School Employees Retirement System of Ohio

Comprehensive Annual Financial Report

For the year ended June 30, 2014

Serving the People Who Serve Our Schools®

Dave Yost · Auditor of State

Members of the Board
School Employees Retirement System of Ohio
300 E. Broad St., Suite 100
Columbus, Ohio 43215

We have reviewed the *Independent Auditors' Report* of the School Employees Retirement System of Ohio, Franklin County, prepared by McGladrey LLP, for the audit period July 1, 2013 through June 30, 2014. 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

Dave Yost
Auditor of State

February 26, 2015

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www.ohioauditor.gov

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SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2014

Prepared by SERS Staff
Lisa J. Morris, Executive Director
300 E. Broad St., Suite 100, Columbus, Ohio 43215-3746
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.”

Photo credit: Marcea Grilli, SERS employee
Photo location: Put-In-Bay, Ohio

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INTRODUCTORY SECTION

Left to right: Standing – Dee Faragher, Nancy Edwards, Frank Weglarz, Lisa Morris, Christine Holland

Seated – Catherine Moss, Debra Basham, James Rossler, Barbra Phillips, Daniel Wilson

Chair
James A. Rossler, Jr.
Term Expires 11/4/2016

Vice-Chair
Daniel L. Wilson
Term Expires 9/27/2016

Employee-Member
Debra J. Basham
Term expires 6/30/2017

Appointed Member
Nancy D. Edwards
Term Expires 12/5/2016

Employee-Member
Madonna D. Faragher
Term Expires 6/30/2015

Employee-Member
Christine D. Holland
Term Expires 6/30/2015

Retiree-Member
Catherine P. Moss
Term Expires 6/30/2016

Employee-Member
Barbra M. Phillips
Term Expires 6/30/2017

Retiree-Member
Frank A. Weglarz
Term Expires 6/30/2015

Advisors

Independent Auditor
McGladrey LLP - Cleveland, Ohio

Actuary
Cavanaugh Macdonald Consulting, LLC - Kennesaw, Georgia

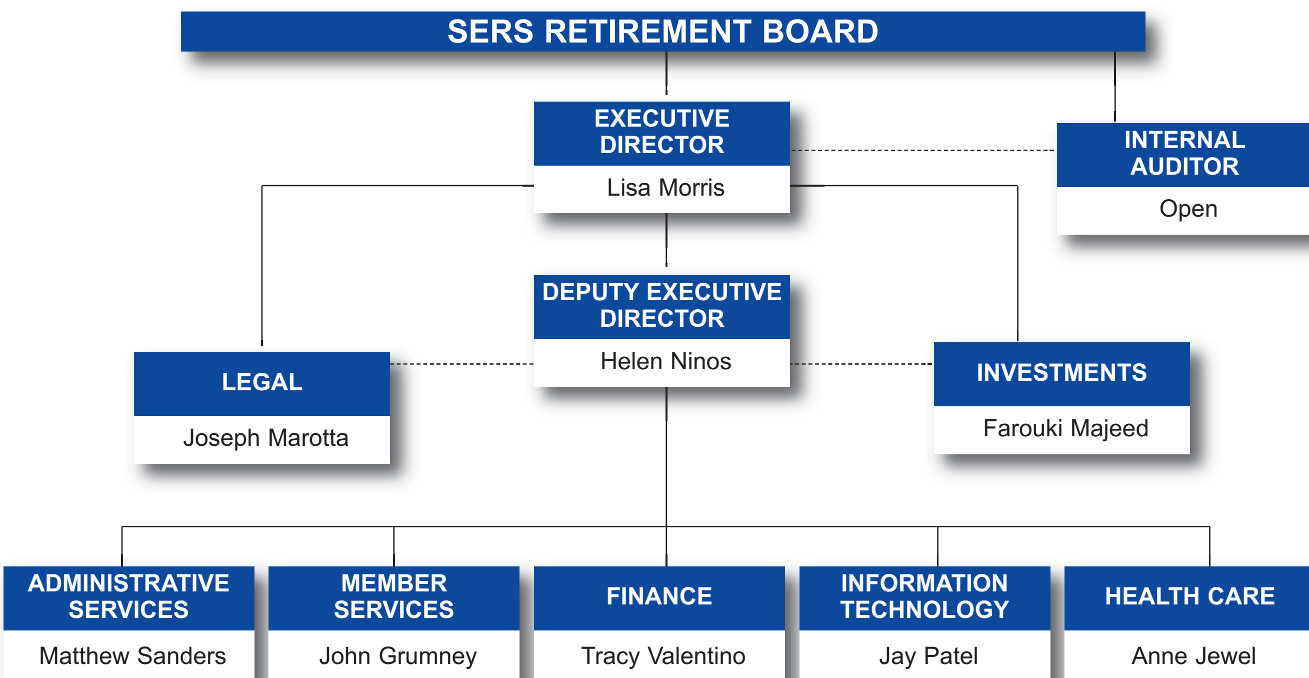
Investment Consultant
Summit Strategies Group - St. Louis, Missouri

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 55-57

Clockwise, beginning at the lower left: Lisa Morris, Helen Ninos, Farouki Majeed, John Grumney, Tracy Valentino, Jay Patel, Anne Jewel, Joe Marotta, (not pictured, Matthew Sanders)



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, 2013

Executive Director/CEO

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2014

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 24, 2014

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, 2014. 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.

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.

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 you to discuss their audit and related findings concerning the integrity of financial reporting and adequacy of internal controls.

MAJOR INITIATIVES AND HIGHLIGHTS

SERS Actuarial Audit The Ohio Revised Code requires the Ohio Retirement Study Council (ORSC) to conduct an independent actuarial audit of Ohio's public pension systems every 10 years. The purpose of an actuarial audit is to confirm that there are no significant errors in the systems' actuarial calculations. The ORSC hired Pension Trust Advisors (PTA) and KMS Actuaries, LLC, to perform SERS' audit.

PTA/KMS reviewed the actuarial method; actuarial, demographic and economic assumptions; and health care assumptions and premium rates used by Cavanaugh Macdonald Consulting, LLC. The results of the audit were complimentary of the actuarial calculations, which PTA/KMS described as "reasonable, consistent, and accurate." They reported no significant discrepancies after reviewing FY2013 actuarial assumptions and replicating the valuations.

Reaching Out to Members in New Ways To provide more members with one-on-one retirement counseling opportunities with SERS' counselors, the Member Services staff developed a remote counseling program. Instead of traveling to Columbus for counseling services, members now can schedule appointments to meet with SERS' counselors at sites closer to their homes. In FY2014, the counselors held eight sessions in four different cities and met with 269 members. In response to the positive feedback, Member Services plans to visit more cities next year.

Member Services also piloted the Retiree Estimated Payments program in March to shorten the delay between a member's last day of work and their first pension payment. Because it takes time to gather final paycheck information and service credit from employers, most new retirees had to wait two or more months before they received their first pension payment. In many cases, this delay caused financial hardship. The new program estimates a retiree's pension payment and sends it to them the month following their retirement date. Once the final pension payment is calculated, subsequent pension payments are adjusted to reflect any overpayment or underpayment during the estimated period.

In response to major changes in the availability of health care coverage in the federal Health Insurance Marketplace and the expansion of Medicaid in Ohio, SERS' Health Care Services staff directly contacted by phone all higher need benefit recipients to help them determine if any of the new Marketplace and Medicaid coverage options better fit their needs and budget.

In the first phase of a long-range plan to redesign SERS' publications, staff developed new welcome materials for members of different age brackets. Feedback from several focus groups was incorporated into the final designs and new members began receiving them at the end of June.

Retirees Embrace Expansion of Dental and Vision Coverage SERS' Board, at the request of the Health Care Services staff, approved a change in SERS' health care rule that allowed 26,700 benefit recipients who had previously waived health care coverage to be eligible to enroll in dental and/or vision coverage. Vision coverage was offered for the first time in FY2014. A total of 9,299 individuals enrolled in vision coverage, while 24,213 individuals enrolled in dental coverage, an increase of 4,384 over the previous year. The full cost of this coverage is borne by the retirees.

GASB Outreach Becomes a Priority At the beginning of FY2014, SERS' Communications, Legislative, and Finance staff began preparing materials to educate media and legislators about the potential effects Governmental Accounting Standards Board (GASB) statements 67 and 68 will have on local communities. These materials included staff talking points, a handout titled *GASB's New Pension Accounting Standards – Changes You Need to Know*, and educational information posted on SERS' website for employers.

Once these materials were in place, staff began meeting with legislators to explain how the GASB statements would affect Ohio's public pension systems and public employers. SERS' Executive Director testified before the House and Senate in support of House Concurrent Resolution 40, which expresses support for the state retirement systems and all public employers in implementing the new GASB accounting standards. The resolution passed both chambers unanimously on February 19, 2014.

In April, SERS began implementing an outreach plan to inform Ohio media about the forthcoming accounting and financial reporting changes made by GASB. The Executive Director and Government Relations and Communications staff visited 12 newspaper editorial boards and spoke with business reporters from two newspapers by phone. These efforts resulted in one article, one editorial, and an invitation to write an Op-Ed article later in 2014. In addition, SERS partnered with the Ohio Association of School Board Officials (OASBO) to identify local school treasurers to accompany staff on these editorial board visits. This partnership was a tremendous success. In most cases, the local treasurers had established relationships with the media, which led to good discussions. More importantly, they provided actual examples of how the GASB changes will financially impact their school districts through increased auditing fees and downgraded bond ratings.

Membership Determination During the fiscal year, SERS staff worked collaboratively with the State Teachers Retirement System of Ohio (STRS Ohio) staff and at the urging of STRS Executive Director, Mike Nehf, and SERS Executive Director, to clarify membership determination rules for some positions of mutual interest. Periodically, schools create new positions and change the responsibilities or qualifications for existing positions, which makes it difficult for employers to enroll their employees in the correct retirement system. Examples of these positions include coaches, athletic directors, nurses, speech language pathologists, and individuals who hold a pupil services license.

The systems sent co-branded information to K-12 superintendents and treasurers detailing these changes and required employer actions. Affected employees were required to begin contributing to the correct system as defined by Ohio statute on July 1, 2014.

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 $12.4 billion. Investment return was 17.3% (net) for the fiscal year versus the benchmark return of 15.6% and the actuarial assumed return of 7.75%. Net investment income was $1.94 billion compared to $1.33 billion in FY2013. The SERS Investment Committee structure is fully operational and represents a leading practice in Investment operations. 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. In addition, SERS is committed to sustaining contribution rates that remain level from generation to generation.

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 GASB statements. For FY2014, the funded ratios for the three benefits mandated by statutes increased, which was primarily due to the strong performance of SERS' investments. The funding level for pension benefits increased from 65.3% over a 29-year period to 68.1% over a 28-year period. The funding level for discretionary health care benefits increased from 13.0% to 16.7% 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.

AWARDS AND ACKNOWLEDGEMENTS

SERS Receives National Green Recognition for Energy Conservation Efforts After years of fine-tuning the operational efficiency at SERS' building in downtown Columbus, SERS applied for and received a Leadership in Energy and Environmental Design for Existing Buildings (LEED-EB®) award from the U.S. Green Building Council (USGBC). SERS building received a LEED Silver certification, becoming the 5th LEED-EB certified building in Columbus and the 32nd in Ohio. There are four levels of LEED certification – Certified, Silver, Gold, and Platinum.

While energy conservation is a primary category within the LEED certification program, SERS' staff also changed landscaping and pest management practices, improved water efficiency, engaged in sustainable purchasing and recycling, improved indoor air quality, and used green cleaning products to qualify for certification. These changes contributed to significant decreases in the consumption of natural resources and harmful chemicals. Since SERS began tracking energy consumption in 2007, natural gas usage has been reduced by 33%, and electric usage has been reduced by 9%. In addition, the recycling program has reduced landfill waste by 70%.

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, 2013. This was the 29th consecutive year that SERS has received this prestigious award. 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 GFOA gave SERS an Award for Outstanding Achievement in Popular Annual Financial Reporting for its Summary Annual Financial Report for the fiscal year ended June 30, 2013. This Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports. In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal. An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for one year only.

The Public Pension Coordinating Council (PPCC) awarded to SERS the Public Pension Standards Award for 2014. 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.

This report represents the collaboration of SERS' staff and advisors. It is intended to provide complete and reliable information as a basis for management decisions, and for compliance with legal requirements, and as measurement of the responsible stewardship of SERS' assets.

In closing, we recognize that our strength is a reflection of the quality of our staff. We value their efforts that enable us to maintain effective internal controls while at the same time deliver high quality service to our members, retirees, and employers.

Respectfully submitted,

Lisa J. Morris	Tracy L. Valentino, CPA
Executive Director	Chief Financial Officer

Legislative Summary

SERS and its members can be significantly affected by legislation enacted by the Ohio General Assembly and Congress. SERS closely monitors legislative and regulatory 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 40 Retirement Systems (02/19/2014, Enrolled)

This resolution acknowledges the Governmental Accounting Standards Board Statement Nos. 67 and 68 and pledges the General Assembly's continued support of Ohio's public employers and retirement systems in their mission to provide secure and sustainable retirement, disability, and survivor benefits to Ohio's public employees.

HB 162 Retirement System Offenses (05/28/2014, Senate State Government Oversight and Reform, First Hearing)

This bill adds extortion, perjury, and certain federal offenses to those committed by a public retirement system member in the context of the member's public employment in a position of honor, trust, or profit that may result in forfeiture of retirement system benefits or the termination of retirement system disability benefits. The bill also makes the establishment of a long-term care insurance program by a public retirement system discretionary.

HB 285 Public Employee Retirement Pension (11/12/2013, Referred to House Health and Aging)

This bill provides that an individual retiring on or after the effective date of this act from one of the state's public retirement systems who is reemployed as a public employee will not receive the pension portion of the retirement allowance for the period of employment.

HB 620 State Retirement-Survivor Benefits To Ex-Spouses (09/16/2014, Introduced)

This bill provides for payment to an ex-spouse of part of any survivor benefits or return of contributions payable to the surviving spouse of a state retirement system member who dies prior to retirement. The bill also modifies eligibility requirements for benefits provided to survivors of deceased members of the State Teachers Retirement System of Ohio and the Ohio Public Employees Retirement System.

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 Secretary of the US Treasury 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. 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.

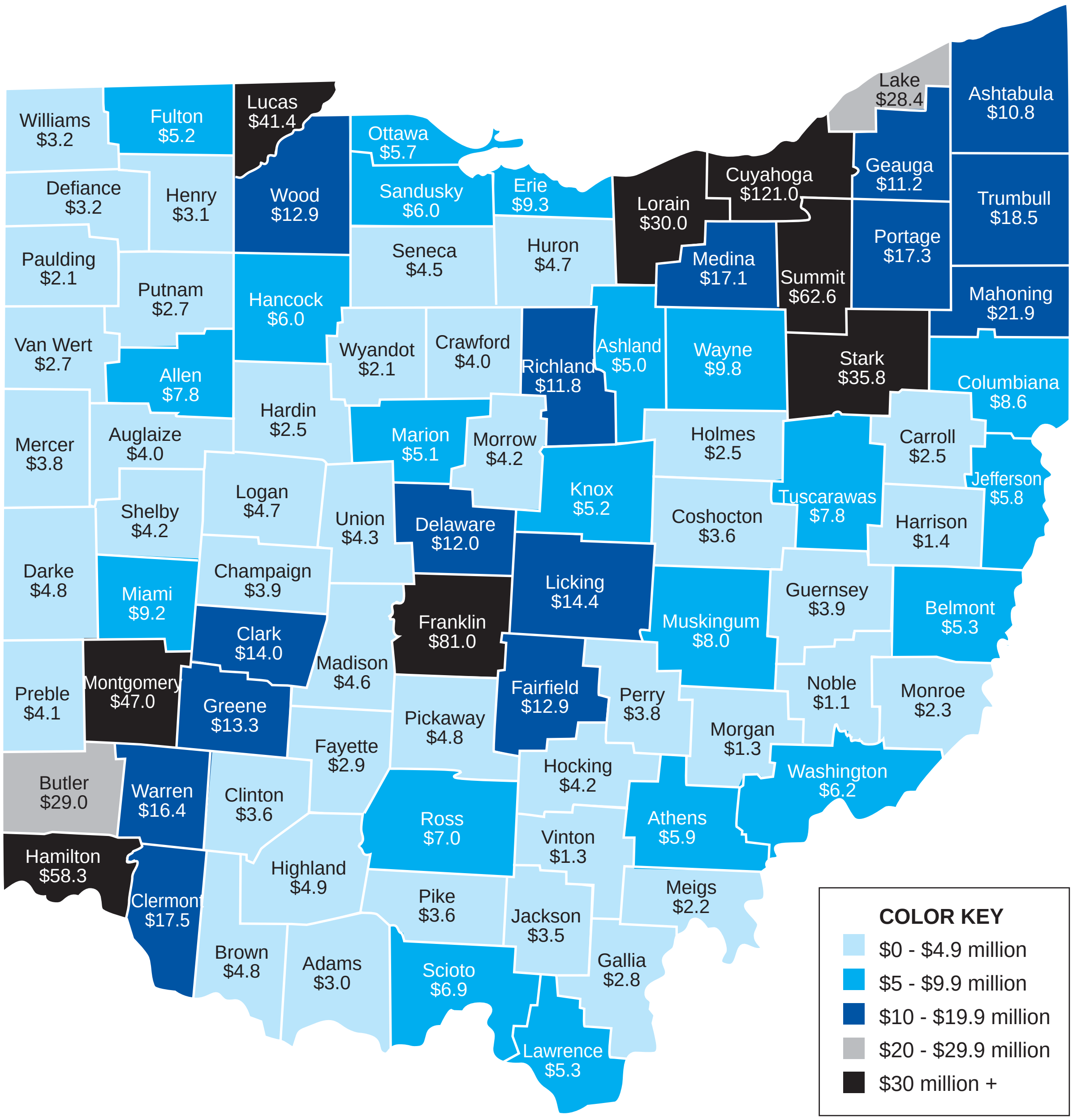
S 779 Public Employee Pension Transparency Act (04/23/2013, Referred to Senate Committee on Finance)

This bill requires public pension funds to file annual reports with the Secretary of the US Treasury 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. 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.

Pension Benefits by County FY2014



Of the 72,605 individuals receiving pension benefits from SERS, 92% live in Ohio. In fiscal year 2014 alone, pension benefit payments of more than $1 billion were distributed among Ohio's 88 counties, positively impacting the state's economy.

FINANCE 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 fiduciary net position as of June 30, 2014, and the related statement of changes in fiduciary net position for the year ended June 30, 2014, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 fiduciary net position of SERS as of June 30, 2014, and the changes in fiduciary net position for the year ended June 30, 2014, in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report (Continued)

Report on Summarized Comparative Information

We have previously audited the financial statements of SERS as of and for the year ended June 30, 2013, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 9, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

As discussed in Note 14 of the financial statements, in 2014, the System adopted Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the Schedule of Changes in the Employers' Net Pension Liability, the Schedule of Employer Contributions, the Schedule of Investment Returns, the Schedule of Funding Progress – Health Care Fund and the Schedule of Employer Contributions and Other Contributing Entities – Health Care Fund and related notes, on pages 37 – 39, 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 audit 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.

Independent Auditor's Report (Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2014 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 report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 18, 2014

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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, 2014. 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 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 Fiduciary 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 Fiduciary Net Position* presents what has happened to the plans during the fiscal year.

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 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. The financial statements, notes, and RSI were prepared in conformance with GASB Statement No. 67, *Financial Reporting for Pension Plans*. Following the RSI is other supplementary information, including schedules with detailed information on investment and administrative expenses.

FINANCIAL HIGHLIGHTS

- Total additions to plan net assets were $2,814.2 million, comprised of contributions of $874.9 million and net investment income of $1,939.3 million.
- Total deductions from plan net assets for FY2014 totaled $1,259.1 million, an increase of 3.8% over FY2013 deductions.
- The net increase in plan net assets was $1,555.1 million compared to a net increase of $992.9 million in FY2013.

CONDENSED SUMMARY OF TOTAL FIDUCIARY NET POSITION
(in millions)

			Change	
ASSETS	2014	2013	Amount	Percent
Cash	$ 738.4	$ 502.5	$ 235.9	46.9%
Receivables	278.3	275.7	2.6	0.9
Investments	12,760.5	11,459.9	1,300.6	11.3
Capital Assets, Net	55.9	51.8	4.1	7.9
Other Assets	0.2	0.1	0.1	100.0
Total Assets	13,833.3	12,290.0	1,543.3	12.6
LIABILITIES				
Benefits & Accounts Payable	15.0	17.1	(2.1)	(12.3)
Other Liabilities	583.4	593.1	(9.7)	(1.6)
Total Liabilities	598.4	610.2	(11.8)	(1.9)
Net Position	$ 13,234.9	$ 11,679.8	$ 1,555.1	13.3%

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

			Change	
ADDITIONS	2014	2013	Amount	Percent
Contributions	$ 874.9	$ 876.6	$ (1.7)	(0.2)%
Net Investment Income/(Loss)	1,939.3	1,329.5	609.8	45.9
Total Additions	2,814.2	2,206.1	608.1	27.6
DEDUCTIONS				
Benefits	1,174.1	1,120.4	53.7	4.8
Refunds & Transfers	63.2	71.3	(8.1)	(11.4)
Admin. Expenses	21.8	21.5	0.3	1.4
Total Deductions	1,259.1	1,213.2	45.9	3.8
Net Increase	1,555.1	992.9	562.2	56.6
Balance, Beginning of Year	11,679.8	10,686.9	992.9	9.3
Balance, End of Year	$ 13,234.9	$ 11,679.8	$ 1,555.1	13.3%

FINANCIAL ANALYSIS

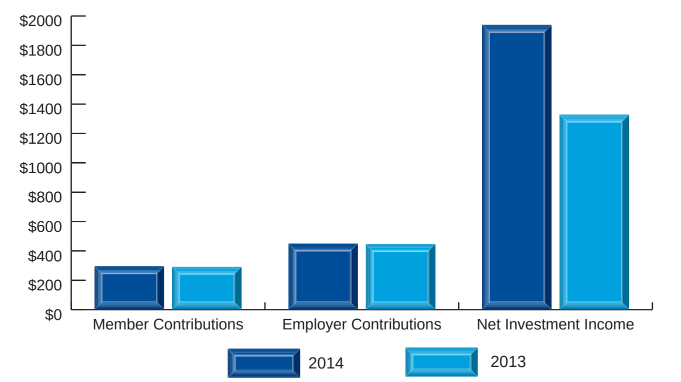
A cost-sharing defined benefit public retirement system, such as SERS, has a long-term perspective on financial activities. SERS' primary responsibility is to assure that sufficient funds will be available to provide retirement, disability, survivor, Medicare B, and lump sum death benefits. Laws governing SERS' financing intend the contribution rates to remain approximately level from generation to generation.

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 is invested separately in a short-term fund. Funding for the health care program comes from employers, retiree premium payments, the federal government, and investment income. The graph below labeled "Comparison of Additions to Fiduciary Net Position by Fund" depicts the proportion that each source added to the individual fund's assets during FY2014.

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. Employee contributions and employer contributions, excluding the surcharge, increased 0.9% based on the total payroll increase even as the number of active members declined.

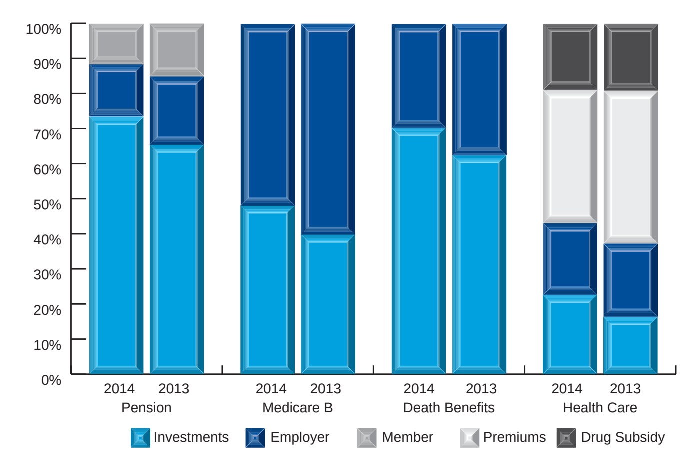
Employer contributions to the Health Care Fund are derived from two sources. The first source is an allocation of the employers' 14% contribution after pension benefits are actuarially funded. This allocation decreased from 0.16% for FY2013 to 0.14% for FY2014. The second is a health care surcharge for 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. Because payroll increased, the surcharge also increased from $42.0 million in FY2013 to $42.2 million.

Comparative Additions by Source
FY2014 & 2013
(in millions)



Along with employer contributions and investment income, additions to the Health Care Fund include health care premiums paid by retirees. Enrollment declined 1.4% from 45,332 retirees and dependents last year to 44,710 in FY2014 and total premiums decreased 9.6% over the previous fiscal year. 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. We did realize a positive impact from this decision as the decline in the Medicare Advantage enrollment as of January 1, 2014 was the smallest in five years.

Comparison of Additions to Fiduciary Net Position by Fund

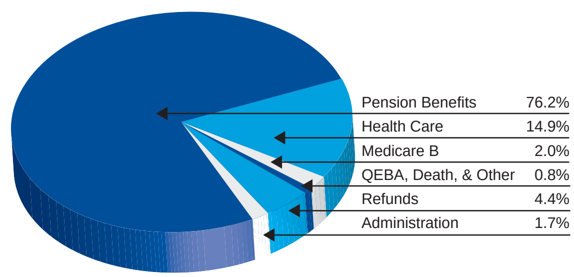


The other sources of contributions to the Health Care Fund include a net reimbursement of $13.0 million from the federal program for Medicare Part D qualified prescription drug plans (PDP); and $29.2 million from our primary Medicare Advantage provider based on a risk-sharing contract effective January 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 pays an additional premium to the provider.

Investment income is allocated, in accordance with the actuary's recommendation, to all funds except the QEBA. It is presented net of investment fees and is comprised of interest, dividends, and realized and unrealized investment gains and losses. Investment expense is comprised of external manager, custody, and master record keeper fees, and internal investment and accounting expenses. SERS' investment portfolio, with the exception of cash and short-term investments, is managed by external investment managers. SERS had a net investment gain of $1.94 billion compared to a gain of $1.33 billion in FY2013. Our portfolio benefited from the excellent growth in the US and global equity markets. We also saw results from our three-year strategic plan adopted in FY2013 to improve the structure of the portfolio with the twin objectives of optimizing risk and return and reducing fees, and as a result external manager fees decreased 2.0% from FY2013.

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 are 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 Fiduciary Net Position FY2014



Payments to service, disability, and survivor benefit recipients increased $53.7 million, or 4.8% during FY2014. Service retirement payments increased 6.8% while disability and survivor benefits payments increased by 2.7% and 3.7%, 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. The remainder of the increase is the relatively higher benefits of new retirees due to higher final average salary. New service retirements have remained level for three years; however we are planning for an increase as we approach August 1, 2017, when legislated changes in age and service credit requirements for retirement eligibility become effective.

Total refunds paid increased 13.7% from FY2013 to FY2014. 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.

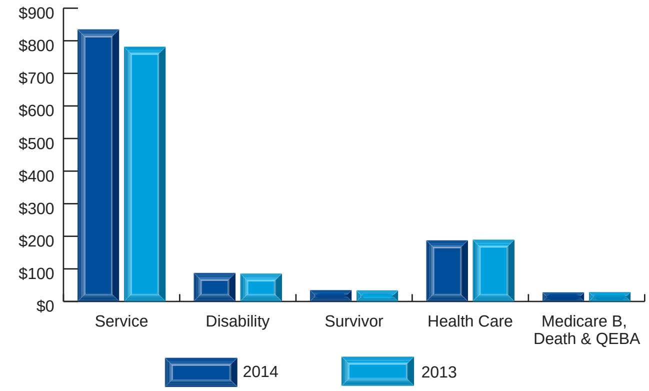
If a member has been employed in a job covered by the State Teachers Retirement System of Ohio (STRS) or the Ohio Public Employees Retirement System (OPERS) defined benefit plans as well as in a job covered by SERS, the member may combine the service credit and accounts in all the systems to receive one benefit at retirement. The system that holds the greatest service credit calculates and pays the benefit; the employee's full contributions and a share of the employer contributions and interest are transferred to the paying system. FY2014 was the first full year of a statutory change which became effective for retirements after January 7, 2013 which modified the calculation for the transferred employer share. Because all three systems were not ready for implementation at the same time, the net transfer amount for FY2014 cannot be reasonably compared to FY2013; however SERS continues to transfer out more monies than received, just as it did under the previous calculation method.

SERS reimburses a portion ($45.50) of the Medicare Part B premium to retirees eligible for SERS' health care program who provide proof of enrollment in Medicare Part B. The reimbursement amount, established by statute, has not changed since 2001; therefore, changes in expense are driven by eligible retirees' enrollment in Medicare Part B or termination of a benefit. Medicare Part B expense decreased 1.5% in FY2014. As noted earlier, the eligibility of new retirees to receive the Part B reimbursement is now tied to enrollment in one of SERS' health care plans.

SERS pays a $1,000 death benefit, established by statute in 2001, to the designated beneficiary of service and disability retirees. Death benefit payments decreased 6.2% in FY2014.

Most of retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care expense decreased $2.5 million, or 1.3%, to $188.0 million. However claim costs in the self-insured programs increased 9.0% even as the number of covered lives decreased 3.0%. Our goals for the non-Medicare program are to provide access to quality coverage at an affordable cost and to focus on care management to improve the quality of care and to lower costs. Health care is a benefit that is permitted, not mandated, by statute. Our funding policy is to maintain the Health Care Fund with a 20-year solvency period to ensure that the fluctuations in the cost of health care do not cause an interruption in the program.

Comparative Benefit Payments
FY2014 & 2013
(in millions)



NEW ACCOUNTING STANDARD FOR REPORTING OF PENSION LIABILITY

GASB 67 replaced GASB 25 for plan years beginning after June 30, 2013. This is the first year for SERS' implementation of this new statement. Issued in 2012, GASB 67 represented a significant departure from the requirements of GASB 25 which required pension plans to report items in the Financial Section RSI that were consistent with the results of the plan's actuarial valuation, as long as those valuations met certain parameters. GASB 67 separates reporting for accounting and funding purposes by requiring disclosure and reporting that may or may not be consistent with the basis used for funding. The actuary must now determine two new liabilities: Total Pension Liability (TPL) and Net Pension Liability (NPL). The TPL is calculated using the entry age normal method; the most common actuarial method used and the one that SERS uses for funding purposes. The NPL is derived by reducing the TPL by the Fiduciary Net Position, which uses the market value of assets as of the measurement date. For actuarial funding purposes, SERS employs a four-year smoothing of assets and a 20% corridor for gains and losses as an additional limit on market fluctuations on assets. In contrast, the NPL is much more volatile because there is no smoothing of investment gains and losses. GASB 67 also requires 10-year schedules that depict the calculation of the NPL, and changes in the NPL. These schedules will be developed as we go forward such that readers of the notes and RSI can view the trends in these two measurements and an analysis of the changes in TPL and NPL will be included in this document in the future.

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 Fiduciary Net Position as of June 30, 2014

	Pension Trust Fund	Medicare B Fund	Death Benefit Fund
ASSETS			
Cash & Operating Short Term Investments	$ 688,723,436	$ 6,663,568	$ 1,201,958
Receivables			
Contributions			
Employer	37,065,384	1,785,031	89,467
Employee	12,129,252	-	-
Investments Receivable	152,995,476	1,645,418	272,614
Other Receivables	3,375,482	65,000	-
Total Receivables	205,565,594	3,495,449	362,081
Investments at Fair Value			
US Equity	4,346,374,815	46,733,750	7,743,579
Non-US Equity	3,276,830,970	35,233,639	5,838,061
Private Equity	1,181,393,086	12,702,754	2,104,791
Fixed Income	1,789,584,159	19,242,238	3,188,355
Real Assets	1,311,395,766	14,100,588	2,336,406
Total Investments at Fair Value	11,905,578,796	128,012,969	21,211,192
Securities Lending Collateral at Fair Value	372,668,741	4,007,065	663,953
Capital Assets			
Land	3,315,670	-	-
Property & Equipment, at Cost	59,533,838	-	-
Accumulated Depreciation and Amortization	(22,339,067)	-	-
Computer System Under Development	15,338,943	-	-
Capital Assets, Net	55,849,384	-	-
Prepaids and Other Assets	195,600	-	-
TOTAL ASSETS	13,228,581,551	142,179,051	23,439,184
LIABILITIES			
Accounts Payable & Accrued Expenses	3,354,065	193	2,912
Benefits Payable	1,086,777	27,709	443,326
Investments Payable	191,444,549	2,058,479	341,081
Obligations under Securities Lending	369,920,022	3,977,510	659,056
TOTAL LIABILITIES	565,805,413	6,063,891	1,446,375
NET POSITION HELD IN TRUST FOR PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS	$ 12,662,776,138	$ 136,115,160	$ 21,992,809

See accompanying notes to the financial statements.

QEBA Fund	Health Care Fund	TOTAL
$ 167,013	$ 41,676,504	$ 738,432,479
-	41,576,519	80,516,401
-	-	12,129,252
7	4,090,909	159,004,424
-	23,177,597	26,618,079
7	68,845,025	278,268,156
-	116,250,364	4,517,102,508
-	87,643,797	3,405,546,467
-	31,598,144	1,227,798,775
-	47,865,133	1,859,879,885
-	35,075,262	1,362,908,022
-	318,432,700	12,373,235,657
-	9,967,589	387,307,348
-	-	3,315,670
-	-	59,533,838
-	-	(22,339,067)
-	-	15,338,943
-	-	55,849,384
-	1,089	196,689
167,020	438,922,907	13,833,289,713
1,540	10,050,162	13,408,872
-	-	1,557,812
-	5,120,474	198,964,583
-	9,894,070	384,450,658
1,540	25,064,706	598,381,925
$ 165,480	$ 413,858,201	$ 13,234,907,788

Statement of Changes in Fiduciary Net Position for the year ended June 30, 2014

	Pension Trust Fund	Medicare B Fund	Death Benefit Fund
ADDITIONS			
Contributions			
Employer	$ 382,098,970	$ 21,517,805	$ 1,412,852
Employee	295,690,550	-	-
Other Income			
Health Care Premiums	-	-	-
Federal Subsidies & Other Receipts	-	-	-
	677,789,520	21,517,805	1,412,852
Income from Investment Activity			
Net Appreciation in Fair Value	1,714,088,347	18,416,664	3,074,969
Interest and Dividends	229,538,410	2,469,803	412,102
	1,943,626,757	20,886,467	3,487,071
Investment Expenses	(83,035,310)	(892,224)	(148,982)
Net Income from Investment Activity	1,860,591,447	19,994,243	3,338,089
Income from Securities Lending Activity			
Gross Income	3,681,260	39,552	6,604
Brokers' Rebates	976,474	10,492	1,752
Management Fees	(347,164)	(3,730)	(623)
Net Income from Securities Lending Activity	4,310,570	46,314	7,733
Net Investment Income	1,864,902,017	20,040,557	3,345,822
TOTAL ADDITIONS	2,542,691,537	41,558,362	4,758,674
DEDUCTIONS			
Benefits			
Retirement	834,865,512	23,099,058	-
Disability	87,804,462	1,436,026	-
Survivor	35,087,694	1,265,261	-
Death	-	-	2,262,136
Health Care Expenses	-	-	-
	957,757,668	25,800,345	2,262,136
Refunds and Lump Sum Payments	55,668,466	-	-
Net Transfers to Other Ohio Systems	7,535,690	-	-
Administrative Expenses	19,528,157	6,639	47,394
	82,732,313	6,639	47,394
TOTAL DEDUCTIONS	1,040,489,981	25,806,984	2,309,530
Net Increase	1,502,201,556	15,751,378	2,449,144
NET POSITION HELD IN TRUST FOR PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS			
Net Position, Beginning of Year	11,160,574,582	120,363,782	19,543,665
Net Position, End of Year	$ 12,662,776,138	$ 136,115,160	$ 21,992,809

See accompanying notes to the financial statements.

QEBA Fund	Health Care Fund	TOTAL
$ 275,720	$ 46,097,206	$ 451,402,553
-	-	295,690,550
-	85,265,838	85,265,838
-	42,601,389	42,601,389
275,720	173,964,433	874,960,330
-	46,837,034	1,782,417,014
103	6,295,610	238,716,028
103	53,132,644	2,021,133,042
-	(2,269,778)	(86,346,294)
103	50,862,866	1,934,786,748
-	100,590	3,828,006
-	26,682	1,015,400
-	(9,486)	(361,003)
-	117,786	4,482,403
103	50,980,652	1,939,269,151
275,823	224,945,085	2,814,229,481
253,558	-	858,218,128
-	-	89,240,488
-	-	36,352,955
-	-	2,262,136
-	187,994,468	187,994,468
253,558	187,994,468	1,174,068,175
-	-	55,668,466
-	-	7,535,690
1,535	2,273,442	21,857,167
1,535	2,273,442	85,061,323
255,093	190,267,910	1,259,129,498
20,730	34,677,175	1,555,099,983
144,750	379,181,026	11,679,807,805
$ 165,480	$ 413,858,201	$ 13,234,907,788

Notes to Financial Statements
June 30, 2014

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 assets 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 Fiduciary 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. 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. Commingled assets that are not traded on a national exchange are valued by the commingled manager. SERS performs due diligence reviews of the investment pricing, process, and infrastructure of private equity, commingled 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.

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, 2014, was $1,828.21. The unit holdings and net value of each of the funds at the close of the fiscal year were:

	Units	Value
Pension Trust Fund	6,773,755	$12,383,845,626
Medicare B Fund	72,834	133,155,463
Death Benefits Fund	12,068	22,063,281
Health Care Fund	181,174	331,224,670
Total	**7,039,831**	**$12,870,289,040**

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 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. These are:

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

RESERVE BALANCES AS OF JUNE 30, 2014	
Employees' Savings Fund	**$ 3,063,631,720**
Employers' Trust Fund	**302,427,178**
Annuity and Pension Reserve Fund	**9,508,513,463**
Survivors' Benefit Fund	**360,335,427**
Guarantee Fund	**-**
Expense Fund	**-**
Fund Totals	**$13,234,907,788**

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. 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, 2014)	
Employer Members	
Local	374
City	191
Educational Service Center	56
Village	49
Higher Education	15
Vocational/Technical	49
Community Schools	330
Other	17
Total	1,081
Employee Members and Retirees	
Retirees and beneficiaries currently receiving benefits	72,605
Terminated employees entitled to but not yet receiving benefits	7,049
Total	79,654
Active Employees	
Vested active employees	57,548
Non-vested active employees	63,703
Total	121,251

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 can not be credited with more than one year of service credit.

If a retiree from OPERS, SERS, STRS, Ohio Police and Fire, or Ohio State Highway Patrol is employed in 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 FY2014, employees and their employers were required to contribute 10% and 14%, respectively, of active member payroll.

Employer and employee contributions were $409.2 million and $295.7 million, respectively, in 2014. 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 FY2014, 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, 13.86% was allocated to the funds as follows:

Pension Trust Fund	13.05%
Medicare B Fund	0.76%
Death Benefit Fund	0.05%

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 FY2014, the amount of employer contributions directed to the Health Care Fund was 0.14% of covered payroll, or $3.9 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 FY2014, the minimum compensation level was established at $20,250. The surcharge accrued for FY2014 and included in employer contributions in the *Statement of Changes in Fiduciary Net Position* is $42.2 million.

4. Deposits and Investment Risk Disclosures

Custodial Credit Risk, Deposits Custodial credit risk for deposits is the risk that in the event of a financial institution 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, 2014, the carrying amounts of SERS' operating and investment cash deposits totaled $25,347,624, and the corresponding bank balances totaled $8,165,312. Of the bank balances, the Federal Deposit Insurance Corporation insured $305,606. In accordance with state law, bank balances of $3,152,635 were collateralized at 102% with securities held in the name of SERS' pledging financial institutions. The remaining bank deposits of $4,707,071 were uninsured and uncollateralized.

INVESTMENTS AND SHORT-TERM HOLDINGS

	Fair Value *(in thousands)*
Bond Mutual Funds	$ 765,259
Certificates of Deposit	2,239
International Investments - Commingled Equity	1,321,344
Hedge Funds	1,657,939
Mortgage and Asset Backed	209,921
Municipal Obligations	47,963
Foreign Obligations	127,608
Foreign Fixed Derivatives	(413)
Foreign Stocks	2,115,183
Foreign Equity Derivatives	1,354
Private Equity	1,227,799
Private Real Estate	1,209,849
US Agency	448,174
US Common & Preferred Stock	2,980,597
US Equity Derivatives	709
US Corporate Obligations	695,345
US Fixed Derivatives	(768)
US Government	277,488
Total Investments Fair Value	**$ 13,087,590**

Investment Policies Chapter 3309 of the Ohio Revised Code provides the Board with the authority to adopt, in regular meeting, policies, objectives, or criteria for the operation of the investment program that include asset allocation targets and ranges, risk factors, asset class benchmarks, time horizons, total return objectives, and performance evaluation guidelines. The Board is responsible for managing the assets of the Fund effectively, prudently, and for the exclusive benefit of SERS' members and beneficiaries. Policies are subject to change at any time by the Board. The Board reviews the policies and revises them periodically to assure it continues to reflect the investment philosophy, objectives, and strategies of the Board.

The Board periodically conducts an asset and liability study 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 include but are not 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, and confirming that the study meets the requirements of the policies established by the Board, the Board adopted the following asset allocation for SERS:

ASSET CLASS	TARGET	RANGE
Equity	55%	45% – 65%
Global Equities	45%	35% – 55%
Global Private Equity	10%	5% – 15%
Income	35%	30% – 40%
Global Fixed Income	19%	14% – 24%
Global Real Assets	15%	10% – 20%
Cash Equivalents	1%	0% – 5%
Strategy		
Multi-Asset Strategies	10%	5% – 15%
Opportunistic Investments	0%	0% – 5%
Total	**100%**	

The target allocation was amended effective July 1, 2013 to reduce the previous allocation to Multi-Asset Strategies (formerly Global Hedge Funds) and to increase the allocation to Global Real Assets (formerly Global Real Estate). The previous target allocation was 15% Multi-Asset Strategies and 10% Global Real Assets.

Investment Concentrations The following is a list of investments in any one organization that represents 5% or more of the pension plan's net assets held in trust for pension benefits.

7% State Street Global Advisors (SSgA) MSCI World ex-U.S. Index Aggregate Strategy

1% SSgA MSCI Canada Index Securities Lending Fund
1% SSgA MSCI EAFE Index Non Lending Fund
5% SSgA MSCI EAFE Index Securities Lending Fund

Money-Weighted Return on Investment The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the fiscal year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 17.21%.

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

Credit Risk Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. ORC 3309.15 and the Board's *"Statement of Investment Policy"* (adopted May 2014) direct that the funds of SERS will be invested following the prudent person standard. This fiduciary standard dictates that the Board considers the probable safety of investments, avoids speculative investments, and invests 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.

FAIR VALUE SUBJECT TO ISSUER 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	$713,085	$ -	$ 6,658	$ 9,640	$ 35,876	$ -	$ -	$ -	$ -	$ -	$ -	$ 765,259
Foreign Obligations	7,397	4,944	45,195	48,422	2,443	196	-	-	-	-	18,598	127,195
Mortgage and Asset Backed	76,689	22,098	22,089	16,246	9,978	16,837	16,646	3,595	4,976	7,888	12,879	209,921
Municipal Obligations	872	11,548	32,327	2,154	1,062	-	-	-	-	-	-	47,963
Negotiable Certificates of Deposit	-	2,000	-	-	-	-	-	-	-	-	239	2,239
US Agency	712	447,462	-	-	-	-	-	-	-	-	-	448,174
US Corporate Obligations	21,286	36,863	118,102	377,155	91,686	45,829	2,979	-	-	-	677	694,577
US Government	-	277,488	-	-	-	-	-	-	-	-	-	277,488
Total Debt Securities	$820,041	$802,403	$224,371	$453,617	$141,045	$62,862	$19,625	$3,595	$4,976	$7,888	$32,393	$2,572,816

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, 2014, SERS held interest-only strips that had a total fair value of $40,622,550. 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 $12,184,250. 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 COUNTERPARTY CREDIT RISK

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

	AA-	A	BBB	Total
Foreign Fixed Derivatives	$ 48	$(161)	$ -	$ (113)
Foreign Equity Derivatives	-	-	(53)	(53)
US Equity Derivatives	-	693	-	693
US Fixed Derivatives	(1,265)	(195)	-	(1,460)
Total	$(1,217)	$ 337	$(53)	$ (933)

FAIR VALUE SUBJECT TO INTEREST RATE RISK

Investment	**Fair Value** *(in thousands)*	**Option Adjusted Duration** *(in years)*
Bond Mutual Funds	$ 765,259	0.30
Certificates of Deposit	2,239	0.00
Foreign Fixed Derivatives	(265)	8.38
Foreign Obligations	127,608	4.89
Mortgage and Asset Backed	209,921	0.96
Municipal Obligations	47,963	8.35
US Agency	448,174	2.99
US Corporate Obligations	695,344	6.33
US Fixed Derivatives	(768)	6.13
US Government	277,488	5.99
Debt Securities	**$ 2,572,963**	**3.44**

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. Through March 31, 2014, SERS' strategy was to hedge 50% of the fair value of its equities in non-US developed countries. However, this strategy has been discontinued effective April 1, 2014. As of June 30, 2014, SERS does not employ a hedging strategy.

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

Currency	Cash & Cash Equivalents	Fixed Income	Non-US Equities	Real Estate	Private Equity	Derivative Securities
Australian Dollar	$25,690	$ 4,147	$ 68,944	$ -	$ -	$ 2,274
Brazilian Real	(5,111)	17,909	33,156	-	-	39
British Pound Sterling	38,217	582	172,979	6,041	-	6,541
Bulgarian Lev	9	-	-	-	-	-
Canadian Dollar	15,842	-	79,994	-	-	3,243
Chilean Peso	2,034	1,323	-	-	-	-
Colombian Peso	1,059	6,067	-	-	-	-
Czech Koruna	-	-	2,043	-	-	-
Danish Krone	845	-	23,162	-	-	-
Dominican Republic Peso	-	11	-	-	-	-
Euro	(63,341)	9,042	384,214	66,180	121,882	6,125
Hong Kong Dollar	5,292	-	170,838	-	-	1,043
Hungarian Forint	604	686	-	-	-	-
Indian Rupee	133	2,392	42,881	-	-	-
Indonesian Rupiah	531	7,634	5,463	-	-	-
Israeli Shekel	(4,701)	-	8,322	-	-	-
Japanese Yen	(6,650)	-	295,083	-	-	6,231
Malaysian Ringgit	1,072	7,854	6,842	-	-	(5)
Mexican Peso	(945)	29,102	3,782	-	-	-
New Zealand Dollar	(531)	4,231	2,595	-	-	-
Nigerian Naira	744	-	-	-	-	-
Norwegian Krone	(1,997)	-	12,844	-	-	-
Philippines Peso	879	4,763	520	-	-	-
Polish Zloty	355	9,158	7,282	-	-	(59)
Qatari Real	-	-	1,334	-	-	-
Romanian Leu	63	1,547	-	-	-	-
Russian Ruble	461	6,070	27,126	-	-	-
Singapore Dollar	6,900	-	16,232	-	-	-
South African Rand	888	5,911	33,658	-	-	-
South Korean Won	2	(6)	51,758	-	-	(177)
Swedish Krona	(22,700)	-	55,496	-	-	929
Swiss Franc	12,486	-	109,775	-	-	-
Taiwan Dollar	55	-	36,335	-	-	-
Thailand Baht	6	1,739	938	-	-	-
Turkish Lira	386	8,281	11,972	-	-	-
UAE Dirham	(1)	-	16,797	-	-	-
	$ 8,576	$128,443	$1,682,365	$72,221	$121,882	$26,184

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 that meet credit guidelines.

FAIR VALUE OF FORWARD CURRENCY AND HEDGED CONTRACTS
As of June 30, 2014 and 2013 *(in thousands)*

	2014	2013
Forward Currency Purchases	$ 361,872	$ 572,182
Forward Currency Sales	364,329	1,409,895
Unrealized gain (loss)	2,541	(1,933)

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

FUTURES CONTRACTS
As of June 30, 2014 and 2013 *($ in thousands)*

Type	FY2014 Number of Contracts	FY2014 Notional Value	FY2014 Contract Value	FY2013 Number of Contracts	FY2013 Notional Value	FY2013 Contract Value
Equity Futures						
International Equity Index Futures - Long	364	$ 33,408	$ (65)	386	$ 29,872	$ (588)
U.S. Stock Index Futures - Long	566	56,535	709	704	59,369	(198)
Fixed Income / Cash Equivalent Futures						
Cash Equivalent (Eurodollar) Futures - Long	136	33,647	36	47	11,631	22
Cash Equivalent (Eurodollar) Futures - Short	(534)	(130,145)	(309)	-	-	-
International Fixed Income Index Futures - Long	10	1,718	(2)	77	20,770	(98)
International Fixed Income Index Futures - Short	(49)	(8,942)	(55)	-	-	-
US Treasury Futures Long	461	49,239	185	911	132,271	(1,655)
US Treasury Futures Short	(661)	(50,605)	(165)	(576)	(79,438)	1,240
Total Futures (Net)	**293**	**$(15,145)**	**$334**	**1,549**	**$174,475**	**$(1,277)**

OPTIONS CONTRACTS
As of June 30, 2014 and 2013 *($ in thousands)*

Type	FY2014 Number of Contracts	FY2014 Notional Value	FY2014 Fair Value	FY2013 Number of Contracts	FY2013 Notional Value	FY2013 Fair Value
Fixed Income Options						
Fixed Income Call Options on Futures - Written	(59)	$(19,699)	$(28,625)	–	$ –	$ –
Fixed Income Put Options on Futures - Written	(50)	(20,931)	(9,375)	–	–	–
Fixed Income Call Options on Futures (non-dollar) - Written	(68)	(49,929)	(55,250)	–	–	–
Fixed Income Put Options on Futures (non-dollar) - Purchased	60	7,195	2,625	–	–	–
Fixed Income Put Options on Futures (non-dollar) - Written	(60)	(2,305)	(750)	–	–	–
Total Options (Net)	**(177)**	**$(85,669)**	**$(91,375)**	**–**	**$ –**	**$ –**

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 that 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.

Swaptions are options on swaps that give the purchaser the right, but not the obligation, to enter into a swap at a specific date in the future. An interest-rate swaption gives the buyer the right to pay or receive a specified fixed interest rate in a swap in exchange for a floating rate for a stated time period. When writing a swaption, SERS as the seller is obligated to pay or receive a fixed rate in exchange for a floating rate for a stated period of time. When purchasing a swaption, SERS as the buyer is obligated to receive or pay a fixed rate in exchange for a floating rate for a stated period of time.

SWAP CONTRACTS
As of June 30, 2014 and 2013 *($ in thousands)*

Contract Type	FY2014 Notional Value	FY2014 Fair Value	FY2013 Notional Value	FY2013 Fair Value
Credit Default	$ 20,435	$ 25	$ 83,360	$ (320)
Interest Rate	4,590,035	(1,414)	123,750	(476)

SWAPTIONS
As of June 30, 2014 and 2013 *($ in thousands)*

Type	FY2014 Shares / Par	FY2014 Notional Value	FY2014 Fair Value	FY2013 Shares / Par	FY2013 Notional Value	FY2013 Fair Value
Call Swaptions - Purchased	6,300	$369	$292	142,200	$3,947	$6,186
Put Swaptions - Purchased	6,300	369	438	47,400	1,863	1,188

Securities Lending SERS participates in a securities lending program that directly holds equity (both US and international) 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 $1,445,329 during FY2014.

At June 30, 2014, 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 $387,280,518 and total collateral held for those securities was $387,307,348. 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, 2014, the GSAL collateral portfolio had an average weighted maturity of 24 days. SERS receives pro-rated income from participation in the securities lending program of a commingled investment. SERS has no direct responsibility for this program and the collateral held by the securities lending program is not held in SERS' name. Total net direct proceeds from the commingled investment during FY2014 were $206,438.

Commitments As of June 30, 2014, unfunded commitments related to the real estate and private equity investment portfolios totaled $1.05 billion.

5. Capital Assets (Non-Investment Assets)

CAPITAL ASSETS ACTIVITY for the year ended June 30, 2014	Land	Office Building & Improvements	Furniture & Equipment	Computer System Under Development	Total Capital Assets
Cost					
Balances, June 30, 2013	$ 3,315,670	$ 53,022,110	$6,344,040	$ 10,136,213	$72,818,033
Additions	-	-	469,903	5,202,730	5,672,633
Disposals	-	-	(302,215)	-	(302,215)
Balances, June 30, 2014	3,315,670	53,022,110	6,511,728	15,338,943	78,188,451
Accumulated Depreciation					
Balances, June 30, 2013	-	15,191,856	5,851,813	-	21,043,669
Additions	-	1,335,187	262,426	-	1,597,613
Disposals	-	-	(302,215)	-	(302,215)
Balances, June 30, 2014	-	16,527,043	5,812,024	-	22,339,067
Net Capital Assets, June 30, 2014	**$ 3,315,670**	**$ 36,495,067**	**$ 699,704**	**$ 15,338,943**	**$55,849,384**

6. Net Pension Liability and Actuarial Information – Defined Benefit Plans

The components of the net pension liability as of June 30, 2014: *($ in thousands)*

	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (Surplus) (a) - (b)	Fiduciary Net Position as a Percent of Total Pension Liability (b) / (a)
Plan funds	$17,881,827	$12,820,884	$5,060,943	71.70%

The total pension liability is determined by our actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation are presented below:

Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)
Actuarial Assumptions: Experience Study Date	Period of 5 years ended June 30, 2010
Investment Rate of Return	7.75% net of investment expense, including inflation
Cost of Living Increases (COLA) or “Ad Hoc” COLA	3.0%
Future Salary Increases, including Inflation	4.0%-22.0%
Inflation	3.25%
Mortality Assumptions	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.

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in the *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00%	0.00%
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Estate	10.00	5.00
Hedge Funds	15.00	7.50

Total pension liability was calculated using the discount rate of 7.75%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.75%). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75%, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75%), or one percentage point higher (8.75%) than the current rate.

(dollars in thousands)	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
System's net pension liability	$7,220,462	$5,060,943	$3,244,601

7. Pension Plan

For its employees, SERS contributes to the 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 post-employment 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 post-employment health care. The portion of the employer rate set aside for post-employment health care was 1% of covered member payroll for the first half of FY2014, and 0% for the second half.

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 at the right.

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

	Pension		Health Care	
Year Ended June 30	Annual Required Contribution	Percent Contributed	Annual Required Contribution	Percent Contributed
2014	$1,697,275	100%	$ 66,163	100%
2013	1,372,062	100	303,341	100
2012	1,155,384	100	462,155	100

8. Compensated Absences

As of June 30, 2014, and 2013, $2,314,560, and $2,156,598, respectively, were accrued for unused vacation and sick leave for SERS employees. The corresponding long-term portion of these liabilities is estimated at $1,038,139 and $1,126,177. The net increase of $157,962 from June 30, 2013 included increases of $1,334,074 from earned vacation and sick leave and decreases of $1,176,112 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.

9. 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.

10. 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).

11. 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.

12. Contingent Liabilities

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 plaintiffs appealed the Court's decisions to the United States Court of Appeals for the Second Circuit. Oral argument in the Second Circuit on plaintiffs' appeal of the dismissal of individual creditor actions was scheduled for November 5, 2014.

While the final outcome of this lawsuit cannot be determined at this time, management is of the opinion that the liability, if any, for this legal action will not have a material adverse effect on SERS' financial position.

13. Funded Status and Funding Progress - Health Care Fund

The funded status of the Health Care Fund as of June 30, 2014, the most recent actuarial valuation date, is as follows:

FUNDED STATUS OF THE HEALTH CARE FUND *($ 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
Health Care	$ 414	$ 2,476	$ 2,062	16.7%	$ 2,759	74.7%

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 *Schedule of Funding Progress* presents 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. This schedule is presented in the *Required Supplementary Information* section.

The *Schedule of Employer Contributions* on page 37 presents 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 VALUATION

Actuarial Information	**Health Care**
Valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent open
Remaining amortization period	30 years
Assets valuation method	Market value of assets
Actuarial Assumptions:	
Investment rate of return (includes price inflation at 3.25%)	5.25%
Projected salary increases (includes wage inflation at 4.0%)	4.0%-22.0%
Health Care cost trend rate	
Pre-Medicare	7.75% initial to 5.0% by 2019
Medicare	6.0% initial to 5.0% by 2019

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.

14. Recently Issued Accounting Pronouncements

The GASB has issued Statement No. 67, *"Financial Reporting for Pension Plans; an amendment of GASB Statements No. 25."* This Statement replaces the requirements of Statements No. 25 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trust or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2013. The provisions of GASB Statement No. 67 have been implemented as SERS' financial statements reflect any required changes to actuarial calculations for accounting purposes, note disclosures and new schedules in the required supplementary information.

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 will result in the Retirement System recording a liability for its proportionate share of the Net Pension Liability as determined by OPERS and will also require more extensive note disclosures and required supplementary information.

Required Supplementary Information

Schedule of Changes in the Employers' Net Pension Liability[1]
($ in thousands)

	2014
Total pension liability	
Service cost	$ 332,975
Interest	1,296,764
Benefit changes	-
Difference between expected and actual experience	53,951
Changes of assumptions	-
Benefit payments	(993,356)
Refunds of contributions	(55,668)
Net change in total pension liability	**634,666**
Total pension liability - beginning	**17,247,161**
Total pension liability - ending (a)	**17,881,827**
Plan fiduciary net position	
Contributions - employer	405,030
Contributions - member	295,691
Net investment income	1,888,288
Benefit payments	(993,356)
Administrative expense	(19,582)
Refunds of contributions	(55,668)
Other	-
Net change in plan fiduciary net position	**1,520,402**
Plan fiduciary net position - beginning	**11,300,482**
Plan fiduciary net position - ending (b)	**12,820,884**
Net pension liability - ending (a) - (b)	**$ 5,060,943**
Plan net position as a % of the total pension liability	71.70%
Covered Employee Payroll	$ 2,922,294
Net pension liability as a % of covered employee payroll	173.18%

Schedule of Employer Contributions *($ in thousands)*

Year Ended June 30	Actuarially calculated employer contribution	Actual employer contributions	Annual contribution deficiency	Covered-employee payroll	Annual contributions as a percentage of covered-employee payroll
2014	$ 405,030	$ 405,030	$ -	$2,922,294	13.86%
2013	402,154	402,154	-	2,905,737	13.84
2012	399,722	399,722	-	2,971,911	13.45
2011	379,299	379,299	-	3,017,494	12.57
2010	402,047	402,047	-	2,969,328	13.54
2009	291,069	291,069	-	2,958,018	9.84
2008	260,670	260,670	-	2,654,481	9.82
2007	278,509	253,141	25,369	2,603,300	9.72
2006	294,036	257,545	36,490	2,553,273	10.09
2005	256,046	256,046	-	2,422,384	10.57

SCHEDULE OF INVESTMENT RETURNS[1]
Year ended June 30

	2014
Annual money weighted rate of return, net of investment expense	17.21%

[1]The effort and cost to re-create financial statement information for the previous nine years was not practical. Information was prepared prospectively from June 30, 2014 for GASB 67 purposes. Additional years will be displayed as they become available.

Notes to Required Supplementary Information
June 30, 2014

1. Schedule of Changes in the Employer Net Pension Liability
The total pension liability contained in this schedule was provided by the System's actuary, Cavanaugh Macdonald Consulting, LLC. The net pension liability is measured as the total pension liability less the amount of the fiduciary net position of the Retirement System.

2. Schedule of Employer Contributions
The required employer contributions and percent of those contributions actually made are presented in the schedule.

3. Actuarial Assumptions
The information presented in the required supplementary schedules was used in the actuarial valuation for purposes of calculating the actuarially determined contribution rate. The assumptions and methods used for this actuarial valuation were recommended by the actuary and adopted by the Board.

Required Supplementary Health Care Information

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

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
2014	$414	$2,476	$2,062	16.7%	$2,759	74.7%
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

Schedule of Employer Contributions and Other Contributing Entities
Health Care Fund

Year ended June 30	Actuarial Annual Required Contributions	% Contributed by Employers[1]	Federal Subsidies and Other Receipts	Total % Contributed
2014	$190,390,431	24.2%	$29,200,200	39.5%
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

[1] The percent contributed by employers indicates the percentage of the ARC that was actually billed to employers (and paid) each year.

Notes to Required Supplementary Health Care Information

Additional Actuarial Information

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, 2014.

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 - 7.75% initially, decreasing to 5.00% by 2019
	Medicare - 6.0% initially, decreasing to 5.00% by 2019

^ Includes price inflation at 3.25%

Schedule of Administrative Expenses for the year ended June 30, 2014

	General Expenses	Investment Related Expenses	Total
Personnel Services			
Salaries	$ 9,939,543	$ 2,319,146	$ 12,258,689
Retirement Contributions	1,458,853	304,585	1,763,438
Insurance	2,929,488	324,125	3,253,613
Total Personnel Services	14,327,884	2,947,856	17,275,740
Professional Services			
Actuarial Advisors	308,541	-	308,541
Audit Services	223,220	-	223,220
Custodial Banking	151,050	739,549	890,599
Investment Related	-	2,825,967	2,825,967
Medical	536,721	-	536,721
Technical	888,057	110,511	998,568
Total Professional Services	2,107,589	3,676,027	5,783,616
Communications			
Postage	657,043	-	657,043
Telephone	101,394	-	101,394
Member / Employer Education	64,039	-	64,039
Printing and Publication	172,967	-	172,967
Total Communications	995,443	-	995,443
Other Services			
Computer Support Services	668,463	-	668,463
Office Equipment and Supplies	213,810	852	214,662
Training	266,307	12,448	278,755
Transportation and Travel	97,254	109,239	206,493
Memberships and Subscriptions	78,077	66,413	144,490
Property and Fiduciary Insurance	391,402	-	391,402
Facilities Expense	872,955	-	872,955
Maintenance	51,406	50	51,456
Staff Support	122,074	-	122,074
Administrative Banking Fees	15,290	-	15,290
Ohio Retirement Study Council	37,056	-	37,056
Miscellaneous	14,544	-	14,544
Total Other Services	2,828,638	189,002	3,017,640
Total Administrative Expenses before Depreciation	20,259,554	6,812,885	27,072,439
Depreciation			
Furniture & Equipment	262,426	-	262,426
Building	1,335,187	-	1,335,187
Total Depreciation	1,597,613	-	1,597,613
Total Administrative Expenses	$ 21,857,167	$ 6,812,885	$ 28,670,052

Schedule of Investment Expenses for the year ended June 30, 2014

Description of Expenses	Net Assets Under Management	Direct Fees
US Equity	$ 3,214,456,856	$ 10,324,538
Non-US Equity	3,163,552,975	11,514,909
Global Private Equity	1,228,657,176	18,392,744
Global Fixed Income	1,915,622,085	4,420,286
Multi-Asset Strategies	1,613,417,202	21,260,986
Global Real Assets	1,365,654,843	12,206,480
Opportunistic Investments	45,000,036	1,413,466
Cash Equivalents	321,071,177	-
Total Investment Management Fees		$ 79,533,409
Custody Service Fees		739,549
Master Recordkeeper Fees		1,353,325
Investment Consulting and Performance/Analytics Fees		1,293,745
Investment Administrative Expenses		3,426,266
Total Other Investment Expenses (see page 40)		6,812,885
Total Investment Expenses		$ 86,346,294

Schedule of Payments to Consultants

SERS paid the following non-investment related consulting fees in FY2014:

Actuarial Advisors	$ 308,541
Audit Services	223,220
Legal Counsel	137,272
Medical Consultant	39,173
Disability Exams	502,522
Information Technology Consultants	365,224
Health Care Consultants	147,846
Other Consultants	383,794
Total	$2,107,592

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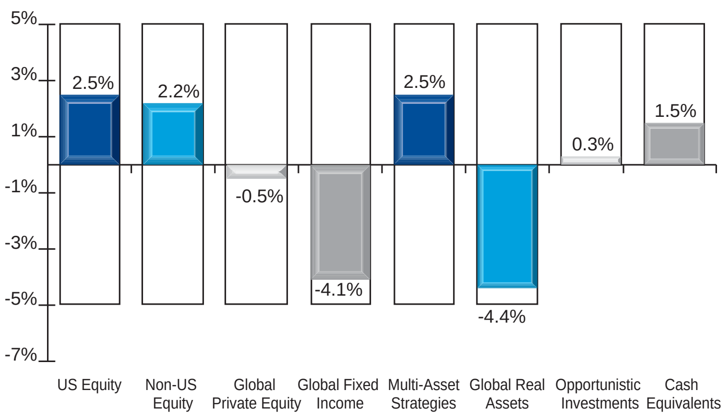
INVESTMENT SECTION

Investment Summary as of June 30, 2014

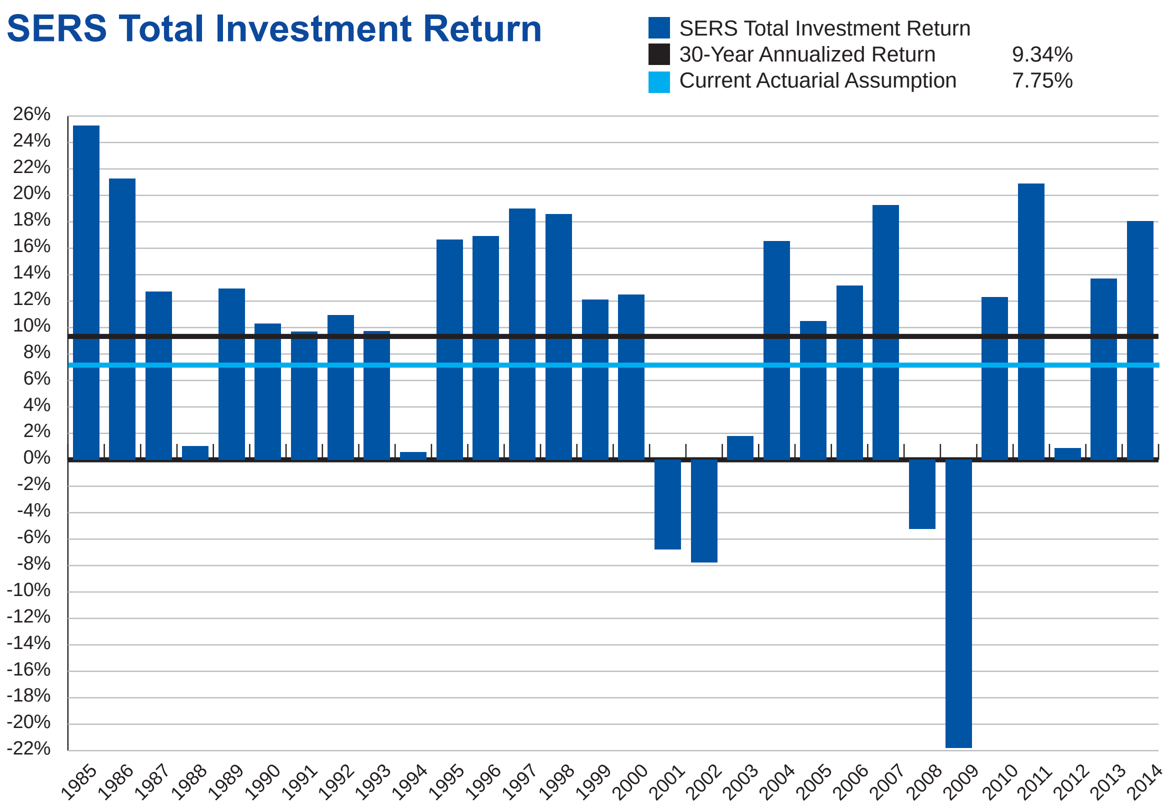
	Fair Value	Actual	Policy	Range
US Equity	$ 3,214,456,856	25.0%	22.5%	17.5% - 27.5%
Non-US Equity	3,163,552,975	24.7	22.5	17.5 - 27.5
Global Private Equity	1,228,657,176	9.5	10.0	5 - 15
Global Fixed Income	1,915,622,085	14.9	19.0	14 - 24
Multi-Asset Strategies	1,613,417,202	12.5	10.0	5 - 15
Global Real Assets	1,365,654,843	10.6	15.0	10 - 20
Opportunistic Investments	45,000,036	0.3	0.0	0 - 5
Cash Equivalents	321,071,177	2.5	1.0	0 - 5
Net Portfolio Value	**$ 12,867,432,350**	**100.0%**	**100.0%**	

Asset Allocation vs. Policy



Note: Boxes represent permissible ranges around policy target weights.

SERS Total Investment Return



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 10, 2014

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, 2014. 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 FY2014. The Total Fund return of 17.28% (net) for FY2014 exceeded the benchmark by 1.71%. All asset classes, except Non US Equity, outperformed their respective benchmarks. The opportunistic program, which launched last year, registered its first full year return of 11.43%. The three-year Total Fund return of 9.86% (net) also exceeded the policy benchmark return of 9.59% and the actuarial rate of 7.75%.

In FY2014, Staff continued to implement the three-year Strategic Investment Plan adopted in FY2013. Significant progress was made in improving the portfolio structures within asset classes to optimize risk and return, rationalize manager line-ups, and reduce fees. These initiatives have resulted in enhanced Total Fund performance as noted above. During this fiscal year, Staff also completed all operational improvements recommended in the FY2013 Fiduciary Audit.

Details about each portfolio are included on the following pages.

The Investment environment for risky assets such as equities and credit has been favorable for the last five years. The period going forward will be more challenging. Staff will continue to implement the Strategic Plan and seek to achieve superior performance. I wish to thank the Investment staff for their dedication 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
Chief Investment Officer

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 the 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 of 7.75%. On June 30, 2014, 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
• 10.0%	Global Private Equity	Burgiss All Private Equity benchmark (one quarter in arrears)
• 19.0%	Global Fixed Income	Barclays Capital Aggregate Bond Index
• 15.0%	Global Real Assets	NCREIF Property Index (one quarter in arrears)
• 10.0%	Multi-Asset Strategies	HFRI Fund of Funds Composite Index plus 1.0%
• 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 reviewed and adjusted during FY2011 and again in FY2013. The most recent allocation targets for multi-asset strategies was reduced from 15% to 10% with corresponding increase in real assets. No additional changes to the asset allocation were made in FY2014.

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' multi-asset strategies consultant, Aksia LLC, assists the Board and Staff with the construction and diversification of SERS' multi-asset strategies portfolio and the selection of multi-asset strategies 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 SERS' Total Fund performance exceeded expectations this fiscal year with a net return of 17.28%. One-year and three-year Total Fund net returns exceeded the policy benchmark by 1.71% and 0.27% respectively. The net returns for the one-, three-, and five-year periods exceeded the actuarial rate of 7.75% by a good margin. The ten-year net returns of 6.69% lagged 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)

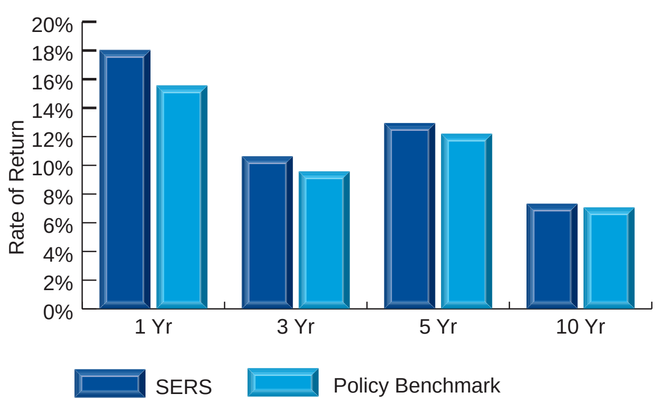
		2014	2013	2012	2011	2010	Annualized Rates of Return 3 Years	5 Years	10 Years
US Equity									
SERS		27.7%	23.4%	1.9%	33.8%	17.2%	17.1%	20.3%	8.3%
Russell 3000 Index		25.2	21.5	3.8	32.4	15.7	16.5	19.3	8.2
Non-US Equity									
SERS		20.5	16.6	(11.6)	25.7	15.4	7.5	12.5	9.1
Custom Non-US Equity Benchmark	(1)*	20.4	16.2	(11.9)	24.2	12.1	7.2	11.4	8.1
Global Private Equity									
SERS	(2)*	24.7	14.3	16.5	14.7	13.4	18.4	16.6	13.2
Custom Global Private Equity Benchmark	(3)*	20.9	17.0	11.5	18.7	52.8	16.4	23.4	10.1
Multi-Asset Strategies									
SERS	(4)*	11.6	11.0	0.8	11.4	14.5	7.7	9.7	n/a
Custom Multi-Asset Strategies Benchmark	(5)*	8.7	7.2	(4.4)	6.7	9.2	3.7	5.3	n/a
Global Fixed Income									
SERS		6.5	2.7	7.4	8.0	17.0	5.5	8.2	6.3
Barclays Aggregate Bond Index		4.4	(0.7)	7.5	3.9	9.5	3.7	4.9	4.9
Global Real Assets									
SERS	(6)*	15.8	10.7	9.0	25.2	(16.1)	11.8	8.8	6.1
Custom Global Real Assets Benchmark	(7)*	11.2	10.5	13.4	16.0	(2.8)	11.7	9.5	8.9
Opportunistic Investments									
SERS	(8)*	17.7	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Policy Benchmark		15.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Short-Term									
SERS		0.1	0.2	0.2	0.2	0.4	0.1	0.2	2.0
Citigroup 30 Day Treasury Bill Index		0.0	0.1	0.0	0.1	0.1	0.0	0.1	1.5
Total Fund (Gross of Fees)									
SERS		18.0	13.7	0.9	20.9	12.3	10.6	13.0	7.3
Policy Benchmark	(9)*	15.6	12.1	1.6	17.8	14.7	9.6	12.2	7.1
Total Fund (Net of Fees)									
SERS		17.3	12.9	0.1	19.9	11.5	9.9	12.1	6.7
Policy Benchmark	(9)*	15.6	12.1	1.6	17.8	14.7	9.6	12.2	7.1

Source: BNY Mellon Global Risk Solutions

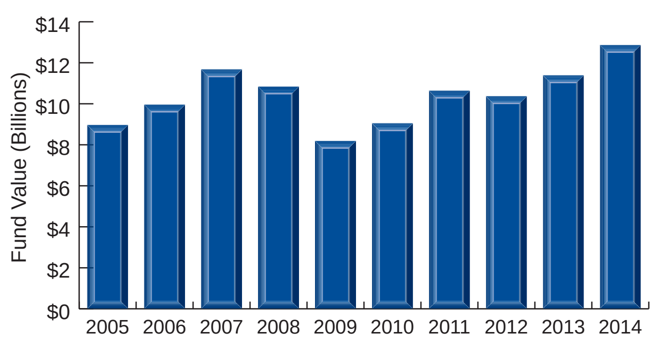
Investment results provided by BNY Mellon Global Risk Solutions are based upon a time-weighted rate of return methodology. Market value adjustments made to global private equity, global real assets, opportunistic investments and multi-asset strategies as of June 30 will be reflected in the investment returns in the next financial statement.

*See footnotes to table on page 58.

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



Total Fund at Fair Value



US Equity

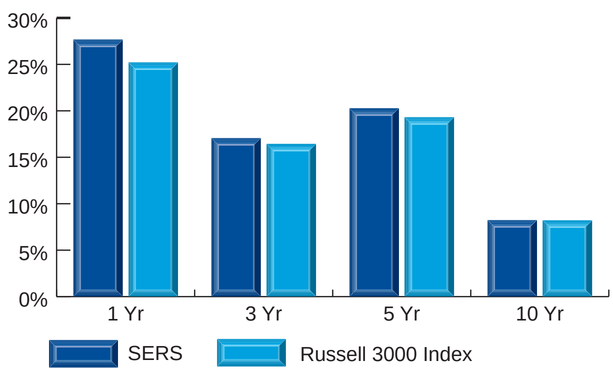
For the fiscal year ended June 30, 2014, the SERS US equity portfolio gained 27.7% (gross of fees). The portfolio exceeded the Russell 3000 Index, which rose 25.2%, by 2.5% during the period. The outstanding relative performance of the US equity portfolio versus its benchmark (Russell 3000) during the past fiscal year increased the annual return advantage of the portfolio over the three- and five-year periods, and moved the ten-year relative return number into positive territory. The US equity portfolio leads the Russell 3000 Index by 0.6% annually for the three-year period, 1.0% annually for the five-year period, and by 0.02% annually for the ten-year period. Net of fees, the US equity portfolio exceeded the benchmark return by 2.1% for one year and 0.2% for three years.

All of the Russell US equity indices recorded outstanding fiscal year returns, but larger was better. While the Russell 3000 Index rose 25.2%, the Russell 1000 Large Cap Index increased 25.4% and the Russell 2000 Small Cap Index climbed 23.6%. Thus the large cap index outperformed the small cap index by 1.8%. Small cap stocks significantly outperformed during the first quarter, but trailed in each of the three subsequent quarters as large cap stocks assumed market leadership. Over the fiscal year, growth outperformed value in both the large cap (+3.1%) and small cap (+2.2%) segments, but the outperformance happened entirely in the first quarter. The market was up throughout the year with the Russell 3000 advancing during each fiscal quarter, but the growth was not uniform. The Russell 2000 was up over 10% during Q1 and the Russell 1000 was up over 10% during Q3, but growth was diminutive in Q2 for large cap and both Q2 and Q4 for small cap.

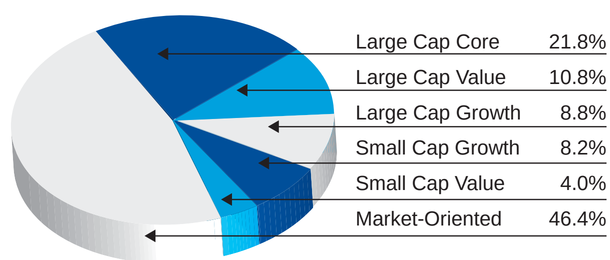
Despite outperformance by only five of nine active managers, the portfolio significantly exceeded the Russell 3000 benchmark. This was accomplished because the winners far outpaced their respective benchmarks while the losers only lagged by small margins. Big winners included Donald Smith & Company, Manning & Napier, Jackson Square Partners, and Brown Capital. The passive portion of the portfolio was a drag on performance because the enhanced index trailed the benchmark and the index, while nearly matching the benchmark; significantly lagged US equity portfolio performance.

As of June 30, 2014, the US equity allocation was 25% compared to policy target of 22.5%. During the year, one manager was terminated to reduce small capitalization exposure and more closely align the portfolio with the benchmark. 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, 2014

	Description	Shares	Market Price	Fair Value
1	Microsoft Corp.	1,217,752	$41.70	$50,780,258
2	Apple, Inc.	535,177	92.93	49,733,999
3	Micron Technology, Inc.	1,143,330	32.95	37,672,724
4	Qualcomm, Inc.	469,304	79.20	37,168,877
5	Chevron Corp.	275,889	130.55	36,017,309
6	Exxon Mobil Corp.	351,003	100.68	35,338,982
7	General Electric Co.	1,007,219	26.28	26,469,715
8	EOG Resources, Inc.	222,717	116.86	26,026,709
9	Walgreen Co.	340,252	74.13	25,222,881
10	JPMorgan Chase & Co.	428,078	57.62	24,665,854

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

Non-US Equity

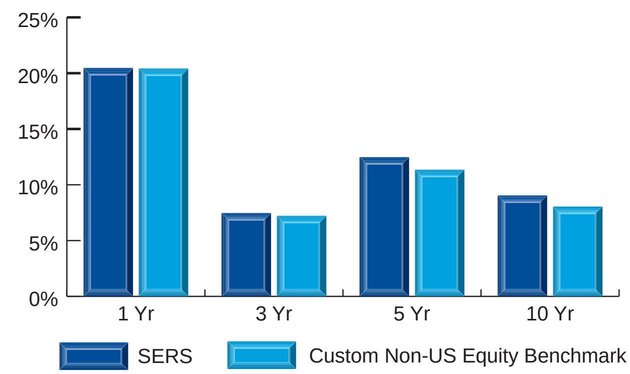
For the fiscal year ended June 30, 2014, SERS' Non-US equity portfolio earned a gross return of 20.5%, which was 0.1% above its policy benchmark, the MSCI All Country World-excluding the United States Index. Gross of fees, the portfolio outperformed its benchmark over the three-, five-, and ten-year periods by 0.3%, 1.1% and 1.0%, respectively. Results were mixed on a net of fees basis. For the fiscal years ended on one- and three-year periods the portfolio underperformed by 0.4% and 0.2%, respectively, but outperformed over the five- and ten-year periods by 0.6% and 0.5%, respectively.

Despite geo-political tension and weakening economies in many constituent countries, central banks continued to employ favorable monetary policies which enabled international equity markets to post solid gains by the end of the fiscal year. The MSCI EAFE Index, which measures the performance of developed markets, gained 23.6%. Though gains were strong, dispersion between countries was notable ranging from 9.8% (Japan) to 57.2% (Spain). Except for Japan, all index constituents posted double digit returns for the year. Value stocks in developed markets significantly outperformed growth stocks over the period while smaller sized companies outperformed their larger counterparts. Volatility in emerging markets (EM) characteristically surpassed those of developed markets over the year. Return dispersion was also widespread among EM country constituents ranging from -14.9% (Indonesia) to 65.7% (Egypt). Strong performance late in the fiscal year masked the volatility that challenged EM over much of the first three quarters. By the end of FY2014 EM, as measured by the MSCI Emerging Market Index, reported a gain of 14.3%.

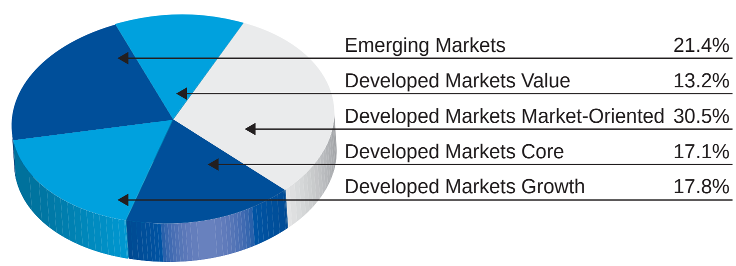
Selloffs in EM that began in 2Q FY2014 led to significant outflows that put downward pressure on returns. Consequently, the slight overweight the portfolio had to EM relative to the benchmark detracted from performance and some of the exposure was reduced. Losses from the EM exposure were mitigated by the portfolio's overweight to developed markets' smaller capitalized stocks.

As of June 30, 2014, the market value of the Non-US equity portfolio was $3.2 billion, representing 24.7% of the Total Fund portfolio. The passive currency hedge was removed at the beginning of the calendar year. One EM strategy was liquidated over the year. No new managers were hired in FY2014.

NON-US EQUITY RETURNS



NON-US EQUITY ALLOCATIONS



LARGEST INDIVIDUAL NON-US EQUITY HOLDINGS AS OF JUNE 30, 2014

	Description	Country	Shares*	Market Price	Fair Value
1	iShares MSCI Taiwan	Taiwan	2,038,352	$ 15.80	$ 32,205,962
2	Nestle SA	Switzerland	392,696	77.47	30,422,012
3	Novartis AG	Switzerland	287,033	90.55	25,990,929
4	Roche Holdings	Switzerland	85,355	298.26	25,458,165
5	Gazprom OAO ADR	Russian Federation	5,575,110	4.37	24,387,956
6	China Construction Bank Corp.	China	28,220,300	0.76	21,337,225
7	Suncor Energy, Inc.	Canada	495,604	42.72	21,170,633
8	HSBC Holdings	United Kingdom	2,000,184	10.14	20,277,270
9	Taiwan Semiconductor Manufacturing	Taiwan	901,468	21.39	19,282,401
10	Novo Nordisk, Inc.	Denmark	401,718	46.02	18,487,934

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

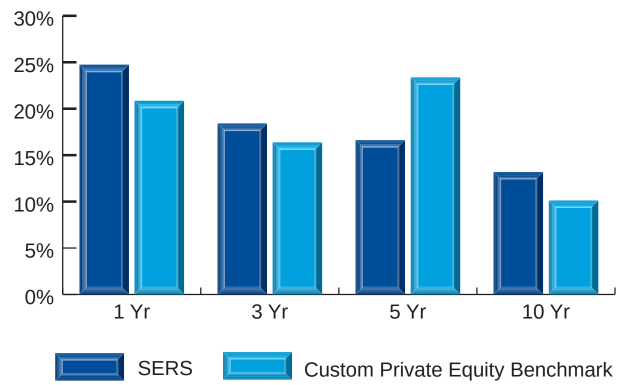
Global Private Equity

Global private equity consists of investments in 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.

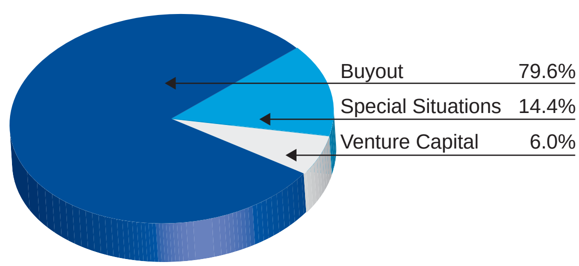
During the fiscal year, SERS' private equity portfolio had a return of 24.7% (gross of fees) versus the custom benchmark return of 20.9%. For the three-, five-, and ten-year periods, the private equity portfolio returned 18.4%, 16.6%, and 13.2% respectively (gross of fees). Private equity returns are reported one quarter in arrears. The net of fee return for fiscal year 2014 was 22.7% exceeding the benchmark by 1.8%. The three-, five- and ten-year period net returns were 16.6%, 14.4%, and 10.2% respectively.

As of June 30, 2014, the market value of SERS' private equity portfolio was $1.2 billion, or 9.5% of the Total Fund compared to a policy target of 10%. Unfunded commitments to private equity partnerships totaled $748 million at fiscal year-end. Over the past fiscal year, SERS made commitments to three private equity partnerships totaling $125 million. Of this $125 million, $95 million was committed to two US-focused, middle-market buyout funds and $30 million was committed to a global fund that will pursue investments in the energy sector.

GLOBAL PRIVATE EQUITY RETURNS



ALLOCATION BY STRATEGY



LARGEST INDIVIDUAL GLOBAL PRIVATE EQUITY HOLDINGS AS OF JUNE 30, 2014

	Description	Fair Value
1	Thomas H. Lee Equity Fund VI, LP	$ 77,980,457
2	Warburg Pincus Private Equity X, LP	69,830,178
3	Freeman Spogli Equity Partners VI, LP	47,531,898
4	Quantum Energy Partners V, LP	46,136,829
5	Green Equity Investors V, LP	43,936,568
6	J.P. Morgan Venture Capital Institutional Investors IV	43,123,301
7	Swander Pace Capital Partners IV, LP	39,391,920
8	Francisco Partners III, LP	39,382,792
9	Bridgepoint Europe IV 'B', LP	37,378,044
10	Silver Lake Partners III, LP	34,897,551

All monetary values are stated in US dollars.

A complete listing of holdings is available upon request.

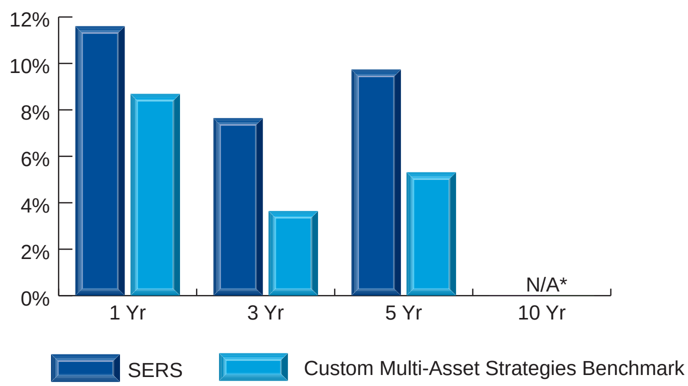
Multi-Asset Strategies

SERS invests in multi-asset strategies to generate absolute returns with managed volatility, provide positive attribution to the Total Fund return on a risk-adjusted basis and improve Total Fund portfolio diversification. The multi-asset strategies portfolio, consisting of 34 funds as of June 30, 2014, is diversified across geographical regions, sectors, and strategies, including equity long/short, event driven, relative value, tactical trading, and risk parity strategies. Portfolio assets totaled approximately $1.6 billion on June 30, 2014.

During the fiscal year, SERS' multi-asset strategies portfolio had a return of 11.6% (gross of fees) versus its benchmark return of 8.7%. The net of fee return was 10.0% exceeding the benchmark by 1.3%. For the three-year period, the multi-asset strategies portfolio produced a net return of 7.7% versus 3.7% for the benchmark. Five-year returns also exceeded the benchmark. SERS has not been invested in multi-asset strategies long enough to report ten-year returns.

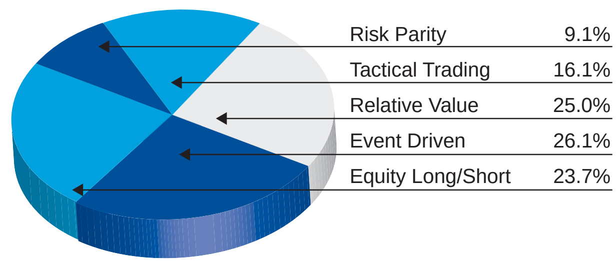
SERS' *Statement of Investment Policy* targets multi-asset strategy investments at 10.0% of total assets. As of June 30, 2014, this portfolio represented 12.5% of total assets. SERS redeemed a net of $62.4 million from underlying funds, added two new funds and fully redeemed from two funds during the fiscal year.

GLOBAL HEDGE FUND RETURNS



*Multi-asset strategies (formerly hedge funds) was a new investment strategy in FY2008, thus the ten-year return is not available.

ALLOCATION BY STRATEGY



LARGEST INDIVIDUAL MULTI-ASSET STRATEGIES HOLDINGS AS OF JUNE 30, 2014

	Description	Fair Value
1	Viking Global Equities III Ltd.	$ 111,281,141
2	GoldenTree Offshore Fund Ltd.	82,809,279
3	Caspian Select Credit International Ltd.	82,708,400
4	Visium Balanced Offshore Fund Ltd.	79,376,088
5	Regiment Capital Ltd.	77,319,112
6	Bridgewater All Weather Portfolio Ltd.	75,755,035
7	Aristeia International Ltd.	75,313,491
8	Eminence Fund Ltd.	74,874,297
9	Invesco Balanced-Risk Allocation Trust	71,870,612
10	BlueCrest Capital International Ltd.	68,115,056

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

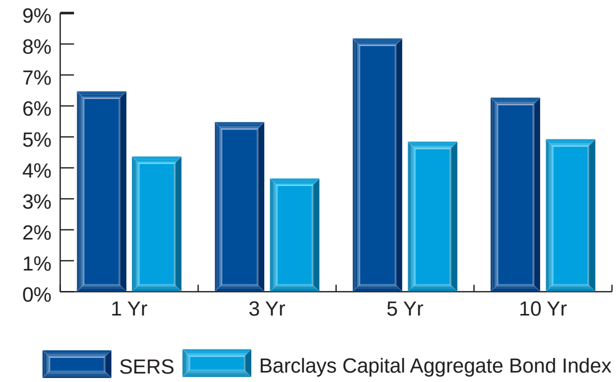
Global Fixed Income

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

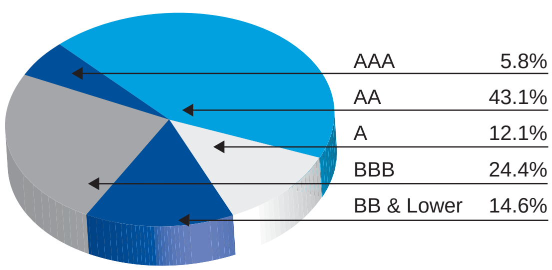
For the fiscal year ended June 30, 2014, SERS' fixed income portfolio returned 6.47% (gross of fees) outperforming the benchmark, Barclays Capital Aggregate Bond Index, by 2.10%, against the index return of 4.37%. The net of fee return was 6.23%, exceeding the benchmark by 1.86%. Returns were primarily driven by an underweight to US Treasuries and an overweight to both investment-grade and high-yield corporate credit.

For the year ended June 30, 2014, the US Treasury market returned 2.0%, agency mortgages increased 4.7%, investment-grade corporates generated 7.6%, the high-yield market returned 11.7%, and emerging market bonds increased 3.9%. The Federal Reserve kept the federal funds rate stable at 0 – 0.25% during the fiscal year to promote growth, although the Fed's quantitative easing program began its phase-out period by reducing US Treasury and agency mortgage purchases by $10 billion each month since January 2014. US Treasury rates were range bound with the 10-year moving from 2.49% on June 30, 2013, to 3.02% on December 31, 2013, and declined down to 2.53% on June 30, 2014.

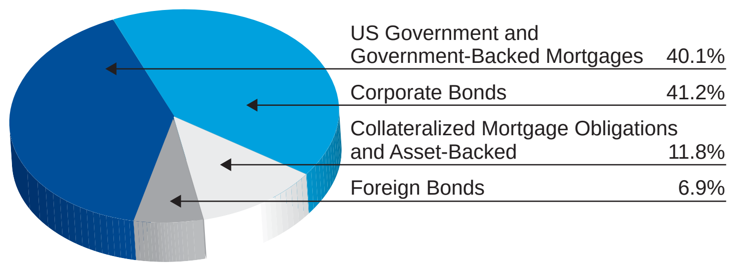
GLOBAL FIXED INCOME RETURNS



QUALITY DISTRIBUTION



SECTOR DISTRIBUTION



LARGEST INDIVIDUAL GLOBAL FIXED INCOME HOLDINGS AS OF JUNE 30, 2014

	Description	Rating	Par Value	Market Price	Fair Value
1	FNMA TBA 3.5% 07/01/2044	AA+	$ 16,300,000	$ 1.029	$ 16,778,894
2	FNMA TBA 4.0% 08/01/2044	AA+	14,800,000	1.058	15,659,732
3	US Treasury Note 0.875% 04/15/2017	AA+	14,760,000	1.002	14,795,719
4	US Treasury Note 0.25% 10/31/2014	AA+	12,320,000	1.001	12,326,283
5	FNMA Pool #0AL5362 5.00% 09/01/2039	AA+	8,114,112	1.115	9,047,997
6	US Treasury Bond 3.125% 02/15/2042	AA+	8,800,000	0.968	8,514,000
7	US Treasury Note 0.375% 01/31/2016	AA+	8,100,000	1.001	8,111,664
8	FNMA Pool #0AL1934 3.146% 04/01/2038	AA+	7,451,396	1.058	7,881,938
9	Verizon Communications, Inc. 6.55% 09/15/2043	BBB+	6,240,000	1.258	7,852,666
10	US Treasury Note 1.5% 02/28/2019	AA+	7,550,000	0.998	7,537,618

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

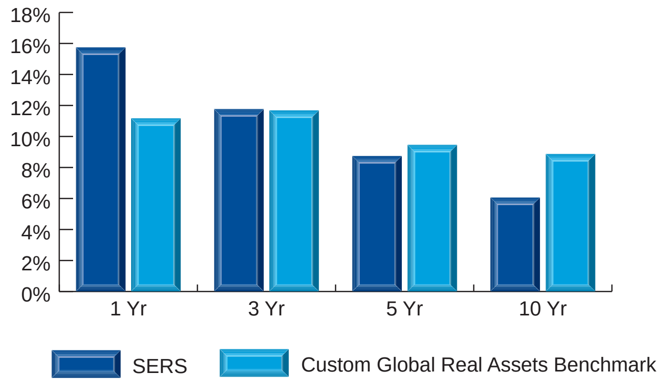
Global Real Assets

SERS' global real assets 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 assets portfolio through value-add, opportunistic, and global real estate security strategies. Investments in the global real assets portfolio are located across the US, Europe, and Asia.

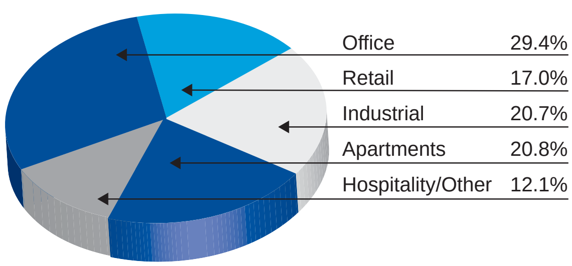
During the fiscal year, SERS' global real assets portfolio produced a total return of 15.8%, gross of fees, and 14.6%, net of fees, versus the real assets policy benchmark return of 11.2%. For three-, five-, and ten-year periods, the global real assets portfolio produced returns of 10.5%, 7.5%, and 4.8% respectively (net of fees). All returns, except global real estate securities (REITS), are reported one quarter in arrears.

During the fiscal year, SERS' target allocation to real assets was 15% of the Total Fund with a range of +/-5%. As of June 30, 2014, the real assets portfolio was approximately $1.4 billion, or 10.6% of the Total Fund. Unfunded commitments to real estate funds totaled approximately $97.0 million at fiscal year-end.

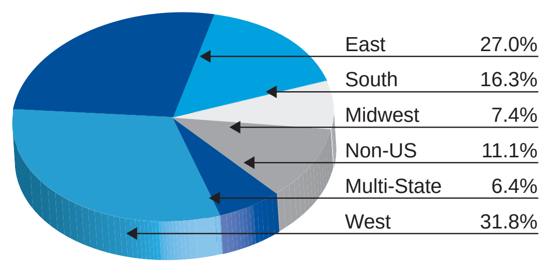
GLOBAL REAL ASSETS RETURNS



PROPERTY TYPE DIVERSIFICATION (excluding REITS)



REGIONAL DIVERSIFICATION (excluding REITS)



LARGEST INDIVIDUAL GLOBAL REAL ASSETS HOLDINGS AS OF JUNE 30, 2014

	Description	Fair Value
1	RREEF America REIT II	$195,957,521
2	JP Morgan Strategic Property Fund	144,646,145
3	UBS Trumbull Property Fund	94,426,336
4	Clarion Lion Properties Fund	92,904,157
5	PRISA II	91,226,475
6	Clarion Lion Industrial Trust	65,112,840
7	PRISA	59,485,393
8	Lubert-Adler Real Estate Fund VI-B	59,079,668
9	Almanac Realty Securities V, LP	39,020,832
10	Carlyle Asia Real Estate Partners II, LP	36,196,291

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

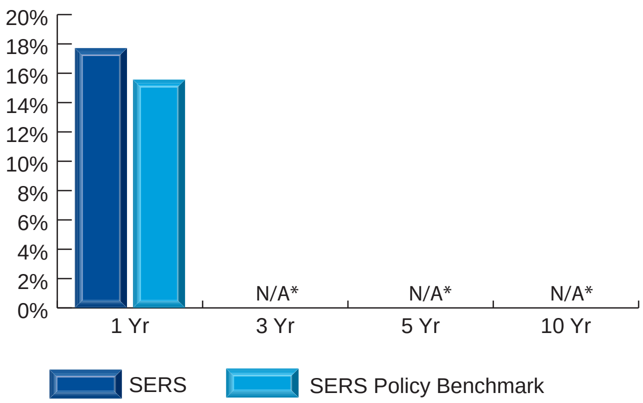
Opportunistic Investments

SERS' opportunistic portfolio is comprised of time-constrained, non-traditional investment opportunities or investments that do not fit within SERS' other asset classes. Such opportunities may involve capitalizing on short-term market dislocations or other unique situations. The opportunistic portfolio has a 0.0% policy target allocation, giving Staff flexibility to invest only when market conditions present attractive opportunities.

For the fiscal year ended June 30, 2014, SERS' opportunistic portfolio returned 17.72% (gross of fees) outperforming SERS' Policy Benchmark by 2.15%. The net of fee return was 11.43%, underperforming the benchmark by 4.14%. Staff expects the difference between gross and net returns to normalize as the portfolio matures and more capital commitments are invested.

The opportunistic portfolio held four investments with a market value of $45 million as of June 30, 2014. SERS committed $160 million to these four investments which will be drawn down over the next few years. Investments included private direct lending, restructuring troubled banks, and purchasing distressed real estate and structured products.

OPPORTUNISTIC INVESTMENTS RETURNS



*Opportunistic Investments was a new investment strategy in FY2013, thus extended returns are not available.

LARGEST INDIVIDUAL OPPORTUNISTIC INVESTMENTS HOLDINGS AS OF JUNE 30, 2014

	Description	Fair Value
1	Highbridge Principal Strategies - Specialty Loan Fund III, LP	$ 24,634,762
2	GoldenTree Structured Products Fund 2013	9,973,236
3	PIMCO Bravo II, LP	9,661,283

All monetary values are stated in US dollars.

Investment Consultants & Investment Managers

Investment Consultants
- Aksia LLC
- Summit Strategies Group

Investment Managers - US Equity
- Brown Capital Management
- Jackson Square Partners (formerly 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
- 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

Securities Lending Agents
- Goldman Sachs Agency Lending

Investment Managers - Private Equity
- Bridgepoint Capital
- Charterhouse Capital Partners
- 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
- Levine Leichtman V
- 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
- 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 - Multi-Asset Strategies
- Angelo, Gordon & Co.
- Archer Capital Management
- Aristeia Capital
- BlueCrest Capital Management
- Brevan Howard Asset Management
- Bridgewater Associates
- Brookside Capital Investors
- Caspian Capital
- Cevian Capital
- D.E. Shaw & Company
- Diamondback Capital Management
- Ellis Lake Capital
- Elm Ridge Capital Management
- Eminence Capital
- GoldenTree Asset Management
- INVESCO Advisors
- King Street Capital Management
- Manatuck Hill Partners
- Marathon Asset Management
- Nephila Capital
- Oceanwood Capital
- OxFORD Asset Management
- Pacific Investment Management Company
- Pharo Management
- Redwood Capital
- Regiment Capital Management
- Rockhampton
- Samlyn Capital
- Stark Offshore Management
- Taconic Capital Advisors
- Viking Global Investors
- Visium Asset Management

Investment Managers - Real Assets
- AEW Capital Management
- Almanac Realty Investors
- Beacon Capital Partners
- CBRE Global Investors
- Clarion Partners
- Colony Capital
- Deutsche Asset & Wealth Management
- 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
- Ford Financial
- GoldenTree Asset Management
- Highbridge Capital Management
- Pacific Investment Management Company

Custodians
- Citibank NA
- Huntington National Bank

Master Recordkeeper
- BNY Mellon Asset Servicing

Investment Analytics
- BNY Mellon Global Risk Solutions

Summary Schedule of Brokers' Fees for US Equity Transactions for the Year Ended June 30, 2014

Broker Name	Fees Paid	# of Shares Traded	Avg. Commission per Share
Merrill Lynch, Pierce, Fenner & Smith, Inc.	$ 192,535	8,609,707	$ 0.022
J.P. Morgan Securities, LLC	184,467	9,921,875	0.019
State Street Global Markets, LLC	120,211	6,995,350	0.017
Instinet, LLC	93,711	6,707,715	0.014
Goldman Sachs Execution & Clearing, L.P.	90,910	6,319,079	0.014
Goldman Sachs & Co.	74,829	2,733,589	0.027
Sanford C. Bernstein & Co., LLC	74,295	4,729,152	0.016
Barclays Capital, Inc.	70,582	2,268,135	0.031
Pershing, LLC	70,396	4,703,110	0.015
Morgan Stanley & Co., Inc.	66,155	2,601,675	0.025
UBS Securities, LLC	60,787	2,649,259	0.023
Convergex Execution Solutions, LLC	59,045	2,113,363	0.028
Jefferies, LLC	55,534	2,879,257	0.019
Credit Suisse Securities, LLC	53,107	3,624,100	0.015
Citigroup Global Markets, Inc.	51,709	4,561,332	0.011
ITG, Inc.	50,163	5,801,105	0.009
Deutsche Bank Securities, Inc.	48,344	2,071,551	0.023
Stifel, Nicolaus & Co., Inc.	42,036	1,598,596	0.026
Raymond James & Associates, Inc.	33,715	1,046,177	0.032
Bloomberg Tradebook, LLC	32,358	4,267,768	0.008
National Financial Services, LLC	30,643	942,933	0.032
Cantor, Fitzgerald & Co.	28,490	1,031,270	0.028
RBC Capital Markets, LLC	25,626	872,192	0.029
KCG Americas, LLC	24,807	713,923	0.035
Cowen & Co., LLC	17,951	771,737	0.023
Scotia Capital, Inc.	16,537	475,935	0.035
Cabrera Capital Markets, LLC	14,251	428,786	0.033
KeyBanc Capital Markets, Inc.	13,692	432,973	0.032
William Blair & Co., LLC	13,059	475,018	0.027
Weeden & Co., L.P.	11,806	2,135,223	0.006
Macquarie Capital, Inc.	11,579	292,038	0.040
HSBC Securities, Inc.	11,485	2,822,020	0.004
Wedbush Securities, Inc.	10,145	320,125	0.032
Robert W. Baird & Co., Inc.	9,487	365,986	0.026
SG Americas Securities, LLC	8,831	1,564,222	0.006
Wells Fargo Securities, LLC	8,301	372,217	0.022
Piper Jaffray & Co.	8,163	304,418	0.027
BB&T Securities, LLC	8,060	315,689	0.026
Citation Financial Group, L.P.	7,988	295,480	0.027
Oppenheimer & Co., Inc.	7,907	197,267	0.040
Credit Agricole Securities, Inc.	7,768	195,701	0.040
Pavilion Global Markets Ltd.	6,380	1,785,694	0.004
Loop Capital Markets, LLC	6,330	459,297	0.014
Merrill Lynch Professional Clearing Corp.	6,174	985,759	0.006
Liquidnet, Inc.	5,978	221,755	0.027
ISI Group, LLC	5,918	200,283	0.030
Stephens, Inc.	4,690	125,762	0.037
Sandler, O'Neill & Partners, L.P.	4,186	152,210	0.028
Broadcourt Capital Corp.	4,074	136,600	0.030
Penserra Securities, LLC	3,861	964,595	0.004
Brokers with less than $3,860 (41)	48,446	2,609,063	0.019
Total US	$ 1,917,502	109,168,066	$ 0.018

Summary Schedule of Brokers' Fees for Non-US Equity Transactions for the Year Ended June 30, 2014

Broker Name	Fees Paid	# of Shares Traded	Avg. Commission per Share
Instinet, LLC	$ 204,131	58,205,117	$ 0.004
HSBC Securities, Inc.	203,447	82,804,573	0.002
State Street Global Markets, LLC	169,434	56,453,313	0.003
J.P. Morgan Securities, LLC	119,093	30,513,240	0.004
ITG, Inc.	97,121	38,666,361	0.003
Citigroup Global Markets, Inc.	91,304	33,067,441	0.003
Sanford C. Bernstein & Co., LLC	88,860	30,200,944	0.003
SG Securities, L.P.	73,010	35,036,829	0.002
Credit Suisse Securities, LLC	67,719	19,737,946	0.003
Goldman Sachs & Co.	50,327	9,954,462	0.005
Merrill Lynch Professional Clearing Corp.	31,311	10,111,693	0.003
UBS Securities, LLC	22,569	5,728,340	0.004
Merrill Lynch, Pierce, Fenner & Smith, Inc.	22,166	18,714,365	0.001
ING Equities, Inc.	21,302	139,700	0.152
Daiwa Capital Markets, Inc.	18,041	4,315,651	0.004
Socgen-Crosby Securities, Inc.	17,944	1,849,530	0.010
Jefferies, LLC	17,238	1,501,646	0.011
North South Capital, LLC	13,494	684,248	0.020
Credit Agricole Securities, Inc.	9,566	2,240,627	0.004
SG Warburg & Co., Inc.	9,032	1,156,730	0.008
National Securities Corp.	8,954	11,041,000	0.001
UBS Financial Services, Inc.	8,583	1,050,678	0.008
Macquarie Capital, Inc.	7,777	3,849,336	0.002
Morgan Stanley & Co., Inc.	7,561	964,410	0.008
Deutsche Bank Securities, Inc.	7,110	789,552	0.009
SG Americas Securities, LLC	6,748	1,163,480	0.006
Concordia SA CVMCC	6,308	1,016,662	0.006
XP Securities, LLC	6,139	932,670	0.007
Hanwha Investment & Securities Co., Ltd.	5,448	222,306	0.025
Redburn, LLC	5,096	448,152	0.011
Samsung Securities, Inc.	4,497	150,555	0.030
Tera Menkul Degerler A.S.	4,478	1,521,120	0.003
BNP Parabas Investment Services, LLC	4,345	1,504,179	0.003
Kepler Capital Markets, Inc.	4,261	43,728	0.097
Pavilion Global Markets Ltd.	4,239	2,931,131	0.001
Barclays Capital, Inc.	4,033	1,372,587	0.003
Raymond James & Associates, Inc.	4,005	24,050	0.167
Pershing, LLC	3,750	366,773	0.010
Exane, Inc.	3,445	234,317	0.015
Fator-Doria Atherino S/A CV	2,922	504,115	0.006
CSLA Americas, LLC	2,446	313,226	0.008
Citation Financial Group, L.P.	2,045	15,645	0.131
Standard Chartered Securities, Inc.	1,637	721,650	0.002
Mainfirst Securities, Inc.	1,634	10,986	0.149
Mizuho Securities USA, Inc.	1,528	58,924	0.026
Nomura Securities International, Inc.	1,438	100,420	0.014
ICICI Securities, Inc.	1,158	183,794	0.006
International Assets Advisory, LLC	982	14,080	0.070
RBC Capital Markets, LLC	933	20,600	0.045
Interacciones Global, Inc.	908	351,939	0.003
Brokers with less than $907 (23)	6,897	967,854	0.007
Total Non-US	$ 1,478,414	473,972,675	$ 0.003

Investment Summary

Portfolio Type	Fair Value	% of Total Fair Value
US Equity	$ 3,214,456,856	25.0%
Non-US Equity	3,163,552,975	24.7
Global Private Equity	1,228,657,176	9.5
Global Fixed Income	1,915,622,085	14.9
Multi-Asset Strategies	1,613,417,202	12.5
Global Real Assets	1,365,654,843	10.6
Opportunistic Investments	45,000,036	0.3
Cash Equivalents	321,071,177	2.5
Net Portfolio Value	$ 12,867,432,350	100.0%

Reconciliation to Statement of Net Position	
Net Portfolio Value	$ 12,867,432,350
Accounts receivable, securities sold	(158,998,423)
Accounts payable, securities purchased	198,964,583
Cash and cash equivalents	(534,162,853)
Investments per Statement of Fiduciary Net Position	$ 12,373,235,657

Investment Results

FOOTNOTES TO INVESTMENT RESULTS TABLE ON PAGE 47:

(1) Custom Non-US equity benchmark:
- a) Effective January 1, 2014 MSCI ACWI ex-US (net dividends) Index
- b) Effective July 1, 2013 MSCI ACWI ex-US (net dividends) Index (developed markets 50% hedged)
- c) Prior to July 1, 2013 MSCI ACWI ex-US (gross dividends) Index (developed markets 50% hedged)

(2) Global private equity returns are reported one quarter in arrears.

(3) Custom Global Private Equity benchmark:
- a) Effective January 1, 2014 Burgiss All Private Equity Benchmark (BAPE) (one quarter in arrears)
- b) Prior to July 1, 2014 S&P 500 Index plus 3%

(4) Prior to July 1, 2013 Multi-Asset Strategies was known as Hedge Funds

(5) Custom Multi-Asset Strategies benchmark:
- a) Effective July 1, 2013 HFRI Fund of Funds Composite Index + 1.0%
- b) Effective July 1, 2010 HFRI Fund of Funds Composite Index
- c) Effective June 1, 2008 (inception of the strategy) HFRI fund Weighted Index

(6) Global real asset partnership returns are reported one quarter in arrears. Public real asset returns are reported in the current quarter.

(7) Custom Global Real Assets benchmark:
- a) Effective July 1, 2010 NCREIF Property Index (one quarter in arrears)
- b) Prior to July 1, 2010
  - i. 80% NCREIF Property Index (one quarter in arrears)
  - ii. 20% FTSE EPRA/NAREIT Developed Index

(8) Opportunistic Investments strategies first investment was in June 2013

(9) SERS Policy benchmark weightings for the past 10 years:

a) Effective January 1, 2014
22.5% Russell 3000 Index
22.5% MSCI ACWI ex-US (net dividends) Index
19.0% Barclays Capital US Aggregate Bond Index
12.0% NCREIF Property Index (one quarter in arrears)
10.0% Burgiss All Private Equity benchmark (BAPE) (one quarter in arrears)
13.0% HFRI Fund of Funds Composite Index + 1.0%
1.0% Citigroup 30 Day T-Bill Index

b) Effective July 1, 2013
22.5% Russell 3000 Index
22.5% MSCI ACWI ex-US (net dividends) Index (developed markets 50% hedged)
19.0% Barclays Capital US Aggregate Bond Index
12.0% NCREIF Property Index (one quarter in arrears)
10.0% SERS Custom Private Equity benchmark
13.0% HFRI Fund of Funds Composite Index + 1.0%
1.0% Citigroup 30 Day T-Bill Index

c) 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 Fund Index
1.0% Citigroup 30 Day T-Bill Index

d) 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

e) 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

f) 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
2.0% Citigroup 30 Day T-Bill Index

Statement of Investment Policy (effective May 1, 2014)

I. Purpose of Statement of Investment Policy

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

This SIP:

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 SIP is subject to change at any time by the Board. The Board will review the SIP 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 manage SERS assets prudently (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, risk management and portfolio management practices. These principles are incorporated in the "Investment Beliefs" below. The Board believes it can provide consistent, long-term performance at appropriate levels of risk. By delineating responsibilities and defining policy objectives, this SIP reflects the Board's investment philosophy and governance.

SERS Investment Beliefs:

Financial Markets

A. Capital markets are not perfectly efficient. Inefficiencies create opportunities that skilled investors could exploit to generate excess returns. Investment Staff will prudently attempt to add value by exploiting such inefficiencies across different assets selectively, although it is not easily achieved.

B. Markets generally afford higher prospective returns for riskier assets, such as equity or credit risk premiums over the long term. Anomalies could occur in intermittent periods on account of shifting valuations. When valuations are elevated returns tend to be lower.

Investment Process

C. Strategic asset allocation is the key determinant of risk and return and represents the Board's tolerance for risk in achieving funding goals. It is important to diversify across risk factors and return sources and to be explicit about the role of asset classes.

D. Risk is the likelihood of loss or less than expected outcomes and is not fully captured by a single metric such as volatility. Risk has many dimensions, subjective and objective, which must be comprehensively assessed and managed in the investment process.

E. Long-term horizon is an advantage as it enables SERS to tolerate volatility, capture illiquidity and other risk premia, and take advantage of trends and opportunities.

F. Costs matter. Managing fees and transaction costs adds value to the Fund. Costs must be judged relative to expected value added.

Organizational Skills and Design

G. Investment success is dependent on good governance, decision process, skill and judgment. Having an experienced and talented staff with appropriate decision authority is an advantage. SERS' Board will delegate authority as appropriate to staff to facilitate execution of the investment process, but retain policy and oversight powers.

H. Explicit investment objectives, guidelines and collaborative teamwork among staff as well as external partners is essential for success.

Sustainability and Corporate Governance

I. Good governance of markets and entities comprising the markets improves outcomes for investors. SERS Board and Staff will exercise corporate ownership responsibly and with the best fiduciary interest of members and stakeholders.

J. SERS Board and Staff must be attentive to important environmental, social and governance issues that affect markets and promote its interests in a responsible manner in the best fiduciary interest of members and stakeholders.

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 over the long term the Actuarial Assumed Rate approved by the Board; 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 manage 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 and Governance Officer and other Investment Service Providers. These responsibilities are described in this SIP.

B. In fulfilling its fiduciary duties the Board utilizes a competent and qualified Staff to implement the investment program and 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 SIP.

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 with this SIP, 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 Investment 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;
8. approving an Annual Investment Plan;
9. approving Statement of Investment Policy and changes thereto; and
10. conducting an annual evaluation of the performance of the Board's Investment Consultant.

B. Responsibilities of ***Staff***

Staff will administer Total Fund assets as fiduciaries in accordance with applicable federal and state laws and regulations, and in accordance with this SIP, 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, and assist the Board in the

retention of Investment consultants;

c. appointing, discharging and retaining the Director of Investments, and Investment Staff;

d. overseeing the investment function,

e. executing investment documents when necessary,

f. Conducting a fiduciary audit of investment operations at least on a seven- to ten-year cycle unless circumstances require an audit to be conducted sooner, and

g. Conducting a peer group benchmarking of SERS investment costs performed by an independent entity every two- to three-years.

2. The ***Director of Investments*** is responsible for:

a. overseeing the Investment Program and keeping the Executive Director advised;

b. conducting periodic asset liability studies with the assistance of investment consultants and recommending asset allocation targets and ranges.

c. reviewing the SIP on an annual basis and recommending changes as needed for approval by the Board.

d. preparing and presenting the Annual Investment Plan to the Board for approval;

e. implementing the Annual Investment Plan;

f. investigating, researching and recommending new and emerging investment concepts and strategies, and implementing appropriate strategies in accordance with approved policies and procedures;

g. 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;

h. adjusting allocations to Asset Classes, Investment Managers and Funds as needed, subject to any approved allocation ranges;

i. approving implementation guidelines for each asset class to establish allocation ranges for sub-strategies, risk parameters and risk limits and providing such guidelines to the Board.

j. appointing and discharging Investment Managers and approving investments in or redemptions from Funds subject to conditions and guidelines in Section VII.;

k. activating previously approved Backup Investment Managers;

l. executing investment documents;

m. approving Investment Manager guidelines, changes and additions;

n. supervising Investment Staff;

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

p. regularly reporting the status of the Total Fund and its multi-period performance to the Board relative to benchmarks and on market conditions. Performance will be calculated on a gross-of-fees and net-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. regularly reporting the status of the respective asset classes and Total Fund and its multi-period performance to the Director of Investments;

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

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

d. recommending to the Director of Investments implementation guidelines for the respective asset classes to establish allocation ranges for sub-strategies, risk parameters and risk limits; and managing the portfolio to the approved implementation guidelines.

e. recommending to the Director of Investments any 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 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 SIP, 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 as needed;
3. at the earliest opportunity disclose to Investment Staff any actual or potential conflict of interest ;
4. as permitted by law disclose any investigation of, or litigation involving, its operations to Investment Staff ; 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 as fiduciaries for investing prudently the Total Fund assets. In addition to those applicable responsibilities described in VI.B., 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 SIP, 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, 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 fiduciaries and in accordance with all applicable federal and state laws and regulations, including but not limited to applicable ethics requirements; in accordance with this SIP; 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 SIP;
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 on 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 SIP; 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 and Governance Officer***

The Investment Compliance and Governance Officer is responsible for:

1. monitoring and reporting compliance with this SIP and Board Resolutions;
2. ensuring that investment management agreements and related contracts comply with the SIP;
3. ensuring that Investment Service Providers and Investment Managers comply with Sections VI.C. and D., herein;
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;
5. promptly voting proxies and related actions in accordance with Board approved procedures, and maintaining detailed records of proxy votes and related actions for the Proxy Review Committee; and
6. reporting proxy voting activity to the Board on a quarterly basis and highlighting any emerging issues related to this activity.

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 and Governance Officer;
5. The Investment Committee will develop and implement definitive procedures for approving investments in accordance with this SIP
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 quarterly reporting at a minimum;
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. Staff, with the assistance of consultants, will review annually the market outlook and expected returns for asset classes with the Board. If there are significant changes in return assumptions, Staff will conduct an interim review of the Asset Allocation Policy.

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 SIP, the Board hereby recognizes and reaffirms the following asset allocation for SERS:

ASSET CLASS	TARGET	RANGE
Equity	**55%**	**45% - 65%**
Global Equities	45%	35% - 55%
Global Private Equity	10%	5% - 15%
Income	**35%**	**30% - 40%**
Global Fixed Income	19%	14% - 24%
Global Real Assets	15%	10% - 20%
Cash Equivalents	1%	0% - 5%
Strategy		
Multi-Asset Strategies	10%	5% - 15%
Opportunistic Investments	0%	0 - 5%
Total	**100%**	

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 the Proxy Review Committee, which consists of staff members from Executive and Investments, to vote proxies of common stock owned by SERS and to hire proxy services as required to implement this strategy. The Proxy Review Committee will adopt and implement a process for voting proxies as described in the Proxy Voting Procedures document.

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. 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. Staff will report to the Board annually on the utilization of Ohio-qualified managers and efforts to increase utilization.

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 managing the Investment Program in a prudent manner. The Director of Investments may develop additional investment strategies as needed and will discuss such additional strategies with the Board prior to implementation.

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 as stated in Section VIII. A.

In the event of a significant change in policy targets, the Board may approve interim targets for a period to move progressively toward the final target; interim targets may be used for the purpose of calculating the Total Fund policy benchmark in the interim period.

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 (net dividends)
Global Private Equity	Burgiss All Private Equity benchmark (BAPE)(one quarter in arrears)
Global Fixed Income	Barclays Capital US Aggregate Bond Index
Global Real Assets	NCREIF Property Index (one quarter in arrears)
Cash Equivalents	Citigroup 30-day T-Bill Index

Strategy	Benchmark Measure
Multi-Asset Strategies	HFRI Fund of Funds Composite Index plus 1.0%
Opportunistic Investments	Total Fund Benchmark Return

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 SIP.

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.

XI. Related Policies and Procedures

A list of related policies and procedures that govern the investment program is attached as Appendix I.

This policy supersedes the policy adopted August 2, 1985 and all revised policies dated 01/01/2014; 07/01/2013; 1/19/12; 7/21/11; 7/01/10; 2/01/09; 8/01/08; 2/21/08; 10/01/07; 10/20/05; 9/15/00; 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.

ACTUARIAL SECTION

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

November 21, 2014

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, 2014 indicates that a contribution rate of 13.18% of payroll for 121,251 school employees meets the basic financial objective.

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

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

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

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

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Board of Trustees
November 21, 2014
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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 2029.

The current benefit structure is outlined in the Plan summary. There were no changes in benefit structure for the June 30, 2014 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.

The main purpose of the Basic Benefits Valuation is to determine the System's funded status and the actuarially determined employer contribution rate as of June 30, 2014 necessary to satisfy the funding objectives of the Board. The Basic Benefit Valuation indicates the School Employees Retirement System of Ohio is expected to continue in sound condition in accordance with actuarial principles of level percent of payroll financing provided all actuarial assumptions for future experience are met. Should future adverse experience develop, SERS may find it necessary to seek benefit reductions and/or contribution rate increases from employers, members or both. Upcoming detailed projection analysis will provide a more complete indication concerning the future actuarial condition of the System.

Sincerely,

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

Todd B. Green ASA, FCA, MAAA
Principal and Consulting Actuary

Alisa Bennett, FSA, EA, FCA, MAAA
Principal and Consulting Actuary

TJC\TBG\AB: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.

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 FY2014, 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, 2014, the policy required the determination of a rate for basic benefits to cover normal cost and to amortize the unfunded actuarial accrued liabilities over a 28-year period. The remaining portion of the employer contribution was allocated to health care benefits.

Pension Trust Fund	13.05%
Death Benefit Fund	.05
Medicare B Fund	.76
Health Care Fund	.14
	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, it is pro-rated for partial service credit. For FY2014, the minimum pay amount was established at $20,250. 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, 2014.

- **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

For members who are not eligible to retire prior to August 1, 2017, the assumed rates of retirement in the first year of eligibility for a normal retirement and upon completing 30 years of service are 28%. The assumed rates of early retirement for members who retire prior to August 1, 2017 are 14% for males and 13% for females aged 55 to 59 and 8.5% for males and 9.5% for females aged 60 to 64.

- **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, 2014

Present value of:	Pension Benefits	Medicare B	Death Benefit	Total
Future benefits to present retirees and survivors	$ 9,868,848,889	$ 247,172,381	$ 25,938,654	$ 10,141,959,924
Benefits and refunds to present inactive members	568,105,460	12,133,430	1,238,139	581,477,029
Allowances to present active members				
Service	6,761,642,792	114,890,661	7,033,657	6,883,567,110
Disability	266,863,707	4,542,620	394,282	271,800,609
Survivor benefits	92,741,372	1,665,344	-	94,406,716
Withdrawal	(101,486,678)	10,021,215	81,246	(91,384,217)
Total Active AAL	7,019,761,193	131,119,840	7,509,185	7,158,390,218
Total AAL	$ 17,456,715,542	$ 390,425,651	$ 34,685,978	$ 17,881,827,171

Active Member Valuation Data

Actuarial Valuation as of June 30	Number of Active Members	Annual Payroll *(millions)*	Average Annual Salary	% Increase in Average Salary
2014	121,251	$2,759	$22,757	0.8%
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

Pension 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
2014	4,144	$61,331,002	2,310	$1,060,903	72,605	$958,537,700	6.7%	$13,202
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

Medicare B Retirees and Beneficiaries Added to and Removed from Rolls(1)

	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
2014	2,225	$1,214,850	2,303	$1,257,438	47,298	$25,824,708	(.16%)	$546
201	2,569	1,402,674	2,824	1,541,904	47,376	25,867,296	(.54%)	546

(1) The effort and cost to re-create financial statement information for the previous four years was not practical. Additional years will be displayed as they become available.

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
($ in millions)

Valuation Date June 30	Aggregate Accrued Liabilities For: (1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Financed Portion)	Actuarial Value of Assets	Portion of Accrued Liabilities Covered by Reported Asset: (1)	(2)	(3)
PENSION							
2014	$2,892	$10,437	$4,128	$11,882	100%	86%	0%
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
MEDICARE B							
2014	$ 0	$ 259	$ 131	$ 128	100%	49%	0%
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
DEATH BENEFIT							
2014	$ 0	$ 27	$ 8	$ 21	100%	76%	0%
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

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
($ in millions)

Type of Risk Area	2014				2013*	2012*
	Pension	Medicare B	Death Benefit	Total		
Age and Service Retirements If members retire at older ages, there is a gain. If younger ages, a loss.	$(122.0)	$(0.5)	$(0.1)	**$(122.6)**	$(121.9)	$(154.8)
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	(55.3)	(0.6)	(0.1)	**(56.0)**	(53.6)	(47.7)
Death-In-Service Benefits If claims costs are less than assumed, there is a gain. If more claims, a loss.	0.1	0.0	0.0	**0.1**	0.0	(0.2)
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	103.4	0.0	0.0	**103.4**	219.2	178.7
Investment Return If there is greater investment return than assumed, there is a gain. If less return, a loss.	398.0	4.5	0.8	**403.3**	241.0	(692.0)
Withdrawal If more liabilities are released by other separations from active membership than assumed, there is a gain. If smaller releases, a loss.	43.0	5.1	0.2	**48.3**	61.1	46.5
New Members Additional unfunded accrued liability will produce a loss.	(26.7)	(1.4)	(0.1)	**(28.2)**	(35.1)	(29.8)
Death after Retirement If retirees live longer than assumed, there is a loss. If not as long, a gain.	2.5	0.5	0.1	**3.1**	2.9	51.9
Other Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	(4.6)	2.3	0.2	**(2.1)**	1.9	(6.2)
Non-Recurring Items Adjustments for plan amendments, assumption changes, or method changes.	0.0	0.0	0.0	**0.0**	27.8	194.7
Total Gain (Loss) During Year	$ 338.4	$ 9.9	$ 1.0	**$349.3**	$ 343.3	$(458.9)

*Breakdowns by fund for prior years not available

2011*	2010*	2009*
$ (59.2)	$ (40.6)	$ (50.8)
(28.1)	(23.4)	(28.7)
(0.7)	(0.5)	(0.6)
198.4	182.5	107.5
(1,082.9)	390.5	(2,265.2)
15.4	11.0	(11.9)
(36.4)	(38.1)	(50.4)
(1.0)	46.5	51.8
(10.0)	(29.6)	200.1
(436.2)	0.0	0.0
$(1,440.7)	$ 498.3	$(2,048.2)

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 post-employment benefit plans.

Funding Method The medical and drug benefits of the plan are included in the actuarially calculated contribution rates which are developed 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.

Year Ended June 30	Annual Required Contribution (ARC) (a)	Employer Contribution (b)	Retiree Drug Subsidy (RDS) & Other Contribution (c)	Total Contribution (d) = (b) + (c)	Percentage of ARC Contributed (d) / (a)
2014	$190,390,431	$ 46,097,206	$ 29,200,200	$ 75,297,406	39.5%
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

Asset Valuation Method Fair Market Value

Economic Assumptions The following economic assumptions were used in the actuarial valuation as of June 30, 2014.

- **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
2014	7.75%	6.00%
2015	6.75	5.75
2016	6.25	5.50
2017	5.75	5.25
2018	5.25	5.00
2019 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, 2014	
Present value of benefits payable on account of present retired members and beneficiaries	$ 952,544,998
Present value of benefits payable on account of active members	2,372,199,191
Present value of benefits payable on account of deferred vested members	15,658,777
Total liabilities	$3,340,402,966

Analysis of Financial Experience

Gains and Losses in Accrued Liabilities Resulting from Differences Between Assumed Experience and Actual Experience in the Health Care Fund
($ in millions)

Type of Risk Area	2014*
Age and Service Retirements If members retire at older ages, there is a gain. If younger ages, a loss.	$2.7
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	3.8
Death-In-Service Benefits If claims costs are less than assumed, there is a gain. If more claims, a loss.	(1.5)
Claims Increases If there are smaller claims increases than assumed, there is a gain. If greater increases, a loss.	561.2
Investment Return If there is greater investment return than assumed, there is a gain. If less return, a loss.	29.2
Withdrawal If more liabilities are released by other separations from active membership than assumed, there is a gain. If smaller releases, a loss.	51.0
Contribution Shortfall If there are more contributions than the ARC, there is a gain. If less contributions, a loss.	(118.1)
New Members Additional unfunded accrued liability will produce a loss.	(31.4)
Death after Retirement If retirees live longer than assumed, there is a loss. If not as long, a gain.	24.3
Other Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	19.3
Non-Recurring Items Adjustments for plan amendments, assumption changes, or method changes.	(36.1)
Total Gain (Loss) During Year	$504.4

*Information for prior years is not available

Health Care Solvency Test

($ in millions)

The following table provides the Health Care solvency test for SERS members:

	Aggregate Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Asset		
Valuation as of June 30	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Finance Portion)	Actuarial Value of Assets	(1)	(2)	(3)
2014	$0	$ 968	$1,508	$414	100.0%	42.8%	0.0%
2013	0	1,157	1,761	379	100.0	32.8	0.0
2012	0	1,074	1,617	355	100.0	33.1	0.0
2011	0	897	1,513	356	100.0	39.7	0.0
2010	0	970	1,399	325	100.0	33.5	0.0
2009	0	1,895	2,385	376	100.0	19.8	0.0

Health Care Retirees and Beneficiaries Added to and Removed from Rolls

Year	Added to Rolls	Removed from Rolls	Rolls at end of year
2014	2,251	2,873	44,710
2013	2,110	3,217	45,332
2012	2,073	3,785	46,439
2011	1,842	4,296	48,151
2010	1,779	3,039	50,605
2009	2,317	3,356	51,865

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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 83 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 90 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:

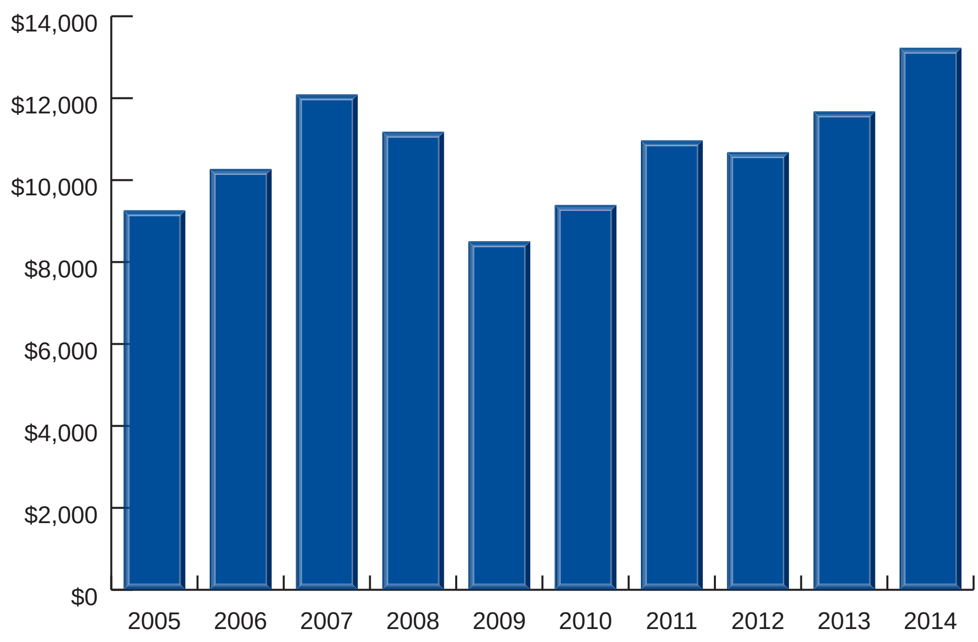
- Employee and Employer Contribution Rates
- Demographics of New Pension Benefit Recipients
- Demographics of Active and Retired Members
- Retired Members by Type of Benefit
- Retirees, Spouses, and Dependents Receiving Health Care Coverage
- Principal Participating Employers
- Average Benefit Payments

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
2014	$ 12,662,776,138	$ 136,115,160	$ 21,992,809	$ 165,480	$ 413,858,201	$ 13,234,907,788
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

Total Net Position *(in millions)*



Changes in Net Position

Last 10 fiscal years

ALL FUNDS COMBINED	2014	2013	2012	2011
ADDITIONS				
Employer Contributions	$ 451,402,553	$ 447,901,887	$ 456,375,083	$ 466,365,125
Employee Contributions	295,690,550	292,958,056	296,974,146	303,114,258
Other Income	127,867,227	135,705,046	154,832,793	122,232,090
Total Investment Income (Loss), Net	1,939,269,151	1,329,495,903	(37,922,409)	1,789,850,651
TOTAL ADDITIONS	2,814,229,481	2,206,060,892	870,259,613	2,681,562,124
DEDUCTIONS				
Benefits	1,174,068,175	1,120,377,591	1,083,844,151	1,033,791,708
Refunds and Lump Sum Payments	55,668,466	48,979,203	47,920,393	42,223,739
Net Transfers to other Ohio Systems	7,535,690	22,301,557	4,976,841	6,394,075
Administrative Expenses	21,857,167	21,471,412	21,625,193	21,191,271
TOTAL DEDUCTIONS	1,259,129,498	1,213,129,763	1,158,366,578	1,103,600,793
Net increase (decrease)	1,555,099,983	992,931,129	(288,106,965)	1,577,961,331
Net Position held in trust:				
Beginning of Year	11,679,807,805	10,686,876,676	10,974,983,641	9,397,022,310
End of Year	**$ 13,234,907,788**	**$ 11,679,807,805**	**$ 10,686,876,676**	**$ 10,974,983,641**

PENSION TRUST FUND	2014	2013	2012	2011
ADDITIONS				
Employer Contributions	$ 382,098,970	$ 380,083,642	$ 376,816,938	$ 355,959,304
Employee Contributions	295,690,550	292,958,056	296,974,146	303,114,258
Other Income	–	–	–	–
Total Investment Income (Loss), Net	1,864,902,017	1,277,940,348	(38,010,415)	1,722,754,363
TOTAL ADDITIONS	2,542,691,537	1,950,982,046	635,780,669	2,381,827,925
DEDUCTIONS				
Pension Benefits	957,757,668	901,072,882	845,683,445	784,875,283
Refunds and Lump Sum Payments	55,668,466	48,979,203	47,920,393	42,223,739
Net Transfers to other Ohio Systems	7,535,690	22,301,557	4,976,841	6,394,075
Administrative Expenses	19,528,157	19,239,612	19,090,214	18,622,302
TOTAL DEDUCTIONS	1,040,489,981	991,593,254	917,670,893	852,115,399
Net increase (decrease)	1,502,201,556	959,388,792	(281,890,224)	1,529,712,526
Net Position held in trust:				
Beginning of Year	11,160,574,582	10,201,185,790	10,483,076,014	8,953,363,488
End of Year	**$ 12,662,776,138**	**$ 11,160,574,582**	**$ 10,201,185,790**	**$ 10,483,076,014**

HEALTH CARE FUND	2014	2013	2012	2011
ADDITIONS				
Employer Contributions	$ 46,097,206	$ 45,489,443	$ 56,476,230	$ 86,908,283
Other Income	127,867,227	135,705,046	154,832,793	122,232,090
Total Investment Income (Loss), Net	50,980,652	35,523,491	541,940	45,247,242
TOTAL ADDITIONS	224,945,085	216,717,980	211,850,963	254,387,615
DEDUCTIONS				
Health Care Expenses	187,994,468	190,468,991	209,965,344	221,167,270
Administrative Expenses	2,273,442	2,178,370	2,480,956	2,518,770
TOTAL DEDUCTIONS	190,267,910	192,647,361	212,446,300	223,686,040
Net increase (decrease)	34,677,175	24,070,619	(595,337)	30,701,575
Net Position held in trust:				
Beginning of Year	379,181,026	355,110,407	355,705,744	325,004,169
End of Year	**$ 413,858,201**	**$ 379,181,026**	**$ 355,110,407**	**$ 355,705,744**

2010	2009	2008	2007	2006	2005
$ 462,322,570	$ 454,596,164	$ 437,173,397	$ 423,398,610	$ 413,911,081	$ 400,519,147
301,649,643	295,788,567	284,910,486	276,759,362	272,615,865	262,265,550
96,449,404	97,284,347	94,660,706	91,823,048	70,831,797	40,595,447
1,087,495,208	(2,526,406,966)	(759,805,340)	1,939,132,666	1,127,421,565	825,771,210
1,947,916,825	(1,678,737,888)	56,939,249	2,731,113,686	1,884,780,308	1,529,151,354
999,045,882	938,903,072	904,979,999	853,416,366	824,582,171	779,306,161
37,159,685	34,213,067	38,907,918	33,638,741	31,037,063	27,112,818
5,085,923	3,224,094	4,723,303	2,873,755	3,587,708	155,635
20,244,156	20,501,565	19,702,769	19,361,990	18,905,218	18,926,844
1,061,535,646	996,841,798	968,313,989	909,290,852	878,112,160	825,501,458
886,381,179	(2,675,579,686)	(911,374,740)	1,821,822,834	1,006,668,148	703,649,896
8,510,641,131	11,186,220,817	12,097,595,557	10,275,772,723	9,269,104,575	8,565,454,679
$ 9,397,022,310	**$ 8,510,641,131**	**$ 11,186,220,817**	**$ 12,097,595,557**	**$ 10,275,772,723**	**$ 9,269,104,575**

2010	2009	2008	2007	2006	2005
$ 378,201,685	$ 268,645,839	$ 259,394,723	$ 232,846,344	$ 234,875,166	$ 255,633,456
301,649,643	295,788,567	284,910,486	276,759,362	272,615,865	262,265,550
–	–	–	–	610,054	–
1,042,542,982	(2,434,825,781)	(731,527,482)	1,863,226,769	1,080,786,996	793,539,701
1,722,394,310	(1,870,391,375)	(187,222,273)	2,372,832,475	1,588,888,081	1,311,438,707
734,080,237	696,152,597	650,991,508	606,753,367	569,027,766	533,714,925
37,159,685	34,213,067	38,907,918	33,638,741	31,037,063	27,112,818
5,085,923	3,224,094	4,723,303	2,873,755	3,587,709	155,635
17,594,183	17,694,009	17,652,664	17,453,275	17,416,737	17,379,937
793,920,028	751,283,767	712,275,393	660,719,138	621,069,275	578,363,315
928,474,282	(2,621,675,142)	(899,497,666)	1,712,113,337	967,818,806	733,075,392
8,024,889,206	10,646,564,348	11,546,062,014	9,833,948,677	8,866,129,871	8,133,054,479
$ 8,953,363,488	**$ 8,024,889,206**	**$ 10,646,564,348**	**$ 11,546,062,014**	**$ 9,833,948,677**	**$ 8,866,129,871**

2010	2009	2008	2007	2006	2005
$ 60,142,014	$ 163,411,488	$ 158,393,761	$ 170,948,274	$ 157,404,134	$ 126,355,575
96,449,404	97,284,347	94,660,706	91,823,048	70,152,335	40,595,447
31,472,744	(58,751,419)	(18,289,836)	49,307,490	30,524,217	19,976,256
188,064,162	201,944,416	234,764,631	312,078,812	258,080,686	186,927,278
236,915,618	215,409,645	226,436,827	219,438,662	228,570,748	218,816,560
2,603,597	2,756,280	2,002,443	1,846,713	1,430,160	1,489,267
239,519,215	218,165,925	228,439,270	221,285,375	230,000,908	220,305,827
(51,455,053)	(16,221,509)	6,325,361	90,793,437	28,079,778	(33,378,549)
376,459,222	392,680,731	386,355,370	295,561,933	267,482,155	300,860,704
$ 325,004,169	**$ 376,459,222**	**$ 392,680,731**	**$ 386,355,370**	**$ 295,561,933**	**$ 267,482,155**

Changes in Net Position (continued)

Last 10 fiscal years

MEDICARE B FUND	2014	2013	2012	2011
ADDITIONS				
Employer Contributions	$ 21,517,805	$ 20,672,040	$ 21,450,368	$ 22,172,922
Other Income	–	–	–	–
Total Investment Income (Loss), Net	20,040,557	13,702,584	(378,593)	18,521,800
TOTAL ADDITIONS	41,558,362	34,374,624	21,071,775	40,694,722
DEDUCTIONS				
Pension Benefits	25,800,345	26,204,777	25,715,070	25,353,175
Administrative Expenses	6,639	6,317	5,800	5,652
TOTAL DEDUCTIONS	25,806,984	26,211,094	25,720,870	25,358,827
Net increase (decrease)	15,751,378	8,163,530	(4,649,095)	15,335,895
Net Position held in trust:				
Beginning of Year	120,363,782	112,200,252	116,849,347	101,513,452
End of Year	**$136,115,160**	**$120,363,782**	**$112,200,252**	**$116,849,347**

DEATH BENEFIT FUND	2014	2013	2012	2011
ADDITIONS				
Employer Contributions	$ 1,412,852	$ 1,398,442	$ 1,454,763	$ 1,166,996
Other Income	–	–	–	–
Total Investment Income (Loss), Net	3,345,822	2,329,326	(75,490)	3,327,059
TOTAL ADDITIONS	4,758,674	3,727,768	1,379,273	4,494,055
DEDUCTIONS				
Death Benefits	2,262,136	2,410,943	2,309,922	2,254,894
Administrative Expenses	47,394	45,510	46,941	43,293
TOTAL DEDUCTIONS	2,309,530	2,456,453	2,356,863	2,298,187
Net increase (decrease)	2,449,144	1,271,315	(977,590)	2,195,868
Net Position held in trust:				
Beginning of Year	19,543,665	18,272,350	19,249,940	17,054,072
End of Year	**$21,992,809**	**$19,543,665**	**$18,272,350**	**$19,249,940**

QEBA FUND	2014	2013	2012	2011
ADDITIONS				
Employer Contributions	$ 275,720	$ 258,320	$ 176,784	$ 157,620
Other Income	–	–	–	–
Total Investment Income, Net	103	154	149	187
TOTAL ADDITIONS	275,823	258,474	176,933	157,807
DEDUCTIONS				
Pension Benefits	253,558	219,998	170,370	141,086
Administrative Expenses	1,535	1,603	1,282	1,254
TOTAL DEDUCTIONS	255,093	221,601	171,652	142,340
Net increase (decrease)	20,730	36,873	5,281	15,467
Net Position held in trust:				
Beginning of Year	144,750	107,877	102,596	87,129
End of Year	**$ 165,480**	**$ 144,750**	**$ 107,877**	**$ 102,596**

2010	2009	2008	2007	2006	2005
$ 22,619,935	$21,688,294	$ 18,337,305	$ 18,450,617	$ 20,535,685	$ 17,735,032
–	–	–	–	62,510	–
11,348,331	(27,612,707)	(8,388,671)	22,332,826	13,538,975	10,290,424
33,968,266	(5,924,413)	9,988,634	40,783,443	34,137,170	28,025,456
25,694,354	25,449,935	25,258,432	25,055,794	24,652,637	24,547,223
4,111	9,145	5,593	3,336	3,120	3,000
25,698,465	25,459,080	25,264,025	25,059,130	24,655,757	24,550,223
8,269,801	(31,383,493)	(15,275,391)	15,724,313	9,481,413	3,475,233
93,243,651	124,627,144	139,902,535	124,178,222	114,696,809	111,221,576
$101,513,452	**$93,243,651**	**$124,627,144**	**$139,902,535**	**$124,178,222**	**$114,696,809**

2010	2009	2008	2007	2006	2005
$ 1,225,772	$ 734,970	$ 835,348	$ 1,070,630	$ 1,054,246	$ 759,058
–	–	–	–	6,889	–
2,130,920	(5,218,168)	(1,600,480)	4,265,549	2,571,377	1,964,827
3,356,692	(4,483,198)	(765,132)	5,336,179	3,632,512	2,723,885
2,236,215	1,780,430	2,185,460	2,083,437	2,259,722	2,217,881
40,872	40,782	41,270	58,465	55,200	54,000
2,277,087	1,821,212	2,226,730	2,141,902	2,314,922	2,271,881
1,079,605	(6,304,410)	(2,991,862)	3,194,277	1,317,590	452,004
15,974,467	22,278,877	25,270,739	22,076,462	20,758,872	20,306,868
$17,054,072	**$15,974,467**	**$22,278,877**	**$25,270,739**	**$22,076,462**	**$20,758,872**

2010	2009	2008	2007	2006	2005
$133,164	$115,573	$172,260	$ 82,745	$ 41,850	$ 36,026
–	–	–	–	–	–
231	1,109	1,129	32	9	2
133,395	116,682	173,389	82,777	41,859	36,028
119,458	110,465	107,772	85,106	71,298	9,572
1,393	1,349	799	201	–	640
120,851	111,814	108,571	85,307	71,298	10,212
12,544	4,868	64,818	(2,530)	(29,439)	25,816
74,585	69,717	4,899	7,429	36,868	11,052
$ 87,129	**$ 74,585**	**$ 69,717**	**$ 4,899**	**$ 7,429**	**$ 36,868**

Benefit and Refund Deductions from Net Position by Type

Last 10 fiscal years

PENSION BENEFITS	2014	2013	2012	2011
Service Retirement	$ 834,865,512	$ 781,736,903	$ 731,236,350	$ 675,549,301
Disability Retirement	87,804,462	85,514,086	81,219,934	77,524,938
Survivor Benefits	35,087,694	33,821,893	33,227,161	31,801,044
Total Pension Benefits	$ 957,757,668	$ 901,072,882	$ 845,683,445	$ 784,875,283
Refunds				
Separation	$ 55,018,577	$ 48,392,410	$ 47,272,246	$ 41,753,113
Beneficiaries	649,889	586,793	648,147	470,626
Total Refunds	$ 55,668,466	$ 48,979,203	$ 47,920,393	$ 42,223,739

MEDICARE B REIMBURSEMENT	2014	2013	2012	2011
Service Retirement	$ 23,099,058	$ 23,460,682	$ 23,006,643	$ 22,677,282
Disability Retirement	1,436,026	1,425,456	1,405,443	1,373,592
Survivor Benefits	1,265,261	1,318,639	1,302,984	1,302,301
Total Medicare B Reimbursement	$ 25,800,345	$ 26,204,777	$ 25,715,070	$ 25,353,175

DEATH BENEFITS	2014	2013	2012	2011
Service	$ 2,052,993	$ 2,197,804	$ 2,101,093	$ 2,040,327
Disability	209,143	213,139	208,829	214,567
Total Death Benefits	$ 2,262,136	$ 2,410,943	$ 2,309,922	$ 2,254,894

HEALTH CARE EXPENSES	2014	2013	2012	2011
Medical	$ 109,622,130	$ 110,990,977	$ 112,808,198	$ 119,184,041
Prescription	76,945,975	78,135,361	94,731,407	100,474,453
Other	1,426,363	1,342,653	2,415,739	1,508,776
Total Health Care Expenses	$ 187,994,468	$ 190,468,991	$ 209,965,344	$ 221,167,270

2010	2009	2008	2007	2006	2005
$ 629,474,136	$ 595,262,076	$ 554,521,059	$ 514,824,466	$ 481,929,589	$ 450,815,396
74,632,571	72,571,590	69,632,988	66,278,496	62,669,473	59,656,369
29,973,530	28,318,931	26,837,461	25,650,405	24,428,704	23,243,160
$ 734,080,237	$ 696,152,597	$ 650,991,508	$ 606,753,367	$ 569,027,766	$ 533,714,925
$ 36,344,287	$ 33,499,028	$ 38,147,667	$ 33,316,422	$ 29,065,065	$ 26,667,001
815,398	714,039	760,251	322,319	1,971,998	445,817
$ 37,159,685	$ 34,213,067	$ 38,907,918	$ 33,638,741	$ 31,037,063	$ 27,112,818

2010	2009	2008	2007	2006	2005
$ 23,024,413	$ 22,790,277	$ 22,542,191	$ 22,350,668	$ 22,007,666	$ 21,896,392
1,364,728	1,340,431	1,334,470	1,317,953	1,278,217	1,245,341
1,305,213	1,319,227	1,381,771	1,387,173	1,366,754	1,405,490
$ 25,694,354	$ 25,449,935	$ 25,258,432	$ 25,055,794	$ 24,652,637	$ 24,547,223

2010	2009	2008	2007	2006	2005
$ 1,969,489	$1,538,800	$ 1,965,949	$ 1,880,256	$ 2,062,198	$ 2,018,318
266,726	241,630	219,511	203,181	197,524	199,563
$ 2,236,215	$1,780,430	$ 2,185,460	$ 2,083,437	$ 2,259,722	$ 2,217,881

2010	2009	2008	2007	2006	2005
$ 120,931,746	$ 112,696,150	$ 129,186,181	$ 128,160,112	$ 131,562,641	$ 113,102,587
113,971,467	99,283,588	95,603,763	89,957,159	95,589,547	105,195,298
2,012,405	3,429,907	1,646,883	1,321,391	1,418,560	518,675
$ 236,915,618	$ 215,409,645	$ 226,436,827	$ 219,438,662	$ 228,570,748	$ 218,816,560

Employee and Employer Contribution Rates

Last 10 fiscal years

Fiscal Year	Employee Rate	Employer Rate: Pension	Medicare B	Death Benefit	Health Care	Total
2014	10%	13.05%	0.76%	0.05%	0.14%	14%
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

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
2014	22.5	$ 1,331	63.5	$ 32,618
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

Average Disability Benefit

Year Ended June 30	Service Credit	Monthly Amount	Age	Final Average Salary
2014	13.5	$ 1,250	54.2	$ 30,674
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

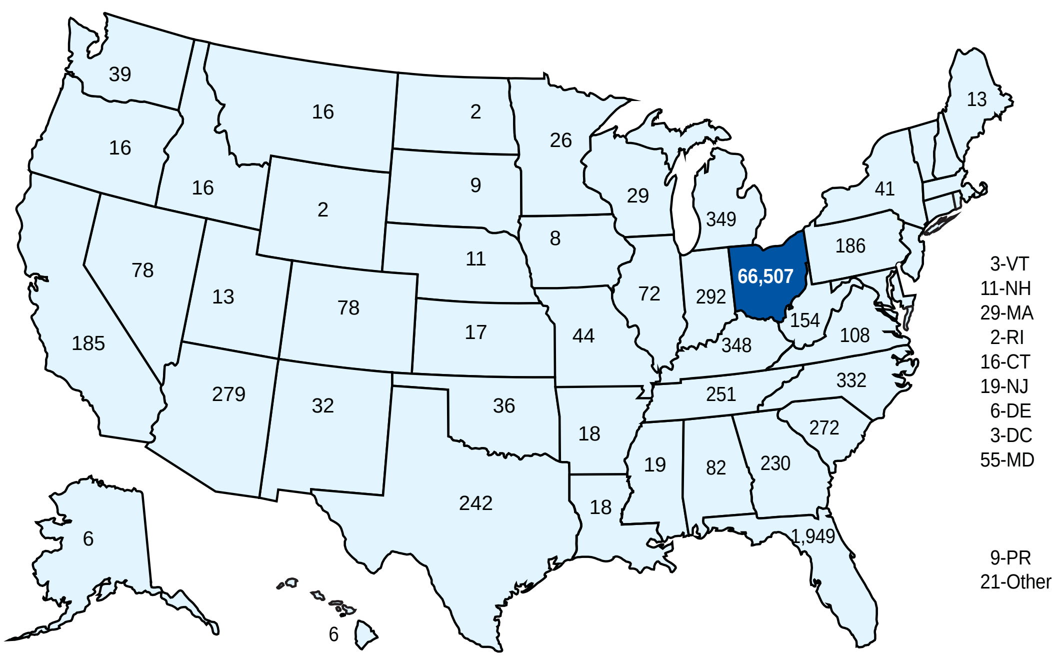
Demographics of Active and Retired Members

Fiscal Year 2014

	Active Members			Percentage of Distribution		
	Male	Female	Total	Male	Female	Total
Under 20	454	301	755	0%	0%	0%
20 to 29	5,545	6,274	11,819	5	5	10
30 to 39	5,968	9,902	15,870	5	8	13
40 to 49	8,083	22,102	30,185	7	18	25
50 to 54	5,009	16,282	21,291	4	13	17
55 to 59	5,127	15,503	20,630	4	14	18
60 to 64	3,768	9,309	13,077	3	8	11
65 to 69	1,760	3,393	5,153	1	3	4
70 and over	972	1,499	2,471	1	1	2
	36,686	84,565	121,251	30%	70%	100%

	Retired Members and Beneficiaries			Percentage of Distribution		
	Male	Female	Total	Male	Female	Total
Under 55	811	1,004	1,815	1%	2%	3%
55 to 59	1,364	1,863	3,227	2	3	5
60 to 64	2,386	6,023	8,409	3	8	11
65 to 69	3,498	9,751	13,249	5	13	18
70 to 74	3,429	9,732	13,161	5	13	18
75 to 79	3,106	8,992	12,098	4	13	17
80 to 84	2,333	7,199	9,532	3	10	13
85 to 89	1,478	5,303	6,781	2	7	9
90 to 94	631	2,783	3,414	1	4	5
95 to 99	127	682	809	0	1	1
100 and over	12	98	110	0	0	0
	19,175	53,430	72,605	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	11,210	10,179	88	943
251 - 500	11,691	9,896	544	1,251
501 - 750	10,601	8,925	813	863
751 - 1,000	8,680	7,239	888	553
1,001 - 1,500	12,040	10,278	1,333	429
1,501 - 2,000	7,056	6,041	846	169
over 2,000	10,880	9,734	970	176
	72,158	62,292	5,482	4,384
Average Monthly Benefit		$1,116	$1,333	$669
Average Age		74.3	65.1	71.7

Retirees, Spouses, and Dependents Receiving Health Care Coverage

Attained Age	Number of Males	Number of Females	Total Number
Under 30	200	202	402
30 - 39	6	9	15
40 - 49	53	58	111
50 - 59	1,000	1,235	2,235
60 - 64	1,152	2,173	3,325
65 - 69	1,666	4,503	6,169
70 - 74	2,396	5,710	8,106
75 - 79	2,718	5,878	8,596
80 - 84	2,073	4,704	6,777
85 - 89	1,279	3,971	5,250
90 - 94	577	2,324	2,901
95 - 99	109	606	715
100 and over	12	96	108
	13,241	31,469	44,710

Principal Participating Employers

Current fiscal year and nine fiscal years ago

	Fiscal Year 2014			Fiscal Year 2005		
Participating Employer's Name	Covered Employee Members	Rank	Percentage of Total System	Covered Employee Members	Rank	Percentage of Total System
Columbus City Schools	3,470	1	2.86%	3,654	1	2.97%
Cincinnati Public Schools	2,607	2	2.15	2,895	3	2.36
Cleveland Metropolitan School District	2,572	3	2.12	3,187	2	2.59
University of Akron	2,253	4	1.86	1,710	4	1.39
Akron Public Schools	1,487	5	1.23	1,607	6	1.31
Toledo City Schools	1,465	6	1.21	1,701	5	1.38
Educational Service Center Council of Governments	1,258	7	1.04	–	–	0.00
South-Western City Schools	1,149	8	0.95	1,282	8	1.04
Dayton City Schools	1,136	9	0.94	1,527	7	1.24
Parma City Schools	968	10	0.80	916	9	0.75
Lakota Local Schools	–	–	–	869	10	0.71
All Other	102,886		84.84	103,507		84.26
Total	121,251		100.00%	122,855		100.00%

In FY2014 "All Other" consisted of:

	Covered Employee Members	Number of Employers
Local School Districts	37,912	374
City School Districts	42,612	184
Educational Service Centers	6,855	55
Exempted Village Districts	5,250	49
Higher Education	3,301	14
Vocational/Technical Schools	2,840	49
Community Schools	3,570	330
Other	546	16

Average Benefit Payments - New Retirees (Service only)

Last 10 fiscal years

Retirement Effective Dates	Years of Credited Service 5-9	10-14	15-19	20-24	25-29	30 +
Period 7/1/13 to 6/30/14						
Average Monthly Benefit	$ 327	$ 606	$ 844	$ 1,075	$ 1,043	$ 2,349
Monthly Final Average Salary	1,690	2,232	2,461	2,519	2,759	3,494
Number of Retirees	260	463	414	653	740	963
Period 7/1/12 to 6/30/13						
Average Monthly Benefit	$ 227	$ 483	$ 732	$ 1,086	$ 1,403	$ 2,815
Monthly 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
Monthly 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
Monthly 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
Monthly 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
Monthly 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
Monthly 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
Monthly 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
Monthly 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
Monthly Final Average Salary	1,254	1,585	1,860	2,058	2,201	3,033
Number of Retirees	253	281	352	382	700	674

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 57 years old to retire early. 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 guidelines:

- 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 who became 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 not include:

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

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

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

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

Long Term Care Insurance

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

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

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

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, 2014, 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 18, 2014.

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 18, 2014

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
MARCH 10, 2015

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