemptions were distributed to a passive index account, which more than doubled the size of the passive exposure that now accounts for 28% of the Non-US portfolio. No new Non-US equity investment managers were hired during the year.

NON-US EQUITY RETURNS



NON-US EQUITY ALLOCATIONS



LARGEST INDIVIDUAL NON-US EQUITY HOLDINGS AS OF JUNE 30, 2013

	Description	Country	Shares*	Market Price	Fair Value
1	Gazprom OAO ADR	Russian Federation	1,483,559	$ 19.13	$ 28,374,835
2	China Mobile, Ltd.	Hong Kong	2,215,026	11.64	25,791,496
3	Samsung Electronics Co., Ltd.	South Korea	13,924	1,421.67	19,794,836
4	Novo Nordisk, Inc.	Denmark	120,554	161.95	19,523,935
5	Novartis AG	Switzerland	292,594	63.94	18,708,162
6	Tesco PLC	United Kingdom	2,859,469	5.46	15,617,503
7	Toyota Motor Corp.	Japan	318,926	46.32	14,772,439
8	GlaxoSmithKline PLC	United Kingdom	668,563	21.95	14,675,655
9	Canon, Inc.	Japan	342,233	39.40	13,484,073
10	Sanofi-Aventis U.S. LLC	France	142,598	94.12	13,421,404

All monetary values are stated in U.S. dollars.

A complete listing of holdings is available upon request.

**Includes shares owned directly and indirectly via commingled funds.*

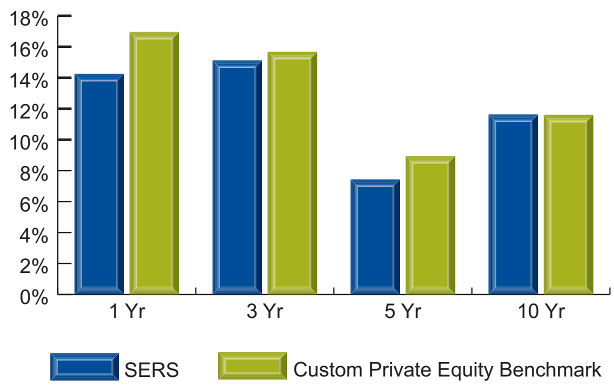
Global Private Equity

Global private equity consists of investments in buyout, special situation and venture capital, limited partnerships, and other “non-public” investments in the US and outside the US Private equity also includes investments in legacy 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.

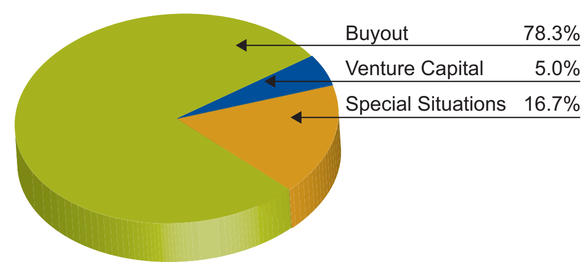
During the fiscal year, SERS’ private equity portfolio had a return of 14.3% versus the custom benchmark (S&P 500 +3%) return of 17.0%. During the year, public equities rallied significantly while private market valuations had a more modest appreciation. For the three-, five-, and ten-year periods, the private equity portfolio returned 15.1%, 7.4%, and 11.6% respectively. Private equity returns are reported one quarter in arrears.

As of June 30, 2013, the market value of SERS’ private equity portfolio was $1.1 billion, or 9.6% of the Total Fund compared to a policy target of 10%. Unfunded commitments to private equity partnerships totaled $778.8 million at fiscal year-end. Over the past fiscal year, SERS made commitments to two private equity partnerships totaling $100 million. Of this $100 million, $50 million was approved to one US-focused, middle-market buyout fund and $50 million was approved to a global buyout fund that will pursue investments in the technology sector.

GLOBAL PRIVATE EQUITY RETURNS



ALLOCATION BY STRATEGY



LARGEST INDIVIDUAL GLOBAL PRIVATE EQUITY HOLDINGS AS OF JUNE 30, 2013

	Description	Fair Value
1	Warburg Pincus Private Equity X, LP	$ 71,590,213
2	Thomas H. Lee Equity Fund VI, LP	71,343,077
3	Odyssey Investment Partners Fund IV, LP	43,999,298
4	Green Equity Investors V, LP	41,404,971
5	Goldman Sachs Distressed Opportunities Fund III, LP	39,597,825
6	Oak Hill Capital Partners III, LP	38,135,090
7	The Fourth Cinven Fund, LP	37,664,407
8	Bridgepoint Europe IV 'B', LP	34,559,424
9	Swander Pace Capital Partners IV, LP	32,721,265
10	Silver Lake Partners III, LP	30,634,012

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

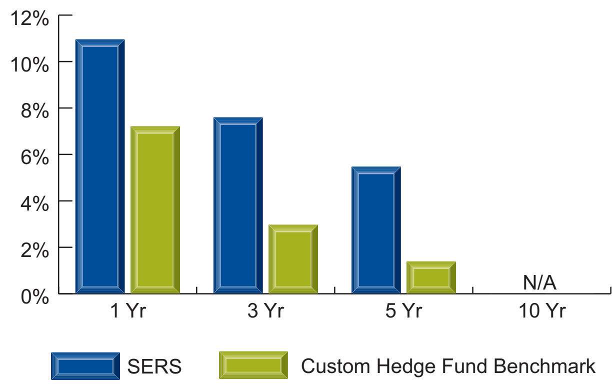
Global Hedge Funds

SERS invests in hedge funds for purposes of diversification, risk reduction, and return enhancement. The global hedge fund portfolio, consisting of 39 funds as of June 30, 2013, is diversified across geographical regions, sectors, and strategies, including equity long/short, event driven, relative value, tactical trading and risk parity strategies. Hedge fund assets totaled approximately $1.5 billion on June 30, 2013.

During the fiscal year, SERS' hedge fund portfolio had an investment return of 11.0% (gross of fees) versus its benchmark return of 7.2%. For the three-year period, the hedge fund portfolio produced a return of 7.6% versus 3.0% for the benchmark. SERS has not been invested in hedge funds long enough to report ten-year returns.

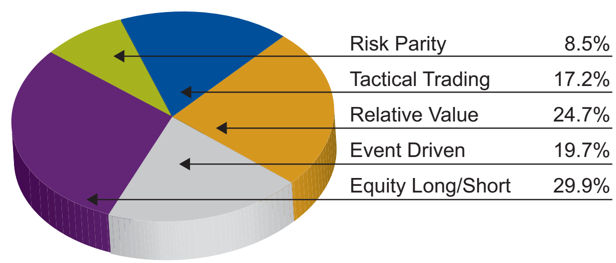
SERS' *Statement of Investment Policy* targets hedge fund investments at 15.0% of total assets. As of June 30, 2013, hedge funds represented 13.5% of total assets as result of the realignment of the hedge fund portfolio. SERS redeemed $39.2 million from hedge funds, added five new funds and fully redeemed from eight funds during the fiscal year.

GLOBAL HEDGE FUND RETURNS



Global Hedge Funds were a new investment strategy in fiscal year 2008, thus the ten-year return is not available.

ALLOCATION BY STRATEGY



LARGEST INDIVIDUAL GLOBAL HEDGE FUND HOLDINGS AS OF JUNE 30, 2013

	Description	Fair Value
1	Bridgewater All Weather Portfolio, Ltd.	$ 92,364,789
2	Viking Global Equities III, Ltd.	91,242,190
3	Caspian Select Credit International, Ltd.	75,339,286
4	Regiment Capital, Ltd.	71,807,545
5	Visium Balanced Offshore Fund, Ltd.	70,521,512
6	PIMCO Absolute Return Strategy III Offshore Fund, Ltd.	67,196,745
7	BlueCrest Capital International, Ltd.	67,048,134
8	Taconic Opportunity Offshore Fund, Ltd.	51,453,612
9	Eminence Fund, Ltd.	51,145,438
10	Ellis Lake Domestic Fund, LP	50,474,077

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

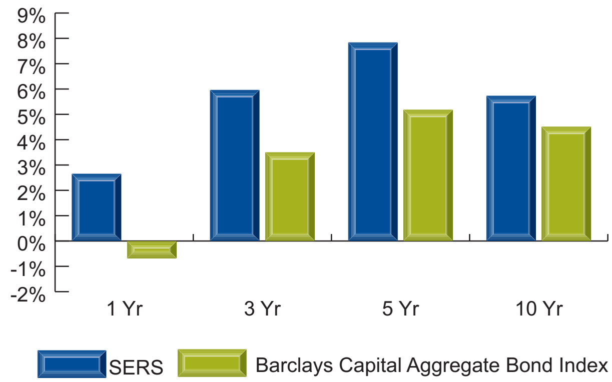
Global Fixed Income

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

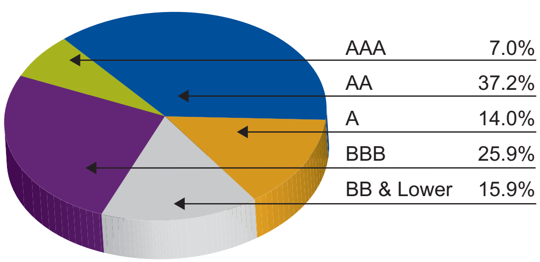
For the fiscal year ended June 30, 2013, SERS' fixed income portfolio returned 2.7% (gross of fees) outperforming the benchmark, Barclays Capital Aggregate Bond Index, by 335 basis points, against the index return of (0.7%). Returns were primarily driven by an underweight to US Treasuries and an overweight to both investment-grade and high-yield corporate credit.

The US Treasury market returned (1.6%), agency mortgages declined 1.1%, investment-grade corporates generated 1.4%, emerging market bonds increased 2.6%, and the high-yield market returned 9.5% for the year ended June 30, 2013. US Treasuries and mortgages declined as rates increased based on market fear of the Federal Reserve moving to end quantitative easing. Investment-grade corporate credit and high-yield performed well, given continued good corporate balance sheet governance. The Federal Reserve kept the federal funds rate stable at 0 – 0.25% during the fiscal year to promote growth. US Treasury rates climbed with the 10-year moving from 1.65% on June 30, 2012 to 2.49% on June 30, 2013.

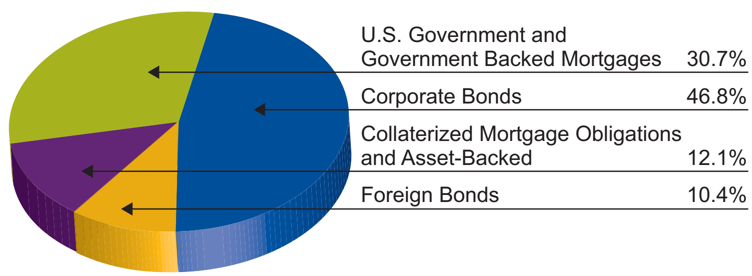
GLOBAL FIXED INCOME RETURNS



QUALITY DISTRIBUTION



SECTOR DISTRIBUTION



LARGEST INDIVIDUAL GLOBAL FIXED INCOME HOLDINGS AS OF JUNE 30, 2013

	Description	Rating	Par Value	Market Price	Fair Value
1	FNMA TBA 3.5% 07/01/2043	AA+	$ 37,900,000	$ 1.015	$ 38,474,564
2	FNMA Pool #0AL3365 6.0% 05/01/2041	AA+	16,763,021	1.086	18,197,601
3	FNMA TBA 3.0% 07/01/2043	AA+	16,100,000	0.977	15,730,183
4	FNMA Pool #0AL1934 VRN 04/01/2038	AA+	10,519,744	1.062	11,170,705
5	Brazil Notas Do Tesouro Nacion 10.0% 01/01/2017	A-	22,467,000	0.466	10,468,327
6	US Treasury Note 0.25% 01/31/2014	AA+	10,000,000	1.001	10,007,400
7	FHLMC Discount Note 11/26/2013	AA+	10,000,000	1.000	9,997,100
8	US Treasury Bond 3.125% 02/15/2042	AA+	9,890,000	0.936	9,259,513
9	United Mexican States 10.0% 12/05/2024	A-	83,720,000	0.104	8,665,827
10	FNMA TBA 2.5% 07/01/2028	AA+	8,500,000	1.006	8,549,130

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

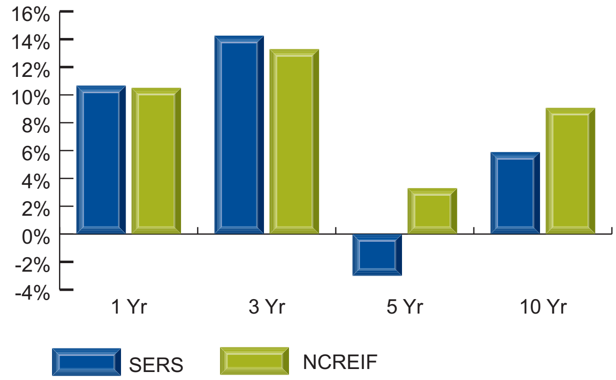
Global Real Estate

SERS' global real estate portfolio consists of investments in real estate limited partnerships, commingled funds, 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.

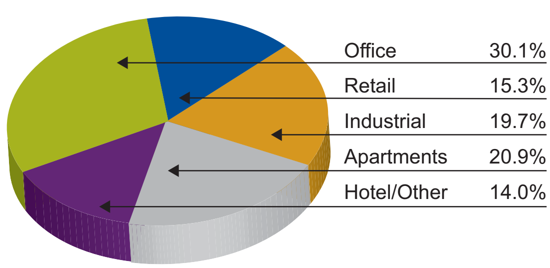
During the fiscal year, SERS' global real estate portfolio produced a total return of 10.7% (gross of fees) versus the real estate policy benchmark return of 10.5%. For three-, five-, and ten-year periods, the global real estate portfolio produced returns of 14.3%, (3.0%), and 5.9% respectively (gross of fees). All returns, except global real estate securities, are reported one quarter in arrears.

During the fiscal year, SERS' target allocation to real estate was 10% of the Total Fund with a range of +/-5%. As of June 30, 2013, the real estate portfolio was approximately $1.1 billion, or 10% of the Total Fund. Unfunded commitments to real estate funds totaled approximately $128.8 million at fiscal year-end.

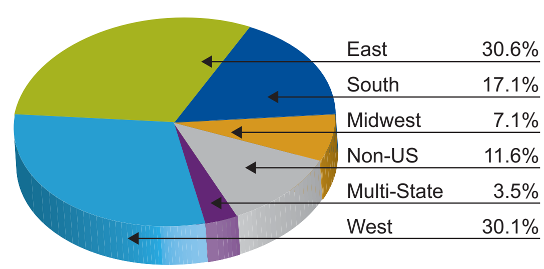
GLOBAL REAL ESTATE RETURNS



PROPERTY TYPE DIVERSIFICATION (excluding REITS)



REGIONAL DIVERSIFICATION (excluding REITS)



LARGEST INDIVIDUAL GLOBAL REAL ESTATE HOLDINGS AS OF JUNE 30, 2013

	Description	Fair Value
1	JPMCB Strategic Property Fund	$127,614,637
2	UBS Trumbull Property Fund	86,428,237
3	Clarion Lion Properties Fund	84,522,360
4	PRISA II	79,017,455
5	RREEF America REIT II	78,447,450
6	Lubert-Adler Real Estate Fund VI-B	67,692,801
7	Lion Industrial Trust	56,720,138
8	PRISA	52,754,088
9	Almanac Realty Securities V, LP	48,979,344
10	Carlyle Asia Real Estate Partners II, LP	40,313,945

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

Investment Consultants & Investment Managers

Investment Consultants
- Aksia LLC
- Summit Strategies Group

Investment Managers - US Equity
- Brown Capital Management
- Delaware Investments
- DePrince, Race and Zollo
- Donald Smith & Co.
- First Eagle Investment Management
- INTECH Investment Management
- Lord, Abbett & Co.
- Manning & Napier Advisors
- Manulife Asset Management
- PENN Capital Management
- State Street Global Advisors

Investment Managers - Non-US Equity
- Acadian Asset Management
- Arrowstreet Capital
- Dimensional Fund Advisors
- Genesis Asset Managers
- GlobeFlex Capital
- Hexam Capital Partners
- Highclere International Investors
- LSV Asset Management
- State Street Global Advisors
- 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
- Bridgepoint Capital
- Charterhouse Capital Partners
- CID Capital
- Cinven
- Coller Investment Management
- Evergreen Pacific Partners
- FdG Associates
- Francisco Partners
- FS Equity Partners
- Goldman Sachs & Company
- Graham Partners
- J.P. Morgan Investment Management
- Kohlberg & Company
- Leonard Green & Partners
- Linsalata Capital Partners
- Mason Wells
- 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

Investment Managers - Fixed Income
- Aberdeen Asset Management (formerly Artio Global Management)
- Dodge & Cox
- Goldman Sachs & Company
- J.P. Morgan Investment Management
- Johnson Investment Counsel
- Loomis, Sayles & Company
- Stone Harbor Investment Partners
- Western Asset Management Company

Investment Managers - Hedge Funds
- Angelo, Gordon & Co.
- Archer Capital Management
- Aristeia Capital
- Astenbeck Capital Management
- BlueCrest Capital Management
- Brevan Howard Asset Management
- Bridgewater Associates
- Brookside Capital Investors
- Caspian Capital
- Cevian Capital
- D.E. Shaw & Company
- Davidson Kempner Capital Management
- Diamondback Capital Management
- Ellis Lake Capital
- Elm Ridge Capital Management
- Eminence Capital
- GoldenTree Asset Management
- HealthCor Management
- Invesco Advisors
- JAT Capital Management
- Karsch Capital Management
- King Street Capital Management
- Lansdowne Partners
- Linden Advisors
- Manatuck Hill Partners
- Marathon Asset Management
- Meditor Capital Management
- Nephila Capital
- Oxford Asset Management
- Pacific Investment Management Company
- Pharo Management
- Regiment Capital Management
- Rockhampton
- Samlyn Capital
- Stark Offshore Management
- Taconic Capital Advisors
- Tudor Investment Corporation
- Turiya Capital Management
- ValueAct Capital Management
- Viking Global Investors
- Visium Asset Management
- Yannix Management
- York Capital Management

Investment Managers - Real Estate
- AEW Capital Management
- Almanac Realty Investors
- Beacon Capital Partners
- CBRE Global Investors
- Clarion Partners
- Colony Capital
- Deutsche Asset and Wealth Management (formerly RREEF Real Estate Investment Managers)
- Fillmore Capital Partners
- INVESCO Realty Advisors
- J.P. Morgan Investment Management
- Lubert-Adler Real Estate Funds
- Madison Marquette
- Prudential Real Estate Investors
- Rockspring Property Investment Managers
- The Carlyle Group
- UBS Realty Investors

Investment Managers – Opportunistic
- Highbridge Capital Management
- Pacific Investment Management Co.

Custodians
- BNY Mellon Asset Servicing
- Citibank NA
- 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, 2013

Broker Name	Fees Paid	# of Shares Traded	Avg. Commission per Share
Pershing, LLC	$ 221,007	7,474,227	$ 0.030
J.P. Morgan Clearing Corp.	204,690	8,793,657	0.023
Merrill Lynch Government Securities, Inc.	204,061	9,097,699	0.022
Goldman, Sachs & Co.	158,726	12,244,706	0.013
Barclay's Capital, Inc.	150,337	5,517,270	0.027
Penson Financial Services, Inc.	110,788	33,787,565	0.003
Credit Suisse Asset Management Securities, Inc.	101,064	4,900,094	0.021
Instinet, LLC	89,941	3,440,906	0.026
J.P. Morgan Securities, Inc.	84,769	4,747,916	0.018
UBS Securities, LLC	68,403	2,888,804	0.024
Citigroup Global Markets, Inc.	63,595	3,085,024	0.021
Jeffries & Co., Inc.	62,821	2,694,559	0.023
Deutsche Bank Securities, Inc.	62,508	3,126,244	0.020
Sanford C. Bernstein & Co., LLC	58,709	2,426,574	0.024
Cantor Fitzgerald & Co.	35,761	1,378,726	0.026
Stifel, Nicolaus & Co., Inc.	33,498	1,149,170	0.029
Liquidnet, Inc.	32,180	1,002,324	0.032
ISI Capital, LLC	31,893	1,268,754	0.025
Knight Capital Americas, LP	31,409	1,399,605	0.022
ITG, Inc.	30,248	3,502,054	0.009
Cowen and Company, LLC	29,175	1,403,027	0.021
Credit Agricole Securities (USA), Inc.	28,103	2,798,822	0.010
Raymond James & Associates, Inc.	27,137	868,584	0.031
National Financial Services, LLC	27,070	782,106	0.035
Wells Fargo Securities, Inc.	17,278	591,131	0.029
William Blair	16,220	438,672	0.037
RBC Capital Markets, LLC	15,124	474,090	0.032
Barid & Warner Securities, Inc.	14,481	532,557	0.027
Cabrera Capital Markets	14,197	408,475	0.035
Oppenheimer & Co., Inc.	13,092	425,456	0.031
Scotia Asset Management LP	11,529	288,237	0.040
Keybanc Capital Markets, Inc.	10,614	351,509	0.030
Burke & Quick Partners LLC	10,600	385,290	0.028
Investment Technology Group Ltd.	10,002	296,021	0.034
Piper Jaffray & Co.	9,925	360,975	0.027
Citation Financial Group, LP	8,563	299,804	0.029
FBR Capital Markets & Co.	7,455	229,100	0.033
Fidelity Advisory Services LLC	6,874	249,277	0.028
Wedbush Securities, Inc.	6,864	203,942	0.034
Stterne, Agee & Leach, Inc.	5,932	158,732	0.037
Abel/Noser Corp.	5,816	241,995	0.024
BB&T Capital Markets	5,345	154,874	0.035
Bloomberg Tradebook LLC	4,946	581,573	0.009
Pulse Trading, Inc.	4,383	149,887	0.029
Keefe, Bruyette & Woods, Inc.	4,150	147,055	0.028
Lazard Capital Markets, LLC	3,937	98,430	0.040
BMO Capital Markets Corp.	3,895	137,918	0.028
Telsey Advisory Group	3,558	88,945	0.040
Stephens Capital Markets, Inc.	3,526	158,406	0.022
Leerink & Co., Inc.	3,410	124,010	0.028
Davenport & Associates	3,044	76,098	0.040
Brokers with less than $3,000 (81)	29,490	1,855,107	0.016
Total US	$ 2,202,146	129,285,983	$ 0.017

Summary Schedule of Brokers' Fees for Non-US Equity Transactions for the Year Ended June 30, 2013

Broker Name	Fees Paid	# of Shares Traded	Avg. Commission per Share
Credit Suisse Asset Management Securities, Inc.	$ 287,254	54,209,244	$ 0.005
State Street Global Markets, LLC	261,489	129,851,737	0.002
Instinet, LLC	206,444	56,088,073	0.004
SG Americas Securities, LLC	112,125	30,638,813	0.004
J.P. Morgan Securities, LLC	103,056	32,920,826	0.003
ITG, Inc.	98,886	26,893,023	0.004
Citigroup Global Markets, Inc.	63,187	18,590,106	0.003
Sanford C. Bernstein & Co., LLC	57,056	13,183,528	0.004
Merrill Lynch Government Securities, Inc.	53,785	26,129,559	0.002
Daiwa Capital Markets America, Inc.	47,518	13,966,275	0.003
Bouzet (Du) S A Societe De Bourse	38,282	9,291,411	0.004
UBS Securities, LLC	30,817	8,883,076	0.003
HSBC Brokerage (USA), Inc.	22,681	7,349,943	0.003
Woori Investment & Securities America, Inc.	22,663	6,230,164	0.004
Macquarie Capital (USA), Inc.	22,548	3,267,537	0.007
Goldman Sachs & Co.	21,255	4,606,568	0.005
CAP Financial, Inc.	20,334	1,548,695	0.013
Concordia Advisors, LLC	19,631	5,433,521	0.004
Nomura Securities North America, LLC	17,953	8,341,806	0.002
Barclays Capital, Inc.	17,768	1,837,223	0.010
Credit Lyonnais Securities, Inc.	17,382	322,030	0.054
Socgen-Crosby Securities, Inc.	15,641	2,663,399	0.006
Brockhouse & Cooper, Inc.	15,527	1,336,219	0.012
Morgan Stanley & Co., LLC	15,310	1,422,827	0.011
Deutsche Bank Securities, Inc.	13,682	4,003,909	0.003
J.P. Morgan Clearing Corp.	10,499	2,545,231	0.004
Direct Access Partners LLC	9,230	3,327,689	0.003
Factor Advisors, LLC	9,112	503,055	0.018
Hanwha Securities Co. Ltd.	8,424	412,335	0.020
XP Investimentos	7,492	741,770	0.010
S.G. Warburg & Co., Inc.	7,285	173,024	0.042
Berenberg Bank	7,052	920,351	0.008
Kepler Equities, Inc.	6,354	161,800	0.039
Citibrokerage, Inc.	5,397	542,130	0.010
Interacciones Ltd.	5,086	107,762	0.047
Den Danske Bank	4,952	340,873	0.015
BNP Paribas Securities Corp.	4,595	1,534,557	0.003
Liquidnet, Inc.	4,258	971,518	0.004
Samsung Securities	3,864	1,799,967	0.002
Exane, Inc.	3,624	20,709	0.175
National Securities Network, Inc.	3,472	297,851	0.012
Chase Advisors, LLC	2,357	85,100	0.028
Danske Markets, Inc.	2,263	101,211	0.022
Jefferies & Company, Inc.	2,188	131,529	0.017
Goodbody Securities, Inc.	1,972	343,376	0.006
Scotia Capital Markets (USA), Inc.	1,893	13,148	0.144
Mizuho Securities, Inc.	1,888	2,102,000	0.001
Cantor Fitzgerald & Co.	1,857	83,000	0.022
Mainfirst Bank	1,824	69,600	0.026
Mitsubishi Securities, Inc.	1,651	683,840	0.002
Brokers with less than $1,650 (44)	25,845	4,879,142	0.005
Total Non-US	$ 1,746,708	491,902,080	$ 0.004

Investment Notes
Investment Summary

Portfolio Type	Fair Value	% of Total Fair Value
US Equity	$ 2,805,699,193	24.7%
Non-US Equity	2,756,846,093	24.2%
Global Private Equity	1,095,721,869	9.6%
Global Hedge Funds	1,536,294,426	13.5%
Global Fixed Income	1,855,497,428	16.3%
Global Real Estate	1,177,596,782	10.3%
Opportunistic Investments	13,723,225	0.1%
Cash Equivalents	144,219,375	1.3%
Net Portfolio Value	$ 11,385,598,391	100.0%

Reconciliation to Statement of Net Position	
Net Portfolio Value	$ 11,385,598,391
Accounts receivable, securities sold	(134,374,078)
Accounts payable, securities purchased	243,566,876
Cash and cash equivalents	(384,443,086)
Investments per Statement of Net Position	$ 11,110,348,103

Investment Results

FOOTNOTES TO INVESTMENT RESULTS TABLE ON PAGE 43:

(1) The US equity composite includes cash equitization.
(2) The custom Non-US equity benchmark is the MSCI ACWI ex-US (developed markets 50% hedged).
(3) Private equity returns are reported one quarter in arrears.
(4) 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.
(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 Index.
(6) Private real estate partnership returns are reported one quarter in arrears. Public real estate returns are reported in the current quarter.
(7) 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) 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 Aggregate Index
      10.0% NCREIF
      10.0% SERS Custom Private Equity Benchmark
      15.0% HFRI Fund of Funds Index
      1.0% Citigroup 30 Day T-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 Aggregate Index
      10.0% SERS Custom Real Estate Benchmark
      10.0% SERS Custom Private Equity Benchmark
      1.0% Citigroup 30 Day T-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 Aggregate Index)
      10.0% SERS Custom Real Estate Benchmark
      7.0% SERS Custom Private Equity Benchmark
      1.0% Citigroup 30 Day T-Bill Index
   d) Effective October 21, 1994
      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 Aggregate Index)
      10.0% SERS Custom Real Estate Benchmark
      3.0% SERS Custom Private Equity Benchmark
      2.0% Citigroup 30 Day T-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, the Investment Committee, Investment Staff, Investment Managers, Investment Consultants, the Investment 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 utilizes Investment Managers or Funds selected by Staff to invest most assets of the Total Fund. The Board recognizes that costs associated with external Investment Managers and Funds are typically higher than costs associated with internal management. However, the Board believes external Investment Managers that act as fiduciaries possess specialized investment expertise and economies of scale, and can generate higher returns on a net-of-fee basis.

D. 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 and Board consultants;
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 notifying 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 Code of Ethics and Standards of Professional Conduct), 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. appointing, discharging and retaining the Director of Investments, and Investment Staff;
   d. overseeing the investment function, and
   e. executing investment documents when necessary.
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;
   g. appointing and discharging Investment Managers and approving investments in or redemptions from Funds subject to conditions and guidelines in Section VII.;
   h. activating previously approved Backup Investment Managers;
   i. executing investment documents;
   j. approving Investment Manager style changes and additions;
   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 Committee*** is responsible for:

    a. ensuring that a procedure is in place defining the Committee's structure and establishing rules for reviewing and approving investments;

    b. reviewing Investment Manager and Fund due diligence; and

    c. approving or discharging Investment Managers or Funds.

4. 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 Investment Committee the appointment or discharge of Investment Managers and investments in or redemptions from Funds;

    g. investing assets of the cash equivalents portfolio;

    h. investigating and researching new and emerging investment concepts and strategies, and recommending 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. maintaining 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 to Staff the retention or discharge of Investment Managers and investment in or redemption from Funds;
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 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 ***Investment Compliance Officer***

The Investment 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.

VII. Conditions and Guidelines for Making Investments

A. Conditions

1. In cooperation with legal counsel, Staff will endeavor to ensure that the legal structure of each investment limits potential losses to no more than the amount invested;
2. Investments will be of institutional quality;
3. Investments will require the approval of the Director of Investments and the Investment Committee;

4. Investment documents must be approved by SERS' Legal Department and the Investment Compliance Officer;
5. The Investment Committee will develop and implement definitive procedures for approving investments in accordance with this Policy Statement.
6. The Director of Investments or the Executive Director must sign the necessary investment documents when making investments.

B. Guidelines

1. Selected Investment Managers and Funds will have proven track records in the strategy;
2. Monthly reporting by the Fund or Investment Manager is preferred, but there shall be no less than quarterly reporting;
3. The liquidity of an investment will be prudent, both for the strategy and for the Total Fund;
4. The amount invested with an Investment Manager or in a Fund will be prudent for the strategy;
5. Investment limits established by Board resolution remain in effect unless modified or eliminated by the Board.

VIII. Implementation Strategies

A. Asset Allocation

The Board will conduct an asset and liability study every three- to five-years or 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.

After giving due consideration to an asset and liability study conducted by the Investment Consultant, which study meets 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%	35% – 55%
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 the use of derivatives.

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 VIII.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. The Board recognizes that while the practice of securities lending can generate meaningful income for the Total Fund, it is not without investment risk. To mitigate investment risk the securities lending program will focus on intrinsic value lending and use conservative collateral reinvestment guidelines similar to current SEC 2a-7 guidelines. If Staff determines the risk reward relationship of the program is no longer advantageous for the Total Fund, the program will be discontinued.

I. Opportunistic Investments

The Board authorizes Investment Staff to invest up to 5% of Total Assets in Opportunistic Investment Strategies, and these investments will comply with the Opportunistic Investment Policy approved by the Board.

J. Investment Managers and Funds

The Board authorizes the Director of Investments and the Investment Committee to approve and discharge Investment Managers, Funds and Backup Investment Managers based upon recommendations of Investment Staff or Investment Consultants, as may be appropriate, and discussions with Managers. 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 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.

K. 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.

L. 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.

M. 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.

IX. 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 US 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 US 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.

X. 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 07/21/11; 07/01/10; 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.

Lynne Toon, Zanesville City School District, SERS Retiree, *right*
Sandra Walters,, Daughter, *left*

Actuarial Section

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

November 22, 2013

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, 2013 indicates that a contribution rate of 13.86% of payroll for 121,642 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 29-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 22, 2013
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 fund. This result 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 December 16, 2010. Since total claims are projected to exceed total contributions in future years, it is currently anticipated that future fund amounts will be depleted in 2020.

The current benefit structure is outlined in the Plan summary. There were no changes in benefit structure for the June 30, 2013 valuation.

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, 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 FY2013, 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, 2013, 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 30-year period. The remaining portion of the employer contribution was allocated to health care benefits.

Pension Trust Fund	13.05%
Death Benefit Fund	.05
Medicare B Fund	.74
Health Care Fund	.16
	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 FY2013, the minimum pay amount was established at $20,525. 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, 2013.

- **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 0.0% to 18.0% 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

- **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, 2013

Present value of:	Basic Benefits	Medicare Part B	Death Benefit	Total
Future benefits to present retirees and survivors	$ 9,229,737,359	$ 243,514,633	$ 25,245,501	$ 9,498,497,493
Benefits and refunds to present inactive members	565,788,389	11,601,965	1,271,508	578,661,862
Allowances to present active members				
Service	6,870,957,976	118,070,627	7,092,944	6,996,121,547
Disability	270,826,372	4,608,543	404,800	275,839,715
Survivor benefits	93,779,397	1,678,810	-	95,458,207
Withdrawal	(204,729,947)	7,297,927	14,274	(197,417,746)
Total Active AAL	7,030,833,798	131,655,907	7,512,018	7,170,001,723
Total AAL	$ 16,826,359,546	$ 386,772,505	$ 34,029,027	$ 17,247,161,078

Active Member Valuation Data

Actuarial Valuation as of June 30	Number of Active Members	Annual Payroll *(millions)*	Average Annual Salary	% Increase in Average Salary
2013	121,642	$2,747	$22,581	(1.3)%
2012	121,811	2,788	22,889	0.6
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

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
2013	4,197	$62,841,820	2,464	$2,650,786	70,771	$898,267,601	7.2%	$12,693
2012	4,137	61,519,329	2,320	1,353,680	69,038	838,076,567	7.7	12,139
2011	3,472	49,577,804	2,378	1,526,603	67,221	777,910,918	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

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	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**
Age and Service Retirements If disability claims are less than assumed, there is a gain. If younger ages, a loss.	$(121.9)	$(154.8)	$ (59.2)	$ (40.6)	$ (50.8)	$ (96.1)
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	(53.6)	(47.7)	(28.1)	(23.4)	(28.7)	(3.5)
Death-In-Service Benefits If claims costs are less than assumed, there is a gain. If more claims, a loss.	0.0	(0.2)	(0.7)	(0.5)	(0.6)	(0.6)
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	219.2	178.7	198.4	182.5	107.5	95.8
Investment Return If Ithere is greater investment return than assumed, there is a gain. If less return, a loss.	241.0	(692.0)	(1,082.9)	390.5	(2,265.2)	(6.6)
Withdrawal If more liabilities are released by other separations from active membership than assumed, there is a gain. If smaller releases, a loss.	61.1	46.5	15.4	11.0	(11.9)	8.1
New Members Additional unfunded accrued liability will produce a loss.	(35.1)	(29.8)	(36.4)	(38.1)	(50.4)	(51.3)
Death after Retirement If retirees live longer than assumed, there is a loss. If not as long, a gain.	2.9	51.9	(1.0)	46.5	51.8	72.4
Other Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	1.9	(6.2)	(10.0)	(29.6)	200.1	81.2
Non-Recurring Items Adjustments for plan amendments, assumption changes, or method changes.	27.8	194.7	(436.2)	0.0	0.0	0.0
Total Gain (Loss) During Year	$ 343.3	$(458.9)	$(1,440.7)	$ 498.3	$(2,048.2)	$ 99.4

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[1]

($ in Millions)

	Aggregate Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Asset		
Valuation Date June 30	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Financed Portion)	Actuarial Value of Assets	(1)	(2)	(3)
BASIC BENEFITS							
2013	$2,860	$9,796	$4,196	$10,988	100%	83%	0%
2012	2,826	9,190	4,322	10,266	100	81	0
2011	2,749	8,525	4,636	10,378	100	90	0
2010	2,569	7,850	4,404	10,766	100	100	8
2009	2,470	7,496	4,224	9,704	100	97	0
2008	2,291	7,079	4,334	11,241	100	100	43
MEDICARE PART B BENEFITS							
2013	$ 0	$ 255	$ 132	$ 119	100%	47%	0%
2012	0	251	132	113	100	45	0
2011	0	245	138	116	100	47	0
2010	0	239	128	122	100	51	0
2009	0	239	121	113	100	47	0
POST-RETIREMENT DEATH BENEFITS							
2013	$ 0	$ 27	$ 7	$ 19	100%	73%	0%
2012	0	26	8	18	100	70	0
2011	0	26	7	19	100	74	0
2010	0	25	7	21	100	84	0
2009	0	24	7	19	100	79	0

[1] Solvency Test combined Pension, Death After Retirement Benefits, and Medicare Part B Benefits for valuations performed prior to 6/30/2009.

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. They also 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 6.90% of active payroll payable for the fiscal year ended June 30, 2013. Any net claims or premiums paid for retiree health care are considered contributions toward the ARC.

Year Ended June 30	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)
2013	$171,402,038	$ 45,489,443	$ 0	$ 45,489,443	26.5%
2012	155,857,785	56,476,230	0	56,476,230	36.2
2011	169,146,052	86,908,283	0	86,908,283	51.4
2010	315,535,278	60,142,014	24,414,855	84,556,869	26.8
2009	373,789,127	163,411,488	23,504,101	186,915,589	50.0
2008	307,874,094	158,393,761	21,953,659	180,347,420	58.6

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, 2013.

- **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%.
- **Health Care Cost Trend Rates** Following is a chart detailing trend assumptions:

Calendar Year	Non-Medicare	Medicare
2013	8.50%	6.75%
2014	7.50	6.50
2015	6.50	6.00
2016	6.00	5.50
2017	5.50	5.00
2018 and beyond	5.00	5.00

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.

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

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

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, 2013	
Present value of benefits payable on account of present retired members and beneficiaries	$1,142,242,620
Present value of benefits payable on account of active members	2,784,849,764
Present value of benefits payable on account of deferred vested members	14,335,142
Total liabilities	$3,941,427,526


Mark Iacofano, Lakeland Community College, SERS Member

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 Position by Fund
- Changes in Net Position
- Benefit and Refund Deductions from Net Position 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:

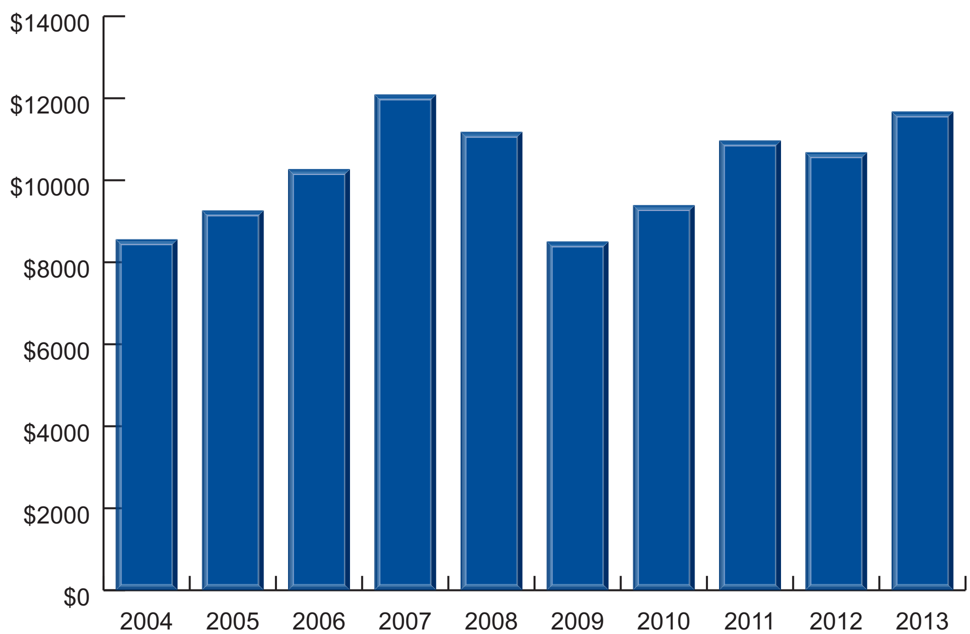
- Employee and Employer Contribution Rates
- Demographics of New Pension Benefit Recipients
- Demographics of Active and Retired Members
- Retired Members by Type of Benefit
- Retirees, Spouses, and Dependents Receiving Health Care Coverage
- Principal Participating Employers
- Average Benefit Payments

Net Position by Fund

Last 10 years

June 30	Pension Trust Fund	Medicare B Fund	Death Benefit Fund	QEBA Fund*	Health Care Fund	Total Fund
2013	$ 11,160,574,582	$ 120,363,782	$ 19,543,665	$ 144,750	$ 379,181,026	$ 11,679,807,805
2012	10,201,185,790	112,200,252	18,272,350	107,877	355,110,407	10,686,876,676
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

Total Net Position *(in millions)*



Changes in Net Position

Last 10 fiscal years

ALL FUNDS COMBINED	2013	2012	2011	2010
ADDITIONS				
Employer Contributions	$ 447,901,887	$ 456,375,083	$ 466,365,125	$ 462,322,570
Employee Contributions	292,958,056	296,974,146	303,114,258	301,649,643
Other Income	135,705,046	154,832,793	122,232,090	96,449,404
Total Investment Income (Loss), Net	1,329,495,903	(37,922,409)	1,789,850,651	1,087,495,208
TOTAL ADDITIONS	2,206,060,892	870,259,613	2,681,562,124	1,947,916,825
DEDUCTIONS				
Benefits	1,120,377,591	1,083,844,151	1,033,791,708	999,045,882
Refunds and Lump Sum Payments	48,979,203	47,920,393	42,223,739	37,159,685
Net Transfers to other Ohio Systems	22,301,557	4,976,841	6,394,075	5,085,923
Administrative Expenses	21,471,412	21,625,193	21,191,271	20,244,156
TOTAL DEDUCTIONS	1,213,129,763	1,158,366,578	1,103,600,793	1,061,535,646
Net increase (decrease)	992,931,129	(288,106,965)	1,577,961,331	886,381,179
Net Position held in trust:				
Beginning of Year	10,686,876,676	10,974,983,641	9,397,022,310	8,510,641,131
End of Year	**$ 11,679,807,805**	**$ 10,686,876,676**	**$ 10,974,983,641**	**$ 9,397,022,310**

PENSION TRUST FUND	2013	2012	2011	2010
ADDITIONS				
Employer Contributions	$ 380,083,642	$ 376,816,938	$ 355,959,304	$ 378,201,685
Employee Contributions	292,958,056	296,974,146	303,114,258	301,649,643
Other Income	–	–	–	–
Total Investment Income (Loss), Net	1,277,940,348	(38,010,415)	1,722,754,363	1,042,542,982
TOTAL ADDITIONS	1,950,982,046	635,780,669	2,381,827,925	1,722,394,310
DEDUCTIONS				
Pension Benefits	901,072,882	845,683,445	784,875,283	734,080,237
Refunds and Lump Sum Payments	48,979,203	47,920,393	42,223,739	37,159,685
Net Transfers to other Ohio Systems	22,301,557	4,976,841	6,394,075	5,085,923
Administrative Expenses	19,239,612	19,090,214	18,622,302	17,594,183
TOTAL DEDUCTIONS	991,593,254	917,670,893	852,115,399	793,920,028
Net increase (decrease)	959,388,792	(281,890,224)	1,529,712,526	928,474,282
Net Position held in trust:				
Beginning of Year	10,201,185,790	10,483,076,014	8,953,363,488	8,024,889,206
End of Year	**$ 11,160,574,582**	**$ 10,201,185,790**	**$ 10,483,076,014**	**$ 8,953,363,488**

HEALTH CARE FUND	2013	2012	2011	2010
ADDITIONS				
Employer Contributions	$ 45,489,443	$ 56,476,230	$ 86,908,283	$ 60,142,014
Other Income	135,705,046	154,832,793	122,232,090	96,449,404
Total Investment Income (Loss), Net	35,523,491	541,940	45,247,242	31,472,744
TOTAL ADDITIONS	216,717,980	211,850,963	254,387,615	188,064,162
DEDUCTIONS				
Health Care Expenses	190,468,991	209,965,344	221,167,270	236,915,618
Administrative Expenses	2,178,370	2,480,956	2,518,770	2,603,597
TOTAL DEDUCTIONS	192,647,361	212,446,300	223,686,040	239,519,215
Net increase (decrease)	24,070,619	(595,337)	30,701,575	(51,455,053)
Net Position held in trust:				
Beginning of Year	355,110,407	355,705,744	325,004,169	376,459,222
End of Year	**$ 379,181,026**	**$ 355,110,407**	**$ 355,705,744**	**$ 325,004,169**

2009	2008	2007	2006	2005	2004
$ 454,596,164	$ 437,173,397	$ 423,398,610	$ 413,911,081	$ 400,519,147	$ 391,440,663
295,788,567	284,910,486	276,759,362	272,615,865	262,265,550	258,131,243
97,284,347	94,660,706	91,823,048	70,831,797	40,595,447	–
(2,526,406,966)	(759,805,340)	1,939,132,666	1,127,421,565	825,771,210	1,151,401,043
(1,678,737,888)	56,939,249	2,731,113,686	1,884,780,308	1,529,151,354	1,800,972,949
938,903,072	904,979,999	853,416,366	824,582,171	779,306,161	714,415,180
34,213,067	38,907,918	33,638,741	31,037,063	27,112,818	22,090,604
3,224,094	4,723,303	2,873,755	3,587,708	155,635	2,244,495
20,501,565	19,702,769	19,361,990	18,905,218	18,926,844	19,182,142
996,841,798	968,313,989	909,290,852	878,112,160	825,501,458	757,932,421
(2,675,579,686)	(911,374,740)	1,821,822,834	1,006,668,148	703,649,896	1,043,040,528
11,186,220,817	12,097,595,557	10,275,772,723	9,269,104,575	8,565,454,679	7,522,414,151
$ 8,510,641,131	**$ 11,186,220,817**	**$ 12,097,595,557**	**$ 10,275,772,723**	**$ 9,269,104,575**	**$ 8,565,454,679**

2009	2008	2007	2006	2005	2004
$ 268,645,839	$ 259,394,723	$ 232,846,344	$ 234,875,166	$ 255,633,456	$ 213,736,648
295,788,567	284,910,486	276,759,362	272,615,865	262,265,550	258,131,243
–	–	–	610,054	–	–
(2,434,825,781)	(731,527,482)	1,863,226,769	1,080,786,996	793,539,701	1,098,850,856
(1,870,391,375)	(187,222,273)	2,372,832,475	1,588,888,081	1,311,438,707	1,570,718,747
696,152,597	650,991,508	606,753,367	569,027,766	533,714,925	492,405,489
34,213,067	38,907,918	33,638,741	31,037,063	27,112,818	22,090,604
3,224,094	4,723,303	2,873,755	3,587,709	155,635	2,244,495
17,694,009	17,652,664	17,453,275	17,416,737	17,379,937	17,402,953
751,283,767	712,275,393	660,719,138	621,069,275	578,363,315	534,143,541
(2,621,675,142)	(899,497,666)	1,712,113,337	967,818,806	733,075,392	1,036,575,206
10,646,564,348	11,546,062,014	9,833,948,677	8,866,129,871	8,133,054,479	7,096,479,273
8,024,889,206	**$ 10,646,564,348**	**$ 11,546,062,014**	**$ 9,833,948,677**	**$ 8,866,129,871**	**$ 8,133,054,479**

2009	2008	2007	2006	2005	2004
$ 163,411,488	$ 158,393,761	$ 170,948,274	$ 157,404,134	$ 126,355,575	$ 159,550,942
97,284,347	94,660,706	91,823,048	70,152,335	40,595,447	27,947,708
(58,751,419)	(18,289,836)	49,307,490	30,524,217	19,976,256	34,640,957
201,944,416	234,764,631	312,078,812	258,080,686	186,927,278	222,139,607
215,409,645	226,436,827	219,438,662	228,570,748	218,816,560	223,443,805
2,756,280	2,002,443	1,846,713	1,430,160	1,489,267	1,391,708
218,165,925	228,439,270	221,285,375	230,000,908	220,305,827	224,835,513
(16,221,509)	6,325,361	90,793,437	28,079,778	(33,378,549)	(2,695,906)
392,680,731	386,355,370	295,561,933	267,482,155	300,860,704	303,556,610
$ 376,459,222	**$ 392,680,731**	**$ 386,355,370**	**$ 295,561,933**	**$ 267,482,155**	**$ 300,860,704**

Changes in Net Position (continued)
Last 10 fiscal years

MEDICARE B FUND	2013	2012	2011	2010
ADDITIONS				
Employer Contributions	$ 20,672,040	$ 21,450,368	$ 22,172,922	$ 22,619,935
Other Income	–	–	–	–
Total Investment Income (Loss), Net	13,702,584	(378,593)	18,521,800	11,348,331
TOTAL ADDITIONS	34,374,624	21,071,775	40,694,722	33,968,266
DEDUCTIONS				
Pension Benefits	26,204,777	25,715,070	25,353,175	25,694,354
Administrative Expenses	6,317	5,800	5,652	4,111
TOTAL DEDUCTIONS	26,211,094	25,720,870	25,358,827	25,698,465
Net increase (decrease)	8,163,530	(4,649,095)	15,335,895	8,269,801
Net Position held in trust:				
Beginning of Year	112,200,252	116,849,347	101,513,452	93,243,651
End of Year	**$120,363,782**	**$112,200,252**	**$116,849,347**	**$101,513,452**

DEATH BENEFIT FUND	2013	2012	2011	2010
ADDITIONS				
Employer Contributions	$ 1,398,442	$ 1,454,763	$ 1,166,996	$ 1,225,772
Other Income	–	–	–	–
Total Investment Income (Loss), Net	2,329,326	(75,490)	3,327,059	2,130,920
TOTAL ADDITIONS	3,727,768	1,379,273	4,494,055	3,356,692
DEDUCTIONS				
Death Benefits	2,410,943	2,309,922	2,254,894	2,236,215
Administrative Expenses	45,510	46,941	43,293	40,872
TOTAL DEDUCTIONS	2,456,453	2,356,863	2,298,187	2,277,087
Net increase (decrease)	1,271,315	(977,590)	2,195,868	1,079,605
Net Position held in trust:				
Beginning of Year	18,272,350	19,249,940	17,054,072	15,974,467
End of Year	**$19,543,665**	**$18,272,350**	**$19,249,940**	**$17,054,072**

QEBA FUND	2013	2012	2011	2010
ADDITIONS				
Employer Contributions	$ 258,320	$ 176,784	$ 157,620	$133,164
Other Income	–	–	–	–
Total Investment Income, Net	154	149	187	231
TOTAL ADDITIONS	258,474	176,933	157,807	133,395
DEDUCTIONS				
Pension Benefits	219,998	170,370	141,086	119,458
Administrative Expenses	1,603	1,282	1,254	1,393
TOTAL DEDUCTIONS	221,601	171,652	142,340	120,851
Net increase (decrease)	36,873	5,281	15,467	12,544
Net Position held in trust:				
Beginning of Year	107,877	102,596	87,129	74,585
End of Year	**$ 144,750**	**$ 107,877**	**$ 102,596**	**$ 87,129**

2009	2008	2007	2006	2005	2004
$21,688,294	$ 18,337,305	$ 18,450,617	$ 20,535,685	$ 17,735,032	$ 17,390,201
–	–	–	62,510	–	–
(27,612,707)	(8,388,671)	22,332,826	13,538,975	10,290,424	14,996,522
(5,924,413)	9,988,634	40,783,443	34,137,170	28,025,456	32,386,723
25,449,935	25,258,432	25,055,794	24,652,637	24,547,223	24,307,188
9,145	5,593	3,336	3,120	3,000	338,990
25,459,080	25,264,025	25,059,130	24,655,757	24,550,223	24,646,178
(31,383,493)	(15,275,391)	15,724,313	9,481,413	3,475,233	7,740,545
124,627,144	139,902,535	124,178,222	114,696,809	111,221,576	103,481,031
$93,243,651	**$124,627,144**	**$139,902,535**	**$124,178,222**	**$114,696,809**	**$111,221,576**

2009	2008	2007	2006	2005	2004
$ 734,970	$ 835,348	$ 1,070,630	$ 1,054,246	$ 759,058	$ 744,272
–	–	–	6,889	–	–
(5,218,168)	(1,600,480)	4,265,549	2,571,377	1,964,827	2,912,708
(4,483,198)	(765,132)	5,336,179	3,632,512	2,723,885	3,656,980
1,780,430	2,185,460	2,083,437	2,259,722	2,217,881	2,200,147
40,782	41,270	58,465	55,200	54,000	47,202
1,821,212	2,226,730	2,141,902	2,314,922	2,271,881	2,247,349
(6,304,410)	(2,991,862)	3,194,277	1,317,590	452,004	1,409,631
22,278,877	25,270,739	22,076,462	20,758,872	20,306,868	18,897,237
$15,974,467	**$22,278,877**	**$25,270,739**	**$22,076,462**	**$20,758,872**	**$20,306,868**

2009	2008	2007	2006	2005	2004
$115,573	$172,260	$ 82,745	$ 41,850	$ 36,026	$ 18,600
–	–	–	–	–	–
1,109	1,129	32	9	2	–
116,682	173,389	82,777	41,859	36,028	18,600
110,465	107,772	85,106	71,298	9,572	6,259
1,349	799	201	–	640	1,289
111,814	108,571	85,307	71,298	10,212	7,548
4,868	64,818	(2,530)	(29,439)	25,816	11,052
69,717	4,899	7,429	36,868	11,052	–
$ 74,585	**$ 69,717**	**$ 4,899**	**$ 7,429**	**$ 36,868**	**$ 11,052**

Benefit and Refund Deductions from Net Position by Type

Last 10 fiscal years

PENSION BENEFITS	2013	2012	2011	2010
Service Retirement	$ 781,736,903	$ 731,236,350	$ 675,549,301	$ 629,474,136
Disability Retirement	85,514,086	81,219,934	77,524,938	74,632,571
Survivor Benefits	33,821,893	33,227,161	31,801,044	29,973,530
Total Pension Benefits	$ 901,072,882	$ 845,683,445	$ 784,875,283	$ 734,080,237
Refunds				
Separation	$ 48,392,410	$ 47,272,246	$ 41,753,113	$ 36,344,287
Beneficiaries	586,793	648,147	470,626	815,398
Total Refunds	$ 48,979,203	$ 47,920,393	$ 42,223,739	$ 37,159,685

MEDICARE B REIMBURSEMENT	2013	2012	2011	2010
Service Retirement	$ 23,460,682	$ 23,006,643	$ 22,677,282	$ 23,024,413
Disability Retirement	1,425,456	1,405,443	1,373,592	1,364,728
Survivor Benefits	1,318,639	1,302,984	1,302,301	1,305,213
Total Medicare B Reimbursement	$ 26,204,777	$ 25,715,070	$ 25,353,175	$ 25,694,354

DEATH BENEFITS	2013	2012	2011	2010
Service	$ 2,197,804	$ 2,101,093	$ 2,040,327	$ 1,969,489
Disability	213,139	208,829	214,567	266,726
Total Death Benefits	$ 2,410,943	$ 2,309,922	$ 2,254,894	$ 2,236,215

HEALTH CARE EXPENSES	2013	2012	2011	2010
Medical	$ 110,990,977	$ 112,808,198	$ 119,184,041	$ 120,931,746
Prescription	78,135,361	94,731,407	100,474,453	113,971,467
Other	1,342,653	2,415,739	1,508,776	2,012,405
Total Health Care Expenses	$ 190,468,991	$ 209,965,344	$ 221,167,270	$ 236,915,618

2009	2008	2007	2006	2005	2004
$ 595,262,076	$ 554,521,059	$ 514,824,466	$ 481,929,589	$ 450,815,396	$ 413,743,800
72,571,590	69,632,988	66,278,496	62,669,473	59,656,369	56,956,255
28,318,931	26,837,461	25,650,405	24,428,704	23,243,160	21,705,434
$ 696,152,597	$ 650,991,508	$ 606,753,367	$ 569,027,766	$ 533,714,925	$ 492,405,489
$ 33,499,028	$ 38,147,667	$ 33,316,422	$ 29,065,065	$ 26,667,001	$ 21,496,787
714,039	760,251	322,319	1,971,998	445,817	593,817
$ 34,213,067	$ 38,907,918	$ 33,638,741	$ 31,037,063	$ 27,112,818	$ 22,090,604

2009	2008	2007	2006	2005	2004
$ 22,790,277	$ 22,542,191	$ 22,350,668	$ 22,007,666	$ 21,896,392	$ 21,742,514
1,340,431	1,334,470	1,317,953	1,278,217	1,245,341	1,216,754
1,319,227	1,381,771	1,387,173	1,366,754	1,405,490	1,347,920
$ 25,449,935	$ 25,258,432	$ 25,055,794	$ 24,652,637	$ 24,547,223	$ 24,307,188

2009	2008	2007	2006	2005	2004
$1,538,800	$ 1,965,949	$ 1,880,256	$ 2,062,198	$ 2,018,318	$ 1,992,963
241,630	219,511	203,181	197,524	199,563	207,184
$1,780,430	$ 2,185,460	$ 2,083,437	$ 2,259,722	$ 2,217,881	$ 2,200,147

2009	2008	2007	2006	2005	2004
$ 112,696,150	$ 129,186,181	$ 128,160,112	$ 131,562,641	$ 113,102,587	$ 125,213,303
99,283,588	95,603,763	89,957,159	95,589,547	105,195,298	97,155,916
3,429,907	1,646,883	1,321,391	1,418,560	518,675	1,074,586
$ 215,409,645	$ 226,436,827	$ 219,438,662	$ 228,570,748	$ 218,816,560	$ 223,443,805

Employee and Employer Contribution Rates

Last 10 fiscal years

Fiscal Year	Employee Rate	Employer Rate Pension	Medicare B	Death Benefit	Health Care	Total
2013	10%	13.05%	0.74%	0.05%	0.16%	14%
2012	10	12.65	0.75	0.05	0.55	14
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

Demographics of New Pension Benefit Recipients

Last 10 fiscal years

Average Service Benefit

Year Ended June 30	Service Credit	Monthly Amount	Age	Final Average Salary
2013	21.7	$ 1,236	63.2	$ 31,558
2012	22.9	1,246	63.6	31,600
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

Average Disability Benefit

Year Ended June 30	Service Credit	Monthly Amount	Age	Final Average Salary
2013	16.1	$ 1,254	54.0	$ 29,484
2012	16.0	1,249	54.9	29,071
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

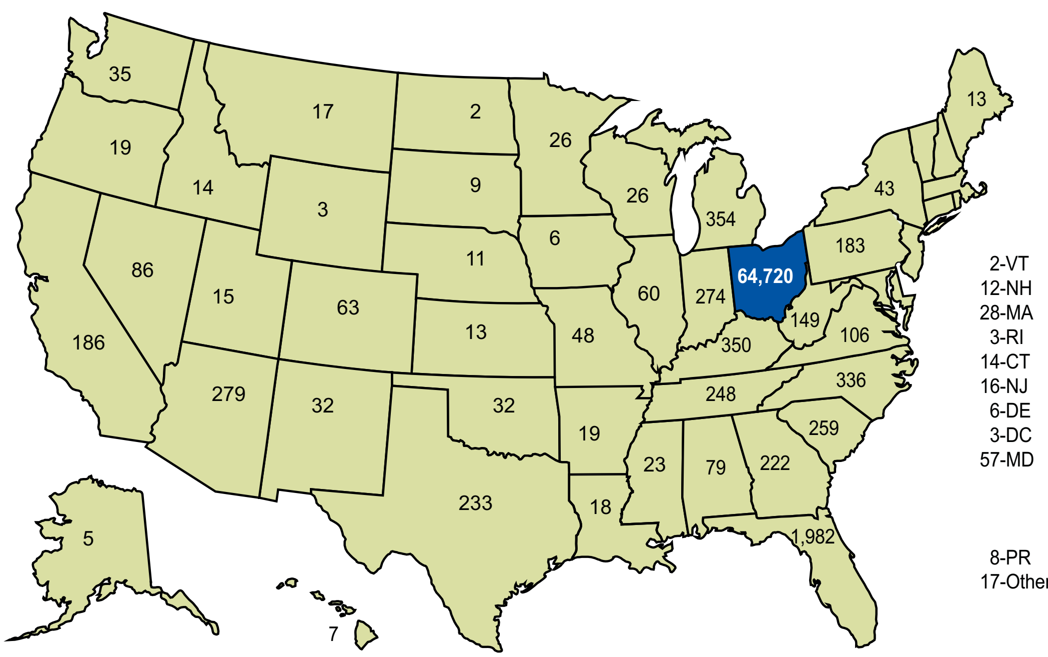
Demographics of Active and Retired Members

Fiscal Year 2013

	Active Members			Percentage of Distribution		
	Male	Female	Total	Male	Female	Total
Under 20	421	306	727	1%	0%	1%
20 to 29	5,442	5,931	11,373	4	5	9
30 to 39	5,866	9,630	15,496	5	8	13
40 to 49	8,282	23,281	31,563	7	19	26
50 to 54	5,198	16,710	21,908	4	14	18
55 to 59	5,223	15,177	20,400	4	13	17
60 to 64	3,637	9,061	12,698	3	7	10
65 to 69	1,750	3,211	4,961	1	3	4
70 and over	978	1,538	2,516	1	1	2
	36,797	84,845	121,642	30%	70%	100%

	Retired Members and Beneficiaries			Percentage of Distribution		
	Male	Female	Total	Male	Female	Total
Under 55	832	1,074	1,906	1%	2%	3%
55 to 59	1,321	1,809	3,130	2	3	5
60 to 64	2,349	5,862	8,211	3	8	11
65 to 69	3,231	9,196	12,427	5	13	18
70 to 74	3,310	9,611	12,921	5	14	19
75 to 79	3,067	8,797	11,864	4	12	16
80 to 84	2,304	7,161	9,465	3	10	13
85 to 89	1,446	5,292	6,738	2	7	9
90 to 94	590	2,649	3,239	1	4	5
95 to 99	119	660	779	0	1	1
100 and over	12	79	91	0	0	0
	18,581	52,190	70,771	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	11,633	10,513	108	1,012
251 - 500	11,824	9,944	602	1,278
501 - 750	10,525	8,838	845	842
751 - 1,000	8,368	6,992	856	520
1,001 - 1,500	11,570	9,853	1,304	413
1,501 - 2,000	6,621	5,644	810	167
over 2,000	9,834	8,764	913	157
	70,375	60,548	5,438	4,389
Average Monthly Benefit		$1,072	$1,294	$644
Average Age		74.4	64.9	71.5

Retirees, Spouses, and Dependents Receiving Health Care Coverage

Attained Age	Number of Males	Number of Females	Total Number
Under 30	187	209	396
30 - 39	6	6	12
40 - 49	63	85	148
50 - 59	1,032	1,269	2,301
60 - 64	1,161	2,260	3,421
65 - 69	1,643	4,369	6,012
70 - 74	2,562	5,873	8,435
75 - 79	2,749	5,910	8,659
80 - 84	2,081	4,796	6,877
85 - 89	1,326	4,126	5,452
90 - 94	560	2,269	2,829
95 - 99	111	587	698
100 and over	10	82	92
	13,491	31,841	45,332

Principal Participating Employers

Current fiscal year and nine fiscal years ago

	Fiscal Year 2013			Fiscal Year 2004		
Participating School's Name	Covered Employee Members	Rank	Percentage of Total System	Covered Employee Members	Rank	Percentage of Total System
Columbus City Schools	3,556	1	2.92%	3,842	2	3.12%
Cleveland Metropolitan School District	2,633	2	2.16	3,936	1	3.20
Cincinnati Public Schools	2,531	3	2.08	2,937	3	2.39
University Of Akron	2,393	4	1.97	1,572	6	1.28
Akron Public Schools	1,496	5	1.23	1,664	5	1.35
Toledo Public Schools	1,397	6	1.15	1,749	4	1.42
Dayton City Schools	1,156	7	0.95	1,543	7	1.25
South-Western City Schools	1,142	8	0.94	1,271	8	1.03
Educational Service Center Council of Governments	1,114	9	0.92	–	–	0.00
Columbus State Community College	974	10	0.80	–	–	0.00
Parma City Schools	–	–	–	967	9	0.79
Canton City Schools	–	–	–	896	10	0.73
All Other	103,250		84.88	102,762		83.44
Total	121,642		100.00%	123,139		100.00%

In fiscal year 2013 "All Other" consisted of:

	Covered Employee Members	Number of School Districts
Local School Districts	37,793	374
City School Districts	43,999	185
Educational Service Centers	6,878	55
Exempted Village Districts	5,321	49
Higher Education	2,554	13
Vocational/Technical Schools	2,826	49
Community Schools	3,406	314
Other	473	15

Average Benefit Payments - New Retirees (Service only)

Last 10 fiscal years

	Years of Credited Service					
Retirement Effective Dates	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30 +**
Period 7/1/12 to 6/30/13						
Average Monthly Benefit	$ 227	$ 483	$ 732	$ 1,086	$ 1,403	$ 2,815
Average Final Average Salary	1,540	2,069	2,270	2,585	2,830	3,224
Number of Retirees	483	639	437	538	744	965
Period 7/1/11 to 6/30/12						
Average Monthly Benefit	$ 237	$ 475	$ 759	$ 1,066	$ 1,376	$ 2,439
Average Final Average Salary	1,555	2,029	2,342	2,548	2,863	3,136
Number of Retirees	468	557	478	498	643	1,089
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

Jeffrey Smith, Madeira City Schools, SERS Retiree

Plan Summary

Plan Summary

Established by state law in 1937, SERS is a statewide 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.

The plan summary in effect at June 30, 2013. is described below. A pension reform bill was signed on September 26, 2012, with most provisions becoming effective January 7, 2013. The bill increased the current age and service credit requirements for retirement eligibility for members retiring on or after August 1, 2017.

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 pursuant to sections 3319.22 to 3319.31 of the Revised Code; 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 Ohio Department of Education (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 (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 an 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 retires prior to August 1, 2017 from SERS may retire under the following age and service credit guidelines:

- 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 becomes eligible for retirement after August 1, 2017 and who will not have at least 25 years of service credit as of August 1, 2017 may retire under the following age and service credit quidelines:

- 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 57 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 the member’s 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 the contributing service stopped;
- Is permanently disabled, either physically or mentally, for work in a 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.

All disability recipients are required to apply for Social Security disability benefits, if eligible.

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 the member's 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

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.

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 from their SERS-covered position
- After 3 or 5 years, if receiving rehabilitation or treatment, a re-examination finds the member is capable of performing other job duties with pay at or above 75% of their annual compensation, for which they are qualified, and can reasonably be found.
- The member returns to a SERS-covered job
- The member's death
- The member requests that benefits end

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 19, 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 19; 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 <u>not</u> 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.

McGladrey

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited, in accordance with the 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, the financial statements of School Employees Retirement System of Ohio, which comprise the statement of net position as of June 30, 2013, and the related statement of changes in net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 9, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered School Employees Retirement System of Ohio's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of School Employees Retirement System of Ohio's internal control. Accordingly, we do not express an opinion on the effectiveness of School Employees Retirement System of Ohio's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether School Employees Retirement System of Ohio's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* (Continued)

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McGladrey LLP

Cleveland, Ohio
December 9, 2013

Dave Yost • Auditor of State

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 11, 2014

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