The Comprehensive

# Annual Financial Report

*For the years ended December 31, 2009 and 2008*

# 2009

Prepared by OPERS' Finance Division staff

OPERS

75 Years

*Recognizing 75 years of providing retirement stability for public employees*

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### Plan Statement

## Employer Composition and Membership Information

For actuarial purposes, participating employers are divided into state, local government and law enforcement divisions. A complete description of the OPERS membership is contained in the Plan Statement section of this document, beginning on page 150.

## Annual Report Organization

This Annual Report is divided into six sections, listed as each appears in this document:

1 **Introductory Section**—with the Letter of Transmittal, organizational chart, and recognition awards garnered in 2009;

2 **Financial Section**—with the Independent Auditor's Report, Management's Discussion and Analysis, the financial statements of the System and Required Supplementary information;

3 **Investment Section**—with a report on investment activity, investment policies, investment results, and various investment schedules;

4 **Actuarial Section**—with the Actuary's Certification Letter, and the most recent results of the annual actuarial valuation;

5 **Statistical Section**—with significant data pertaining to the System, and the

6 **Plan Statement**—with complete membership information and details about the retirement plans offered through OPERS.

# Introductory Section

In 1935, OPERS was established to provide a secure retirement for Ohio's public employees. In 2010, OPERS recognizes 75 years of service.

OPERS
1935 2010
Your Trusted Retirement Partner

## Board of Trustees members, as of January 2010

***Seated, front row:*** *John Maurer, representing retirees; Cinthia Sledz, vice chair, representing miscellaneous employees; Ken Thomas, chair, representing municipal employees; Hugh Quill, Director of the Ohio Department of Administrative Services, statutory member*

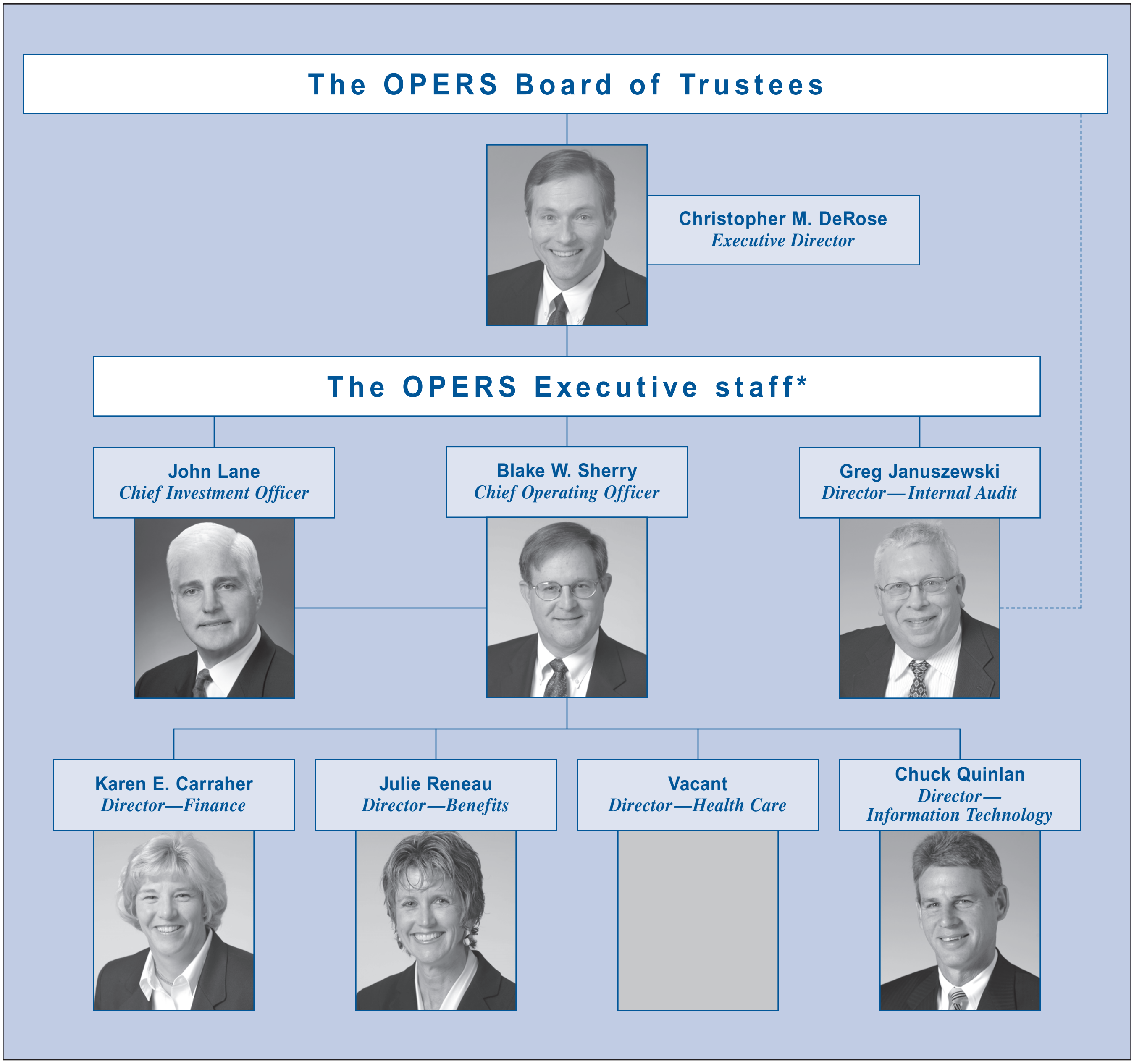
***Standing, second row:*** *Lennie Wyatt, Governor's appointee; Sharon Downs, representing retirees; Charlie Adkins, Treasurer's appointee; Helen Youngblood, representing county employees; Kimberly Russell, representing college / university employees; James Tilling, General Assembly appointee; Eddie Parks, representing state employees*

The 11-member Board of Trustees (Board) is the governing body of the Ohio Public Employees Retirement System (referred to as OPERS or the System). The Board is ultimately responsible for the administration and management of all OPERS activities including oversight of investment activities.

The Board is comprised of seven individuals who are elected by the specific stakeholder group each represents: college / university employees, state employees, miscellaneous employees, county employees, municipal employees, and two retiree representatives. Three individuals with investment expertise are appointed by Ohio's Governor, Treasurer, and jointly by the Ohio Legislature. The Board is completed by the Director of the Ohio Department of Administrative Services who serves on the Board by virtue of office.

The OPERS Board of Trustees appoints the Executive Director, an actuary, and other advisors necessary for the transaction of business. By law, the state Treasurer is custodian of OPERS' funds.

The Board meets monthly and receives no compensation, but is reimbursed for necessary expenses.




## Auditors

**Clifton Gunderson**
Toledo, Ohio
(under contract with the Auditor of State)

## Advisors

**Actuary—Gabriel, Roeder, Smith & Company**
Southfield, Michigan

**Investment Policy Advisors to the Board of Trustees—Mercer Investment Consultants**
Chicago, Illinois

See page 69 for a list of investment consultants and payments; page 86 for a list of external asset managers.

*Shown here, those executive staff members with direct input to CAFR information.

OPERS Ohio Public Employees Retirement System
277 East Town Street Columbus, Ohio 43215-4642 1-800-222-7377 www.opers.org

May 4, 2010

Dear Chairman and Members of the Board of Trustees:

In 2010, OPERS recognizes its 75th year of service to Ohio's members and retirees. This is a significant achievement because it represents more than a historic length of service—it means that for 75 years OPERS has delivered on the promise of providing retirement security for members and retirees and economic stability for the state. We believe that's a tradition worth continuing and strengthening.

As you review this *Comprehensive Annual Financial Report* (CAFR or annual report) for the Ohio Public Employees Retirement System (OPERS or System) for the fiscal years ending December 31, 2009 and 2008, it's important to realize that it represents only approximately four percent of our total years of service. The economic environment at both the national and state levels for the past two years was challenging. However, OPERS has long anticipated and prepared for challenging economies. Despite the trying global economy of 2008-2009, OPERS has continued to provide a secure retirement for our members.

## OPERS: A strong tradition

What eventually became known as OPERS was established through legislation in 1933, and on January 1, 1935, began administering a pension program for public employees. Since that time, the System has expanded and changed in dramatic ways: in 1974, OPERS added health care services and in 2003 increased its offerings to include three pension plans.

Throughout its history, OPERS has worked to remain a top-tier retirement system. The System has an ongoing tradition of providing quality retirement, disability, survivor, and health care benefits, and it strives to deliver superior service to all members. OPERS is the prudent steward of the contributions paid by Ohio's public employees and their employers into the System during employees' working years. OPERS, in turn, pays benefits to these members throughout their retirement and to qualified beneficiaries after a member's death. Additional information on available benefits can be found in the Plan Statement, starting on page 150.

Building on our 75-year history, we remember that OPERS was established and exists solely for the purpose of providing retirement, disability and survivor benefits to Ohio's public employees. OPERS works diligently to preserve access to and financial assistance for affordable, meaningful health care—although this benefit is neither mandated nor guaranteed.

As of year-end 2009, OPERS served 781,777 members (both active and inactive), and 171,955 retirees and surviving beneficiaries. In addition, the System works with more than 3,700 public employers. OPERS is financially strong, with an asset base of $69.5 billion. OPERS ranks as the largest pension system in Ohio and the 12th largest public pension system in the United States.

As always, the responsibility for the accuracy of the data presented here, as well as the completeness and fairness of the presentation, rests with OPERS management.

## External forces

As institutional investors, we realize the economy can be unpredictable in any given year. The difficult global economy has certainly presented challenges to this organization, challenges that have been addressed in both the short and long term. The financial crisis of 2008 created an extremely volatile market. We experienced an indirect impact as OPERS' employer groups struggled with budgetary and revenue constraints, which caused some employers to seek to reduce their pension contribution obligations.

As institutional investors, we view the events of the past two years with a different perspective. We've emerged from the recessions of 1957, 1975, 1982, and 1999-2001. Due to our planning and by making adjustments, we will emerge from this recession as well. We are well-positioned to weather the periodic market fluctuations and anticipate adapting to the recovering market. While we cannot control external forces, we can continue to make proactive changes that position the System to remain financially strong. Some of the external forces of 2009 included:

- ***Market Impact on Funding Status***—As a result of the market decline of 2008, OPERS' asset base declined from $83.6 billion at the end of 2007 to $59.2 billion at the end of 2008. While OPERS has not fully recovered from the significant drop in 2008, the assets increased to $69.5 billion at the end of 2009.

  Pension systems' funding levels were impacted by the 2008 market decline. However, OPERS was one of the few systems that recognized the bulk of the 2008 investment decline in the 2008 funding results. So while other systems will continue to recognize the 2008 loss over several years depending on the smoothing technique used, OPERS already has recognized the majority of the investment loss.

  Consequently, OPERS' funding status declined from 96.3 percent (based on the 2007 valuation) to 75.3 percent (based on the 2008 valuation). This means that for every dollar of future pension liability, OPERS had accumulated 75 cents to pay that ultimate obligation. While this amount is a decline from the prior year, it is a relatively strong position given the 2008 investment markets. Additionally, the early recognition of the loss led to the development of Board-recommended statutory changes that, if enacted, will significantly improve OPERS' funding status.

- ***Proposed Contribution Rate Reduction***—As a response to the difficult economic landscape in which employers' budgets were even more constrained than usual, the State (one of OPERS' largest employers) initiated a movement to reduce its employer contribution. If the State had been successful, many of OPERS' other employers likely would have moved to adopt the same reduction. This initiative was proposed as a cost-saving initiative designed to save money for the State's budget. Had it passed, it would have required OPERS action, likely in the form of dramatic benefit reductions.

  OPERS provides pension benefits to our retirees earned through their contributions during their careers and invested by us. These pension benefits provide a significant amount of financial security to retirees and ultimately provide stability to many communities. Reducing any level of expected funding, even temporarily, would result in long-term jeopardy for the System. Our tradition of diligent funding for pension benefits—in good times and in troubled times—must be preserved.

  Recognizing this proposal as a significant threat, OPERS staff and Board members worked closely with legislators, media, members, retirees and other stakeholders to ensure this proposed reduction was not passed by lawmakers. Ultimately, the reduced funding concept was withdrawn in 2009, but the proposal of this initiative tells us we must redouble our efforts to educate all stakeholders about the importance of pensions not only for our members, but also as an important economic engine for the state of Ohio, its communities and businesses.

- ***2009 Investment Results***—While the 2008 investment results were dismal, the 2009 investment results were much stronger. The investment returns exceeded 19.1 percent and 24.8 percent for the Defined Benefit and Health Care portfolios, respectively. While the underlying economic indicators signal a slow recovery, the 2009 investment performance was positive. It must be tempered by a very real assessment of market conditions. Recovery is occurring, but slowly. The volatile economy continues, and we must continue to assess the landscape and propose solutions that will preserve and enhance pension funding.

  Because OPERS is a long-term investor, it's appropriate to compare the investment results of the past two years to a broader perspective. To that end, note that OPERS earned a cumulative market return of 71 percent over the five-year period since the last market downturn of 2000-2002. Although the investment return in 2008 was significantly less than the target of 8.0 percent return, the cumulative long-term investment return exceeds 8.0 percent over a 30-year period.

  OPERS' total portfolio is made up of two main underlying portfolios, which fund the pension and the health care benefits. The Defined Benefit Fund earned a 19.1% return in 2009, up from the -27.15% return posted in 2008. The Health Care Fund earned a return of 24.8%; significantly better than the -25.77% return for 2008. Complete discussion of OPERS' investment returns, activities, asset allocation strategy, and policies governing those activities are more fully explained in the Investment Section, beginning on page 72.

## Internal actions: 2009 achievements

Change is the only constant, and not all changes are negative. Any organization seeking to survive and thrive must anticipate and adapt to change, as OPERS has done for 75 years. Although we cannot control the swings in the economy, OPERS is not static. We are forcefully moving to mitigate perceived negative changes and reap the benefits of positive changes. Although we have experienced a decline in total net assets, we do not doubt our ability to continue to provide a secure retirement for our retirees. Realistically, it will take more than one good year for OPERS to recover from the bear market of 2008.

In good times and in turbulent times, OPERS remains constant in our approach to:

- Adhere to a diligent funding schedule;
- Anticipate issues and propose solutions;
- Engage in a conservative fiscal approach; and
- Communicate to our members and stakeholders what we do, how we do it and what results follow from our disciplined approach.

Our ongoing challenge and goal is to improve our funded status, which has been the primary focus of many activities throughout the year. We are continually developing potential actions to help the System thrive. As a result of our strategic planning process, we identified a variety of funding-related actions.

- ***Plan Design Changes***—Ohio law requires all of Ohio's public pension systems to be able to pay off unfunded liabilities within 30 years. This is a prudent, fiscally responsible calculation. OPERS is currently within this 30-year window. Given the decline in OPERS' funded position and our proactive approach, it became clear that steps must be taken to preserve the System's future financial stability.

  In 2009, the OPERS Board of Trustees, at the request of the Ohio Retirement Study Council (ORSC), approved pension plan design changes to improve OPERS' funded status. The purpose of the changes is to address the two underlying funding issues:

  - Members are living longer in retirement than originally contemplated when the System was created, and
  - Many members have more retirement years than contributing years as public employees.

  When the System was designed, members lived about 10 years in retirement; currently, members live an average of 25 years in retirement. The original plan design and retirement-age eligibility criteria have not been significantly modified in OPERS' 75-year history to accommodate these changes, resulting in anticipated funding challenges. We proposed a new plan design, which is currently being considered by the ORSC and the Ohio legislature.

The recommended changes will enhance the stability of our retirement system and will help keep OPERS within the required 30-year window. By making small alterations to a number of benefit plan elements, we believe we can help ensure the long-term fiscal strength of the System. Planning for any change takes time; we recognize our members who are already eligible, or nearing eligibility, for retirement may need to adjust their plans. For this reason, the recommendation is for the revised plan design to be implemented using a phased-in transition. Although not yet passed by the legislature, the current recommendations can be found on the OPERS Web site at www.opers.org.

It is important to note that our recommended changes were not triggered only by the poor economy. We recognized the issues of longevity of our members, health-care costs and the baby-boom generation many years ago and have been studying those issues—and others—long before the market downturn. Our goal is to introduce a transition schedule for the revised plan so that we can avoid undue hardship for members yet still position OPERS favorably for the future.

- ***Strategic Plan Implementation***—OPERS staff continued the implementation of the strategic plan in 2009, work that required effort from every division. As outlined by our plan, we invested in our infrastructure via improved technology, and our people by working to ensure a forward-looking, collaborative corporate culture.

  We invested in business process redesign and technology with an eye for the future. We believe we will be positioned to handle the anticipated influx of retirees without sacrificing service to our members.

  Similarly, investing in our culture to ensure that associates feel empowered and leaders are well trained are prudent courses of action. In 2009, we positioned our leaders and staff for future success by providing extensive training designed to integrate management and staff efforts to improve productivity.

  As we improve our resources through well designed business processes, the use of technology and invest in our associates, we intend to improve our status and remain an efficient, value-based organization positioned to support the retirement of the baby-boom generation without having to correspondingly increase staff. We strive to be an organization that is responsive to and respected by all stakeholders, one that provides exceptional products and services at an affordable cost.

- ***Business Process Redesign***—In 2009, as one of the initiatives in our strategic plan, OPERS initiated a sweeping Business Process Redesign (BPR) project, designed to bring operational efficiencies to key aspects of our business operations. This is an important and appropriate effort calculated to ensure OPERS is moving efficiently and cost-effectively toward the goal of being one of the best-run businesses in the United States. The BPR project will assess our key activities and processes and recommend changes that will eliminate inefficiencies as processes cross departments and divisions.

## Progress on ongoing initiatives

Some things never change—OPERS' ability to deliver the promised benefits requires the System's funded status be preserved and strengthened. Here is an overview of the ongoing initiatives in which we engage to attain that goal.

- ***Funded Status***—For a pension system, funded status measures progress of accumulating the funds necessary to meet future obligations. A pension system's funded status is variable. OPERS' funded status in 2003 was 85 percent but had grown to 96.3 percent in 2007. In each case, periods of diminished funded status were made up as market conditions improved. That trend will continue with the 2008 and 2009 valuations.

  OPERS' 2008 actuarial valuation shows a funded status of 75.3 percent, significantly less than the 96.3 percent reported for our 2007 valuation. Although not good news, this was not unanticipated. We remain in the 30-year funding window required by law. Although we expect the 2009 funded status to reflect the stronger 2009 returns, the volatility of our status during the past decade underscores the need for the recommended plan design changes.

  In 2009, OPERS paid $5.1 billion in pension benefits and health care costs to more than 214,000 retired Ohioans and their beneficiaries, providing important economic stability as the nation and the state started the long road to recovery. Based on the last actuarial valuation dated December 31, 2008, OPERS' actuarial liability of $18.2 billion is within the required 30-year amortization window, based on current accounting standards. The Management's Discussion and Analysis, starting on page 20, has a more in-depth discussion of OPERS' funded status.

- ***Retirement Contributions***—Employer contributions, employee contributions and income from investments provide the reserves needed to finance retirement benefits. OPERS completed 2009 with total net assets of $69.5 billion, a $10.3 billion increase from the 2008 asset base of $59.2 billion—yet still lagging the 2007 asset base of $83.6 billion.

- ***Expenses***—Expenses for fiscal year 2009 totaled $5.5 billion, an increase of 7.6 percent over 2008, primarily because of growth in the number of benefit recipients. In addition, as is the national trend, retiree health-care expenses rose by $111 million in 2009, an increase of 8.1 percent.

  OPERS' 2009 administrative costs, including investment expenses totaling $97.9 million, reflected an increase of $2.5 million, or 2.6 percent, when compared to fiscal year 2008. Administrative expenses are detailed in the Financial Section on page 68.

  For a complete analysis of the additions and deductions to the Plan Net Assets, please see Management's Discussion and Analysis, beginning on page 26.

- ***Health Care Benefits***—The rising cost of health care is a national concern. Although neither mandated nor guaranteed, we recognize access to health care is a significant element for financial security in retirement. At the direction of our Board, OPERS staff has been diligent in working to preserve the health care benefit, which began in 1974.

OPERS measures health care funding progress by solvency period. In a recent pension study, OPERS was one of the only public pension systems to have accumulated assets in advance to pay for future health care benefits. Based on the latest measurement date (January 1, 2009), OPERS has about 11 years worth of funding for this discretionary benefit. However, as with pension benefits, we are constantly looking for new ways to improve the solvency period of this fund. We have initiated a new study, Health Care Preservation Plan (HCPP 3.0), to identify strategies and initiatives to strengthen the fund.

- ***Educating Stakeholders***—Articulating the benefits of OPERS to all stakeholders has long been a priority. Of course, when we were established 75 years ago, the target audience was simply our members. As OPERS has grown in asset base, members and complexity, our stakeholder audiences also have increased. We anticipate this initiative will continue to evolve.
- ***Monitoring Legislation***—OPERS continues to monitor federal and state legislation that has the potential to impact the System. OPERS works collaboratively with lawmakers to ensure the System is well and fairly represented and to ensure member benefits are never jeopardized.

## Internal controls, accounting system and reports

The management of OPERS is responsible for internal accounting controls. A system of internal accounting controls provides reasonable, but not absolute, assurance that assets are properly safeguarded and that financial statements are reliable. We believe that the internal accounting controls currently in place are adequate to meet the purpose for which they were intended. We also believe the financial statements, supporting schedules and statistical tables to be fairly presented in all material respects.

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

## Professional services

Professional services are provided to OPERS by consultants appointed by the Board of Trustees. Actuarial services are provided by Gabriel, Roeder, Smith & Company; Southfield, Michigan. The investment advisor for all the plans to the Board of Trustees was Mercer Investment Consulting, a Chicago-based firm. The financial records of the System were audited by Clifton Gunderson, Certified Public Accountants; Toledo, Ohio, under contract with the Auditor of the state of Ohio. In addition, both the Real Estate and Private Equity Portfolios within the Investment Division have retained the services of consultants Pacific Corporate Group Asset Management LLC, Hamilton Lane Advisors LLC, and The Townsend Group.

## Acknowledgments

This CAFR is the result of the combined efforts of the System's staff under the direction of the Board of Trustees. Our sincere appreciation is extended to all who assisted in and contributed toward the completion of this document.

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

## Looking toward the future: Our promise to you

OPERS has many strengths. We have an excellent combination of experienced managers, dedicated associates, a comprehensive strategic plan and a vision provided by our Board of Trustees. Together, these elements create a stable platform upon which the financial security of our members is built.

In 2010, OPERS celebrates 75 years of service. This is significant, especially when placed in a historical perspective. OPERS was established as recovery from the Great Depression was beginning. In 2009, recovery from the most recent market recession had begun. As we look to 2010 and beyond, it's important for all members, retirees and stakeholders to understand that OPERS is well-positioned to reap the benefits of a long and slow recovery. Our promise to you continues. We will carry on with the work of shaping this organization for the future, one in which our 75-year tradition of providing a secure retirement for our members will continue.

Respectfully submitted,

Chris DeRose
*Executive Director*

Karen E. Carraher, CPA
*Director—Finance*

Blake W. Sherry
*Chief Operating Officer*

**Karen E. Carraher, CPA**
Director—Finance

**Christopher M. DeRose**
Executive Director

**Blake W. Sherry**
Chief Operating Officer

## Fiduciary Responsibilities

The Board of Trustees and executive management of OPERS are fiduciaries of the pension trust funds. Fiduciaries are charged with the responsibility of assuring that the assets of OPERS are used exclusively for the benefit of plan participants and their beneficiaries.

## Request for Information

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

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

## Awards

OPERS has been recognized by financial experts for our commitment to the highest possible fiscal standards. We are honored to have been recognized with the following:

- ***2008 Certificate of Achievement***—For 26 consecutive years, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to OPERS for its *Comprehensive Annual Financial Report.*
- ***2009 Distinguished Budget Presentation Award***—OPERS was again recognized by GFOA's Distinguished Budget Presentation Award in 2009, representing the seventh consecutive year OPERS has achieved this distinction.
- ***Making your Tax Dollars Count Award***—Presented to OPERS in 2009 for the 2008 annual report, the award is given by the Auditor of State for excellence in financial reporting. OPERS was commended for demonstrating commitment to careful spending and accurate fiscal recording.
- ***2008 Public Pension Standards Award***—Given to OPERS recognizing the professional standards attained for plan funding and administration.

### Certificate of Achievement for Excellence in Financial Reporting

## Distinguished Budget Presentation Award


## The State of Ohio Making Your Tax Dollars Count Award

# Financial Section

With assets of $69.5 billion, OPERS is the largest public pension fund in Ohio and the 12th largest public pension fund in the U.S. OPERS provides retirement, disability and survivor benefits for public employees throughout the state, and manages almost one million individual accounts.

OPERS
1935 2010
Your Trusted Retirement Partner

Clifton Gunderson LLP
Certified Public Accountants & Consultants

## Independent Auditors' Report

Board of Trustees
The Ohio Public Employees Retirement System and
The Honorable Mary Taylor, CPA
Auditor of State

We have audited the accompanying combining statements of fiduciary net assets of the Ohio Public Employees Retirement System (OPERS) as of December 31, 2009 and 2008, and the related combining statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of OPERS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OPERS as of December 31, 2009 and 2008 and the changes in its fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Audit Standards*, we have also issued a report dated May 4, 2010, on our consideration of OPERS' internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Offices in 17 states and Washington, DC

Member of HLB International

The management's discussion and analysis on pages 20 through 35 and the schedules of funding progress and employer contributions and related notes on pages 62 through 67 are not a required part of the combining financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the combining financial statements taken as a whole. The supplementary information included on pages 72 through 147 is for the purpose of additional analysis and is not a required part of the combining financial statements, and, in our opinion, is fairly stated in all material respects in relation to the combining financial statements taken as a whole.

The introductory section on pages 4 through 16, the investment section on pages 72 through 103, the actuarial section on pages 106 through 116, the statistical section on pages 118 through 147 and the Plan Statement on pages 150 through 158 have not been subjected to the auditing procedures applied in the audit of combining financial statements, and accordingly, we express no opinion on them.

Clifton Gunderson LLP

Toledo, Ohio
May 4, 2010

The management of the Ohio Public Employees Retirement System (OPERS) offers readers of the System's financial statements this narrative overview of the financial activities of OPERS for the years ended December 31, 2009 and 2008. This narrative is intended to supplement the System's financial statements. Readers are encouraged to consider the information presented here in conjunction with the financial statements that begin on page 36.

## Overview of the Financial Statements

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

1. Combining Statements of Fiduciary Net Assets
2. Combining Statements of Changes in Fiduciary Net Assets
3. Notes to Combining Financial Statements

As mandated, this *Comprehensive Annual Financial Report* (CAFR or Annual Report) also contains the following schedules, referred to as Required Supplementary Information:

1. Schedules of Funding Progress
2. Schedules of Employer Contributions—Pension
3. Schedules of Contributions from Employers and Other Contributing Entities—Post-employment Health Care
4. Notes to Required Supplementary Information

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

1. Administrative Expenses
2. Schedule of Investment Expenses
3. Schedule of Payments to Consultants
4. Schedule of External Asset Managers' Fees

The financial statements contained in this Annual Report disclose financial data for each of the benefit plans described below. These plans are established as separate legal entities in accordance with Internal Revenue Service regulations and Ohio law.

### The Traditional Plan

The Traditional Plan is a defined benefit plan in which a member's retirement benefits are calculated on a formula that considers years of service and final average salary.

### The Combined Plan

The Combined Plan is a defined benefit plan with elements of a defined contribution plan. Under the Combined Plan, members earn a formula benefit similar to, but at a factor less than, the Traditional Plan benefit level. This defined benefit is funded by employer contributions and associated investment earnings. Additionally, member contributions are deposited into a defined contribution account in which the member self-directs the investment. Upon retirement or termination, the member may choose a defined contribution retirement distribution that is equal in amount to the member's contributions to the plan and investment earnings (or losses) on those contributions.

### The Member-Directed Plan

The Member-Directed Plan is a defined contribution plan in which members self-direct the investment of both member and employer contributions. The retirement distribution under this plan is equal to the sum of member and vested employer contributions, plus investment earnings (or losses) on those contributions. Employer contributions and associated investment earnings vest over a five-year period at a rate of 20% per year.

### Post-employment Health Care Plan

The Post-employment Health Care Plan is a legal plan established under Section 401(h) of the Internal Revenue Code. This plan holds the portion of employer contributions made to the Traditional and Combined Plans that are set aside for funding retiree health care. The health care portion of the employer contribution rate for the Traditional and Combined Plans is comparable, as the same benefits are provided to participants in both plans.

### Voluntary Employees' Beneficiary Association (VEBA)

The Voluntary Employees' Beneficiary Association (VEBA) is established under Section 501(c)(9) of the Internal Revenue Code, and functions in a manner similar to a Retiree Medical Account (RMA). The VEBA holds the portion of employer contributions made to the Member-Directed Plan that is set aside for funding retiree health care. Effective January 1, 2009, contributions and interest vest over a five-year period and may only be used for eligible health care expenses. The vesting period prior to 2009 was 10 years.

Financial activity for each of these plans is reported in the basic combining financial statements described below:

### Combining Statements of Fiduciary Net Assets

The Combining Statements of Fiduciary Net Assets is a point-in-time snapshot of plan fund balances at fiscal year end. It reports the assets available to pay future benefits to retirees, and any liabilities that are owed as of the statement date. The resulting Net Asset Value (Assets – Liabilities = Net Assets) represents the value of assets held in trust for pension and post-employment health care benefits. (See Combining Statements of Fiduciary Net Assets for years ended December 31, 2009 and 2008, on pages 36-37 of this CAFR.)

### Combining Statements of Changes in Fiduciary Net Assets

The Combining Statements of Changes in Fiduciary Net Assets displays the effect of financial transactions that occurred during the fiscal year, where Additions – Deductions = Net Increase (or Net Decrease) in Net Assets. This net increase (or decrease) in net assets reflects the change in the value of Fiduciary Net Assets that occurred between the current and prior year. (See Combining Statements of Changes in Fiduciary Net Assets for years ended December 31, 2009 and 2008, on pages 38-39 of this CAFR.)

### Notes to the Combining Financial Statements

The Notes to the Combining Financial Statements are an integral part of the financial statements and provide additional information that is essential for a comprehensive understanding of the data provided in the financial statements. These notes describe the accounting and administrative policies under which OPERS operates, and provide additional levels of detail for selected financial statement items. (See Notes to the Combining Financial Statements, December 31, 2009 and 2008 on pages 40-61 of this CAFR.)

The financial statements described above are prepared in compliance with Governmental Accounting Standard Board (GASB) Pronouncements, including the following:

- GASB Statement 50, *Pension Disclosures,* was implemented in 2007. The statement established standards for enhancing footnote disclosures for pension plans consistent with the standards under GASB 43 and 45 for reporting post-employment health care benefits. GASB 43 and 45 were implemented in 2006.
- GASB Statement 51, *Accounting and Financial Reporting for Intangible Assets,* was implemented in 2008. This statement provided authoritative guidance related to the accounting and financial reporting of intangible assets, including internally generated software. Implementation of the statement resulted in the write-off of previously capitalized assets for costs incurred during the preliminary project stage and post-implementation data conversion stage. Asset additions in 2009 are in compliance with this pronouncement.
- GASB statement 53, *Accounting and Financial Reporting for Derivative Instruments,* was implemented in 2009. This statement established standards for recognizing, measuring, and disclosing information regarding derivative instruments and transactions.

Because of the long-term nature of most pension plans, financial statements alone cannot provide sufficient information to properly reflect the ongoing plan perspective. Therefore, in addition to the financial statements explained above, this report includes two additional Required Supplementary Information schedules and required notes. Each schedule includes historical trend information.

### Schedules of Funding Progress

The Schedules of Funding Progress (pages 62-63) include actuarial information about the status of the defined benefit pension plans from an ongoing, long-term perspective, and the progress made in accumulating sufficient assets to pay pension benefits under these plans when due. Valuation Assets in excess of Actuarial Accrued Liabilities indicate that sufficient assets exist to fund the future defined pension benefits of the current members and benefit recipients. Actuarial Accrued Liabilities in excess of Valuation Assets reflect an Unfunded Actuarial Accrued Liability (UAAL). The UAAL represents the value, in current dollars, that would need to be accumulated to fund the pensions of all active and retired members as of the date represented in the schedule. For OPERS, the UAAL is being systematically funded over 30 years as of the most recent valuation dated December 31, 2008. (See Financial Highlights for a discussion of the impact of 2008 market downturns.)

Similarly, the Schedule of Funding Progress for the Post-employment Health Care Plan (page 63) includes actuarial information about the status of the health care fund from an ongoing, long-term perspective, and the progress made in accumulating sufficient assets to pay future health care benefits. However, unlike pensions, health care benefits are not a statutorily guaranteed benefit and may be changed to ensure the long-term solvency of the fund and OPERS' ability to provide future benefits. Actuarial accrued liabilities are determined based on the current plan, and do not reflect potential changes until approved by the Board of Trustees.

### Schedules of Employer Contributions

The Schedules of Employer Contributions (page 64) present historical trend information regarding the value of total annual contributions required to be paid by employers for the employees participating in each defined benefit plan, and the actual performance of employers in meeting this requirement. The information contained in these schedules reflects the required contributions based on the contribution rates approved by the Board of Trustees.

Similarly, the Schedule of Contributions from Employers and Other Contributing Entities—Post-employment Health Care (page 65) presents information regarding the value of total annual contributions required to fund the health care benefits and the total portion of the employers' contributions applied toward this funding. This schedule is presented in accordance with GASB 43, which OPERS implemented in 2006. Accordingly, historical information prior to 2006 is not available.

### Notes to Required Supplementary Information Schedules

The Notes to Required Supplementary Information Schedules (pages 66-67) provide background information, a summary of the actuarial assumptions used for valuation of the pension and post-employment health care plans, and explanatory detail to help in understanding the required supplementary schedules.

The following schedules are provided as Additional Information regarding the expenses associated with administering the System:

### Administrative Expenses

The Administrative Expenses schedule displays the total operating costs of managing the System, by major categories of expense (page 68).

### Schedule of Investment Expenses

The Schedule of Investment Expenses summarizes the costs incurred by the Investment Division in managing the investment assets of the System (page 69). These costs are reported as Investment Administrative Expenses in the Combining Statements of Changes in Fiduciary Net Assets, and are reflected as a reduction in Net Investment Income.

### Schedule of Payments to Consultants

The Schedule of Payments to Consultants represents payments made to investment consultants for market analyses, performance statistics, and other activities. These payments are included in the Schedule of Investment Expenses, and provide a more detailed listing of the major investment service providers used by the System (page 69).

### Schedule of External Asset Managers' Fees

The Schedule of External Asset Managers' fees reports fees paid to external portfolio managers based on the value of assets managed (page 69). These External Asset Management Fees are not accounted for in OPERS administrative expenses, but are netted against investment income in the Combining Statements of Changes in Fiduciary Net Assets.

## Financial Highlights

- The OPERS investment portfolio reported a total return of 20.6% for the year ended December 31, 2009, as compared to a return of -26.9% in 2008. The OPERS total portfolio is divided into three sub portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio earned an investment return of 19.1%, compared to a return of -27.2% in 2008. The Health Care portfolio earned an investment return of 24.8%, compared to a return of -25.8% in 2008. The Defined Contribution portfolio earned an investment return of 26.4% compared to a return of -28.0% in 2008.

- Plan net assets increased by $10.3 billion in 2009, compared to the 2008 values, as the investment markets began to stabilize from the volatility experienced in 2008. Net income from investing activities totaled $12.3 billion in 2009 compared to a loss of $22.8 billion in 2008. The 2008 investment loss, combined with steadily increasing benefit payments, resulted in a decrease in plan net assets for the year ended December 31, 2008 of $24.4 billion, or 29.2%, from the $83.6 billion reported for the year ended December 31, 2007. (Refer to Table 1 for a comparative history of changes in plan net assets.)

## Changes to Fiduciary Net Assets (Revenues) (for the years ended December 31, 2009, 2008 and 2007) Table 1

| | 2009 | 2008 | 2007 | Amount Increase/ (Decrease) from 2008 to 2009 | Percent Increase/ (Decrease) from 2008 to 2009 |
|---|---|---|---|---|---|
| Member and Employer Contributions | $3,208,067,454 | $3,227,146,468 | $3,104,849,519 | $(19,079,014) | (0.6)% |
| Contract Receipts and Other Income | 296,737,482 | 253,179,897 | 216,411,369 | 43,557,585 | 17.2 |
| Net Income from Investing Activities | 12,274,797,785 | (22,770,412,901) | 6,594,053,702 | 35,045,210,686 | 153.9 |
| **Total Additions** | 15,779,602,721 | (19,290,086,536) | 9,915,314,590 | 35,069,689,257 | 181.8 |
| Benefits and Account Refunds | 5,372,020,582 | 4,987,529,205 | 4,640,917,801 | 384,491,377 | 7.7 |
| Administrative and Other Expenses | 83,724,713 | 81,493,185 | 75,036,837 | 2,231,528 | 2.7 |
| **Total Deductions** | 5,455,745,295 | 5,069,022,390 | 4,715,954,638 | 386,722,905 | 7.6 |
| **Net Increase (Decrease) in Net Assets** | **$10,323,857,426** | **$(24,359,108,926)** | **$5,199,359,952** | **$34,682,966,352** | **142.4%** |

- The year ended December 31, 2008 marked the most significant market declines experienced by the System in the past 30 years. As of December 31, 2008, the date of the most recent actuarial valuation, OPERS' actuarial accrued liabilities for its defined benefit pension plans exceeded its actuarial value of assets for an unfunded actuarial liability of $18.2 billion. This represented an increase of nearly $15.6 billion from the unfunded actuarial liability of $2.6 billion at December 31, 2007.

  The investment gains experienced in 2009 have returned the System to its 2005 net asset levels but are not expected to materially improve the System's funding status. As of the date of this report, the actuarial valuation for the year ended December 31, 2009 is not yet complete, but it is expected that the unfunded actuarial liability will increase to approximately $20.3 billion.

- OPERS' funding objective is to meet long-term pension benefit obligations, and to the extent possible, fund health care benefits. As of December 31, 2008, the date of the latest actuarial valuation, OPERS' funded ratio was 75.3%. In general, this means that for each dollar of future pension liability, OPERS had accumulated over $0.75 to meet that obligation. This actuarial report indicated that if future activity proceeded according to assumptions, OPERS would accumulate sufficient assets to pay all pension liabilities for active members and retirees within the 30 years required by statute. This represented a significant decline in the funding status of the pension liability over that of the preceding year. As of December 31, 2007, the actuarial valuation indicated an OPERS' funded ratio of 96.3%, with a funding year requirement of 14 years.

  Though the actuarial valuation for the year ended December 31, 2009 is not complete as of the date of this report, it is expected that the funding ratio will remain at approximately 73-75%. The actuarial funding years are expected to remain at, or exceed, 30 years. Refer to Table 2 for a comparative history of OPERS' actuarial liabilities and funding years for pension benefits.

## Schedule of Funding Progress* ($ in millions) Table 2—Traditional, Combined, and Member-Directed Plans

| Valuation Year | Actuarial Accrued Liabilities (AAL) | Valuation Assets | Unfunded Actuarial Accrued Liabilities (UAAL) | Ratio of Assets to AAL | Funding Years |
|---|---|---|---|---|---|
| 2008 | $73,466 | $55,315 | $18,151 | 75.3% | 30 |
| 2007 | 69,734 | 67,151 | 2,583 | 96.3 | 14 |
| 2006 | 66,161 | 61,296 | 4,865 | 92.6 | 26 |
| 2005# | 62,498 | 54,473 | 8,025 | 87.2 | 28 |
| 2005#* | 61,146 | 54,473 | 6,673 | 89.1 | 20 |
| 2004 | 57,604 | 50,452 | 7,152 | 87.6 | 24 |
| 2003 | 54,774 | 46,746 | 8,028 | 85.3 | 29 |

* The amounts reported on this schedule do not include assets or liabilities for post-employment health care benefits.
#* Results from original valuation prior to re-statement after completion of experience study in 2006.
# Revised actuarial assumptions based on experience study.

- Fiscal year 2009 marks the third year of reporting for OPERS' long-term health care obligation and the corresponding assets set aside to pay that obligation in accordance with GASB 43. As of December 31, 2008, the date of the latest actuarial valuation, OPERS' liability for health care benefits was $29.6 billion and the System had accumulated assets for that obligation of $10.7 billion. OPERS had an unfunded actuarial liability of $18.9 billion, representing an increase of $1.9 billion from the December 31, 2007 valuation. While the funding ratio declined from 43% in 2007 to 36% in 2008, OPERS remains one of only a handful of retirement systems around the country that pre-funds any portion of health care (the accounting requirements do not mandate pre-funding health care benefits).

  However as noted above, health care benefits are not a statutorily guaranteed benefit, and may be changed to ensure the long-term solvency of the fund and OPERS' ability to provide future benefits. The funding progress of the health care plan is measured in terms of solvency years, or the number of years that funds are projected to be available to pay health care benefits under the current plan structure before the plan would be reduced to a pay-as-you-go basis. The market losses of 2008 reduced the solvency years of the health care fund from 31 years as of December 31, 2007, to 11 years as of December 31, 2008. Refer to Table 3 for a comparative history of OPERS' actuarial liabilities and solvency years for health care benefits.

## Schedule of Funding Progress* ($ in millions) Table 3—Post-employment Health Care Plan

| Valuation Year | Actuarial Accrued Liabilities (AAL) | Valuation Assets | Unfunded Actuarial Accrued Liabilities (UAAL) | Ratio of Assets to AAL | Solvency Years** |
|---|---|---|---|---|---|
| 2008 | $29,623 | $10,748 | $18,875 | 36.3% | 11 |
| 2007 | 29,825 | 12,801 | 17,024 | 42.9 | 31 |
| 2006 | 30,748 | 12,025 | 18,723 | 39.1 | 27 |
| 2005# | 31,796 | 11,070 | 20,726 | 34.8 | 18 |
| 2005#* | 31,307 | 11,070 | 20,237 | 35.4 | 17 |
| 2004 | 29,479 | 10,816 | 18,663 | 36.7 | 18 |

* GASB 43 was implemented in 2006. Actuarial data prior to 2004 is not available.
** Solvency years represent an estimate of the number of years the fund will be able to provide benefits under the intermediate actuarial assumptions.
#* Results from original valuation prior to re-statement after completion of experience study in 2006.
# Revised actuarial assumptions based on experience study.

- Revenues (additions to plan net assets) for the year 2009 were $15.8 billion, and include member and employer contributions of $3.2 billion, net income from investment activities of $12.3 billion, and other income totaling nearly $296.7 million. Other income is comprised of purchased service agreements, employer interest and penalty charges, vendor performance guarantees and rebates, Medicare Part D reimbursements, settlements, interplan activity, and miscellaneous other income. Interplan activity represents transactions between plans that are additions to plan assets. Additions to plan net assets for the year 2008 were -$19.3 billion, comprised of $3.2 billion in contribution revenues, $22.8 billion in net losses from investment activities, and $253.2 million in other income.
- Expenses (deductions to plan net assets) increased from nearly $5.1 billion during 2008 to nearly $5.5 billion in 2009, or 7.6%. The increase relates primarily to pension benefits and health care payments which comprise $5.1 billion of the 2009 expenditures. Refunds of member contributions, including interest and additional payments on withdrawal where required by statute, fluctuate each year, increasing by $1.3 million, or 0.6%, from 2008 to 2009. Administrative expenses increased by 2.5% over the prior year, but represent less than 1.4% of the total expenses. The remaining expenses are comprised of interplan activity transactions representing deductions to plan assets.

## Analysis of Financial Activities

OPERS' funding objective is to meet long-term benefit obligations with investment income and contributions. Accordingly, the collection of employer and member contributions and the income generated from investment activities provide the reserves needed to finance future retirement and health care benefits. The discussion below provides an analysis of the current year's financial activities in relation to the current member population and relevant economic conditions. Where appropriate, comparative data from the prior year is also presented. (Please refer to Table 4 for relevant membership statistics.)

**Membership** (as of December 31, 2009, 2008 and 2007) **Table 4**

| Member Counts | 2009 | 2008 | 2007 | Increase/ (Decrease) from 2008 to 2009 |
|---|---|---|---|---|
| Active Contributing | 365,229 | 374,002 | 382,177 | (8,773) |
| Inactive | 416,548 | 395,445 | 364,823 | 21,103 |
| Retired Members | 166,696 | 161,389 | 156,258 | 5,306 |
| Dependents and Beneficiaries Receiving Benefits | 5,259 | 5,127 | 5,090 | 132 |
| **Total Membership** | **953,732** | **935,963** | **908,348** | **17,768** |

## Additions to Fiduciary Net Assets (Revenues) (Refer to Table 5)

As noted, the reserves needed to finance retirement benefits are accumulated primarily through the collection of member and employer contributions, and through investment income (net of investment expense). Revenues for the year ended December 31, 2009, totaled $15.8 billion, of which $12.3 billion resulted from net earnings on investments. For 2008, net investment losses in the amount of $22.8 billion resulted in negative net revenues of $19.3 billion. The 2008 investment returns represented a $29.4 billion decline from the 2007 net investment income of $6.6 billion. With the exception of 2008, investment income typically represents approximately 65-75% of total revenues.

Total revenues for 2009 increased by $35.1 billion compared to the prior year. The financial crises of 2008 created an unstable global economy—an economy that was slowly recovering in 2009. It's important to put these market swings in the proper perspective. During the past 30 years, OPERS has only experienced negative returns in four years: the market declines of 2008, the post-9/11 recession, and the recession of the early 1980s brought on by the 1979 energy crisis. Note that, despite these economic downturns, OPERS achieved an average annual rate of return of nearly 8.9 % during this 30-year period, exceeding the annual actuarial funding requirement of 8%.

Member and employer contributions for 2009 decreased by $19.1 million compared to 2008, or 0.6%. Member contributions include amounts paid by active members and their employers for future retirement benefits, and amounts paid by retirees toward the cost of OPERS-provided health care. Retirement contributions from active members and their employers declined by nearly $30.8 million in 2009, compared to an increase of $118.8 million in 2008. The 2008 increase reflected the net impact of a change in contribution rates, an increase in the average salary of contributing members, and a decline in the contributing member population itself. The market volatility of 2008 resulted in many employers denying or deferring raises in 2009, implementing furlough days, and reducing the number of employees.

Unemployment rates in Ohio reached their highest levels in 23 years in 2009, exceeding 10% by year end. The number of actively contributing members continued the decline begun in 2008, as a weakened Ohio economy contributed to layoffs and downsizing by employer units. Actively contributing members declined by 2.4% in 2009 and 2.1% in 2008, while the number of inactive members increased by 5.3% and 8.4%, respectively.

In addition, although salary trends for major metropolitan areas within Ohio indicated 2009 wage increases averaging 3.5%, many public employers deferred or denied salary increases and instituted furlough programs requiring employees to take unpaid days off. These unpaid leaves resulted in decreased revenues from both employee and employer contributions for those still actively employed.

Effective January 1, 2006, OPERS implemented a program of incremental increases designed to gradually increase the contribution rates up to the statutory maximums. While not guaranteed, it was anticipated that these contribution rate increases would be used to fund the cost of providing health care benefits. Employee contribution rates for state and local employees increased by 0.5% each year in 2006, 2007, and 2008, up to the statutory maximum of 10%. Employer contribution rates for state and local employees also increased incrementally over the three-year period with the final step up to the statutory maximum of 14% in 2008. The employer contribution rates for law enforcement and public safety employers will increase incrementally up to the statutory maximum of 18.1% in 2011.

These rate increases represented the first change in contribution rates in over 27 years, and represented 2.7% of the increase in revenues in 2008. By January 1, 2009, only the incremental increase in the employer contribution rate for public safety and law enforcement personnel was pending. Additional revenues from this rate increase were minimal due to the relatively low number of participating members (8,123 in 2009, or 2.2%, of the active member population).

Member contributions also include amounts paid by retirees toward the cost of OPERS-provided health care. Retirees share in the cost of providing health care coverage for their spouse and dependents. In 2009, these contributions totaled $94.4 million, compared to $82.7 million in 2008, or a 14.1% increase. This increase reflects the rising cost of health care benefits, an increase in the retiree population, and program design changes that are intended to gradually increase the retiree cost share to approximately 20%. The number of retirees increased 3.3% over 2008, with a corresponding increase of 2.6% in the number of dependent recipients eligible for health care coverage. By comparison, the number of benefit recipients in 2008 increased by a total of 3.2% over 2007 levels.

Contracts and other receipts totaled $218.9 million in 2009, reflecting a 21.1% increase over the $180.8 million earned in 2008. The majority of this increase, $58.6 million, represents revenue from employers for early retirement incentive (ERI) plans. ERI contracts permit an employer to downsize their workforce by purchasing service credit for employees who are near retirement in exchange for their agreement to retire immediately. ERI contract revenues were $93.1 million in 2009, compared to $34.5 and $30.1 in 2008 and 2007 respectively. New ERI contracts initiated in 2009 for employers with more than 10 participants resulted in a reduction in the active member population of approximately 1,100 employees.

Contracts and other receipts also include funds received from other Ohio retirement systems for OPERS members with service under multiple systems. OPERS members who have service with other Ohio retirement systems may elect to have their service consolidated for retirement benefits under a single system. The contributions paid by these members to other systems and a corresponding employer contribution amount determined by statute are transferred to OPERS to fund the future benefit. In 2009, these contribution transfers from other systems totaled $21.0 million, compared to $24.8 million in 2008 and $14.6 million in 2007.

In addition, OPERS retirees and/or their spouses who are receiving retirement benefits from other systems may choose which system will provide their health care coverage. Funds are transferred to the system providing the benefit based on the value of coverage that would have been provided to the member by the other system (known as health care waivers). Effective January 1, 2007, this election was changed to require retirees and their spouses who qualify for retirement under another Ohio retirement system to elect coverage under that system's health care plan. OPERS health care may only be elected as secondary coverage. In 2008, OPERS recorded accrued revenues for historical amounts due from other systems for health care waivers not yet received as of December 31, 2008. This accrual increased revenues from other systems to nearly $18.8 million in 2008 compared to $0.9 million in 2007. In 2009, these revenues were $5.2 million and are expected to slowly decline in the future as retirees/spouses receiving benefits under the pre-January 1, 2007 election rules drop from the retirement rolls.

Fiscal year 2009 marked the fourth year the Medicare law permitted a federal subsidy for employers that offer a high-quality prescription drug program for retirees and their dependents. The subsidy, which reflects a reimbursement of approximately 25-28% of eligible retiree prescription drug costs, represented over $69 million in revenue for OPERS in 2009, compared to $63 million in 2008 and $59 million in both 2007 and 2006.

Other income represents the gain or loss on disposal of OPERS' fixed assets, cancellation of prior year's warrants, settlement activity, and tenant lease revenue. This activity typically represents less than 1/10 of 1% of the System's total revenue, totaling $0.8 million in 2009 compared to $1.6 million in 2008 and $0.1 million in 2007.

Interplan activity represents transfers between the plans to settle up for activity occurring between the plans. This activity includes members changing from one plan to another, in addition to the repayment of initial plan start-up costs. Interplan activity in 2009 resulted in a net inflow of $7.9 million, compared to $7.5 million in 2008 and $5.7 million in 2007. Since this activity represents one plan paying another plan, there is a corresponding interplan expense activity of the same amount in each year. (Refer also to the Deductions from Fiduciary Net Assets discussion, found next.)

**Additions to Fiduciary Net Assets (Revenues)** (for the years ended December 31, 2009, 2008 and 2007) **Table 5**

| | 2009 | 2008 | 2007 | Amount Increase/ (Decrease) from 2008 to 2009 | Percent Increase/ (Decrease) from 2008 to 2009 |
|---|---|---|---|---|---|
| Member Contributions | $1,385,175,757 | $1,386,561,202 | $1,306,544,058 | $(1,385,445) | (0.1)% |
| Employer Contributions | 1,822,891,697 | 1,840,585,266 | 1,798,305,461 | (17,693,569) | (1.0) |
| Contracts and Other Receipts | 218,930,417 | 180,763,502 | 151,494,844 | 38,166,915 | 21.1 |
| Medicare Part D Reimbursements | 69,132,772 | 63,310,194 | 59,075,120 | 5,822,578 | 9.2 |
| Other Miscellaneous Income | 794,525 | 1,635,996 | 110,559 | (841,471) | (51.4) |
| Interplan Activity | 7,879,768 | 7,470,205 | 5,730,846 | 409,563 | 5.5 |
| Net Income from Investing Activities | 12,274,797,785 | (22,770,412,901) | 6,594,053,702 | 35,045,210,686 | 153.9 |
| **Total Additions** | **$15,779,602,721** | **$(19,290,086,536)** | **$9,915,314,590** | **$35,069,689,257** | **181.8%** |

## Deductions from Fiduciary Net Assets (Expenses) (Refer to Table 6)

OPERS was created to provide retirement, survivor, and disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, elective refunds of contributions to employees who terminate employment with a participating employer, and the cost of administering the System.

Expenses for the year ended December 31, 2009 totaled $5.5 billion, an increase of 7.6% over 2008. Expenses for 2008 also increased by 7.5% when compared to 2007, from $4.7 billion in 2007 to $5.1 billion in 2008. Pension and post-employment health care benefits paid on behalf of current retirees and their beneficiaries comprise approximately 94% of the expenses reported in each of these years.

Pension benefits increased by $272.2 million over the 2008 level, or 8.0%. This increase reflects the combination of a net growth of 3.3% in the number of retirees and beneficiaries receiving benefits, coupled with an overall increase in the final average salary for new retirees and the changing demographics of the retiree population. Defined benefit pension payments are based on a formula determined by the years of contributing service and the average of the three highest years of earnable salary (or final average salary). Benefit reduction factors are then applied to retirees under the age of 65 who have less than 30 years of service. The final average salaries (FAS) for new retirees in 2009 were 7.2% higher than the FAS of those who retired in 2008. In addition, the number of new retiree's, active members who retired in 2009, increased by nearly 17% over the number of new retirees in 2008. As the number of new retirees increases as a percentage of the total retiree population, the cost of these pension payments will continue to rise as the percentage of recent retirees with higher final average salaries exceeds the population of benefit recipients who retired years ago when salaries were significantly lower than those paid for comparable positions today. Pension benefits for 2008 reflected similar increases, rising $252.0 million, or 8.0% over 2007 levels. However in 2008, the number of new retirees decreased by 5.1% compared to the number of new retirees in 2007.

The ongoing increase in the cost of pension benefits also reflects a shift in member demographics. A key element in the pension benefit formula is years of service. As noted above, benefit reduction factors are applied to the benefits of retirees under the age of 65 who have less than 30 years of service. Members between the ages of 60 and 65 are eligible for a retirement benefit with a minimum of five years of service, while members under the age of 60 must have a minimum of

25 years of service to qualify for a benefit. In 2009, 45% of the new retirees had 30 or more years of service at retirement, qualifying them for a full benefit; a 30.6% increase over the same population of new retirees in 2008. In 2007, 51.6% of the new retirees had 25 or more years of service at retirement. This percentage had grown to 54.3% in 2008 and 58.2% in 2009. As members continue to work longer, the value of their retirement benefit continues to grow through wage increases that affect FAS, in the years of service used to compute the benefit, and in the avoidance of benefit reduction factors.

The increase in health care benefits also reflects the expanding retiree population and the nation-wide trend in health care inflation that continues to be well in excess of general inflation. However, the expenses incurred by OPERS in 2009 also reflect the impact of the combination of significant plan design changes, cost-sharing changes and extensive cost containment efforts. As mentioned previously, 2009 represents the third year of implementation for the Health Care Preservation Plan (HCPP). The goal of HCPP was to extend the period of time the health care assets were expected to last (the plan solvency years).

HCPP included significant changes to the health care plan design by linking the amount of health care subsidy to years of service, and allowed for variables in deductibles and cost containment efforts. Cost containment efforts included participation in federally subsidized programs such as the Medicare Part D reimbursements and the Medicare Advantage program. In addition, wellness programs were initiated that provide retirees with financial incentives for healthy lifestyles and participation in programs such as smoking cessation. Based on the relatively low growth in the health care expenses since plan inception in 2006, the plan has been successful. Health care expenses have risen at a fairly consistent rate from $1.3 billion in 2007 to $1.4 billion in 2008 and to $1.5 billion in 2009. At the same time, the number of retirees and eligible dependents and beneficiaries increased by 2.9% in 2007, 3.2% in 2008, and 3.3% in 2009.

The majority of health care expenses are comprised of medical and prescription drug costs, as well as reimbursements to retirees for Medicare Part B premiums. These expenses increased by $106.3 million in 2009. Medical expenses increased by $50.7 million, or 6.1%, and prescription drug costs rose by $53.6 million in 2009, or 12.2%, over the 2008 levels. Statutorily required Medicare Part B reimbursements increased by $1.9 million. Legislative changes that became effective in 2009 permit the Board to determine the value of Medicare Part B reimbursements above a base threshold. This change effectively permits the Board to establish a cap on these reimbursements, which limited the increases in these expenses to 1.8% over the 2008 levels. By comparison, Medicare Part B reimbursements in 2008 were 4.8% higher than in 2007, as the federal premiums continued to rise. The overall breakdown of health care expenses for 2008 and 2007 reflect similar distributions, with medical expenses averaging approximately 59% of the total, followed by prescription drugs, at 33% of the total, and Medicare Part B reimbursements and other expenses, 8%.

Other health care expenses are comprised of payments to retiree medical accounts for retirees who elect the basic (lower level) coverage plan and claims paid through the VEBA. These expenses continue to rise with the changing member demographics, but comprise less than 1% of the total annual health care expenses for each of the past three years.

Refunds of member accounts are at the discretion of the member, and vary from year to year. In 2009, member elected refunds totaled $222 million, comparable to the 2008 and 2007 levels of $221 million.

OPERS has consistently managed its Administrative Expense budget with no material variances between planned and actual expenditures in either 2009 or 2008. Administrative expenses, including investment expenses, totaled $97.9 million in 2009, up approximately 2.6% from the 2008 expenditures of $95.4 million.

### Deductions in Fiduciary Net Assets (Expenses) (for the years ended December 31, 2009, 2008 and 2007) Table 6

| | 2009 | 2008 | 2007 | Amount Increase/ (Decrease) from 2008 to 2009 | Percent Increase/ (Decrease) from 2008 to 2009 |
|---|---|---|---|---|---|
| Benefits—Pension | $3,661,174,109 | $3,388,953,861 | $3,136,995,197 | $272,220,248 | 8.0% |
| Benefits—Health Care | 1,488,266,219 | 1,377,274,519 | 1,282,829,856 | 110,991,700 | 8.1 |
| Refunds | 222,580,254 | 221,300,825 | 221,092,748 | 1,279,429 | 0.6 |
| Administrative Expenses | 75,844,945 | 74,022,980 | 69,305,991 | 1,821,965 | 2.5 |
| Interplan Activity | 7,879,768 | 7,470,205 | 5,730,846 | 409,563 | 5.5 |
| **Total Deductions** | **$5,455,745,295** | **$5,069,022,390** | **$4,715,954,638** | **$386,722,905** | **7.6%** |

## Reserves (Refer to Tables 7 and 8)

OPERS' reserves are established from member and employer contributions and the accumulation of investment and other income, net of deductions for benefit payments, refunds of member accounts, and administrative expenses. Chapter 145 of the Ohio Revised Code (ORC) requires that the reserves be maintained in separate funds defined by statute. Table 7 displays the statutory funds that OPERS maintains.

### Reserves (as of December 31, 2009, 2008 and 2007) Table 7

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Employees' Savings Fund | $11,933,642,333 | $11,546,208,967 | $10,815,159,012 |
| Employers' Accumulation Fund—Pension/Health Care | 20,026,006,552 | 13,503,733,507 | 40,336,757,059 |
| Annuity and Pension Reserve Fund | 35,616,195,176 | 32,410,382,036 | 30,699,027,425 |
| Survivors' Benefit Fund | 1,472,264,995 | 1,418,388,692 | 1,373,512,884 |
| Defined Contribution Fund—Retirement/Health Care | 376,419,373 | 216,885,601 | 234,047,349 |
| Income Fund | 95,184,666 | 100,226,117 | 99,627,634 |
| Expense Fund | 5,663,134 | 5,693,883 | 2,496,366 |
| **Total Fund Balance** | **$69,525,376,229** | **$59,201,518,803** | **$83,560,627,729** |

These statutory funds are further subdivided to accumulate reserves by benefit plan. Table 8 displays the values in the statutory funds that comprise the net asset values held in trust for each benefit plan included in the financial statements for 2009 and 2008. The discussion below presents those statutory requirements that govern the transactions recorded in each fund.

OPERS is required to fully fund the Annuity and Pension Reserve Fund and the Survivors' Benefit Fund each year. These two funds hold reserves set aside to pay formula-based defined benefits to retired members and their survivors. This requirement ensures that priority is first given to setting aside funds necessary to pay non-health care pension and survivor benefits to those who have already retired, and to their beneficiaries. Once these pension obligations have been met, reserves are accumulated to fund the future pension benefits of active members.

The Employees' Savings Fund and Employers' Accumulation Fund hold the reserves accumulated from member and employer contributions for those members participating in a defined benefit plan, who have not yet retired. By statute, the Employers' Accumulation Fund is also the fund to which investment income (or losses) in excess of the statutory funding requirements of the Annuity and Pension Reserve and Survivors' Benefit Funds is deposited. The Defined Contribution Fund reflects the balances accumulated from member and employer contributions and investment earnings for the defined contribution plans. This balance includes the portion of the employer contribution set aside for the VEBA.

As of December 31, 2008, the date of the latest actuarial valuation, OPERS had accumulated sufficient assets to fund 100% of the benefits for retirees and their beneficiaries, and had also provided over 52% of the reserves necessary to fund pensions for active and inactive members based on service credit earned through year-end 2008. As of year-end 2007 OPERS had accumulated 93% of the reserves needed to fund pensions for active and inactive members. Changes in the funding status of a retirement system provide insights into the progress the system is making in building the reserves necessary to meet future pension and health care obligations. The drop in reserves available to fund the future pensions of active and inactive members reflects the investment losses of 2008.

## Funding Status

As previously noted, OPERS' total net investment income for the year ended December 31, 2009 totaled $12.3 billion, representing a return of 20.6% on the total OPERS portfolio. Net investment income for the defined benefit plans comprised $9.8 billion of this total, with a return of 19.1%. Investment income for the health care plan comprised $2.4 billion of the total, with the defined contribution plans comprising the balance, or $69.7 million. As with all mature retirement systems, OPERS' primary means of funding benefit payments in the future will be through investment income. Ultimately, investment income will provide more than 75% of the funds necessary to pay retirement benefits. Therefore, the long-term rate of investment return is critical to the funding status of the System.

To fully understand the funding status of a retirement system, it is often advisable to view actuarial data in conjunction with financial data. The actuarial value of assets used to calculate funded status is not based on year-end fair value (market value) as of the valuation date. Market gains and losses for actuarial funding purposes are smoothed over a rolling four-year period. This smoothing of actuarial gains and loss mitigates the need to constantly increase or lower contribution rates because volatile market conditions can be recognized (smoothed in) over several years.

The reality of actuarial smoothing techniques is that the fair value (market value) of assets may be significantly different from funding value (actuarial value) of assets at a given point in time. This means that in periods of extended market decline the fair value of assets will usually be less than the funding, or actuarial value of assets. This occurred for OPERS during the extended down market from 2000 to 2002, and in 2008. Conversely, during periods of extended market gains, the fair value of assets will usually be greater than the funding, or actuarial value of assets which occurred during the high market returns of 2007.

At December 31, 2008, the date of our latest actuarial evaluation, the actuarial value of net assets set aside to pay defined benefit pension benefits (non-health care assets) was $55.3 billion. The fair value of these defined benefit assets at December 31, 2008, included in the pension plans on the financial statements of OPERS was $49.4 billion. Therefore, when viewing actuarial funding status, the actuarial value of assets would provide a superior funding position to the market value of assets as of December 31, 2008, making OPERS appear better funded than actual market values would have indicated. The reverse was true in 2007, when the actuarial value of assets totaled $67.2 billion compared to a market value of $70.0 billion, following a year where investment returns for defined benefit assets were 8.9% and the rolling five-year average return was 13.8%.

## Reserves by Plan (as of December 31, 2009, 2008 and 2007) Table 8

| | Traditional Plan | Post-employment Health Care | Combined Plan | Member-Directed Plan | Voluntary Employees' Beneficiary Association | 2009 Total |
|---|---|---|---|---|---|---|
| Employees' Savings Fund | $11,932,873,455 | | $768,977 | $(99) | | $11,933,642,333 |
| Employers' Accumulation Fund—Pension/Health Care | 8,508,596,858 | $11,415,195,274 | 102,108,811 | 105,609 | | 20,026,006,552 |
| Annuity and Pension Reserve Fund | 35,615,840,849 | | 251,905 | 102,422 | | 35,616,195,176 |
| Survivors' Benefit Fund | 1,472,264,995 | | | | | 1,472,264,995 |
| Defined Contribution Fund—Retirement/Health Care | | | 120,255,104 | 200,380,138 | $55,784,131 | 376,419,373 |
| Income Fund | 95,184,666 | | | | | 95,184,666 |
| Expense Fund | 5,663,134 | | | | | 5,663,134 |
| **Total Fund Balance** | **$57,630,423,957** | **$11,415,195,274** | **$223,384,797** | **$200,588,070** | **$55,784,131** | **$69,525,376,229** |

| | Traditional Plan | Post-employment Health Care | Combined Plan | Member-Directed Plan | Voluntary Employees' Beneficiary Association | 2008 Total |
|---|---|---|---|---|---|---|
| Employees' Savings Fund | $11,545,651,011 | | $557,956 | | | $11,546,208,967 |
| Employers' Accumulation Fund—Pension/Health Care | 3,832,714,973 | $9,596,082,077 | 74,976,136 | $(39,679) | | 13,503,733,507 |
| Annuity and Pension Reserve Fund | 32,410,136,478 | | 73,758 | 171,800 | | 32,410,382,036 |
| Survivors' Benefit Fund | 1,418,388,692 | | | | | 1,418,388,692 |
| Defined Contribution Fund—Retirement/Health Care | | | 63,342,635 | 117,209,900 | $36,333,066 | 216,885,601 |
| Income Fund | 100,226,117 | | | | | 100,226,117 |
| Expense Fund | 5,693,883 | | | | | 5,693,883 |
| **Total Fund Balance** | **$49,312,811,154** | **$9,596,082,077** | **$138,950,485** | **$117,342,021** | **$36,333,066** | **$59,201,518,803** |

| | Traditional Plan | Post-employment Health Care | Combined Plan | Member-Directed Plan | Voluntary Employees' Beneficiary Association | 2007 Total |
|---|---|---|---|---|---|---|
| Employees' Savings Fund | $10,814,646,533 | | $512,479 | | | $10,815,159,012 |
| Employers' Accumulation Fund—Pension/Health Care | 26,970,418,583 | $13,282,947,482 | 83,391,067 | $(73) | | 40,336,757,059 |
| Annuity and Pension Reserve Fund | 30,698,939,078 | | 60,804 | 27,543 | | 30,699,027,425 |
| Survivors' Benefit Fund | 1,373,512,884 | | | | | 1,373,512,884 |
| Defined Contribution Fund—Retirement/Health Care | | | 72,900,216 | 123,919,448 | $37,227,685 | 234,047,349 |
| Income Fund | 99,627,634 | | | | | 99,627,634 |
| Expense Fund | 2,496,366 | | | | | 2,496,366 |
| **Total Fund Balance** | **$69,959,641,078** | **$13,282,947,482** | **$156,864,566** | **$123,946,918** | **$37,227,685** | **$83,560,627,729** |

In order to ensure that the funding value of assets and the market value of assets remain within a logical proximity of each other, the OPERS Board of Trustees instituted a policy that prohibits the actuarial funding value from varying by more than 12% from the market value of assets. This policy, instituted in 2001, is known as the Market Value Corridor and ensures that the funding value of assets is neither lower than 88% nor higher than 112% of market value. In years the funding value is outside the Market Value Corridor, the System must recognize additional gains or losses, thereby ensuring the funding value is within 12% of the market value. The 2008 results reflect the use of this policy as OPERS recognized an additional $12.6 billion of the $24.7 billion loss in its results rather than the $6.2 billion that was required by the smoothing policy. Thus, in total, OPERS has recognized $18.8 billion of the $24.7 billion loss in the actuarial results. Without this policy, which many systems do not use, OPERS' funding would have been 90.4% but, due to the conservative fiscal practices used by OPERS, the funding ratio for 2008 is 75.3%.

It's important to understand how these smoothing techniques affect funded status when reviewing the actuarial related data contained within this Annual Report. Based upon our latest actuarial valuation for the year ended December 31, 2008, the System's actuarial value of liabilities for defined pension benefits exceeded its actuarial value of assets by $18.2 billion. Actuarial projections indicate that assuming the underlying assumptions are achieved; the $18.2 billion in unfunded liabilities would be amortized and funded over a 30-year period, which is within generally acceptable funding guidelines. However, based on the actuarial smoothing techniques, OPERS has a $5.9 billion unrealized loss yet to recognize over the next three years from the market decline of 2008. By comparison, the 2007 actuarial valuation reflected an unfunded actuarial liability of $2.6 billion and a 14-year funding period.

To some extent, the 19.1% defined benefit investment gains of 2009 will mitigate the impact of the unrealized losses yet to be recognized from 2008. However, as noted in the Financial Highlights, the funding status of the System is not expected to be significantly impacted by these single year gains.

## Other Post-employment Benefits (OPEB)

Beginning in fiscal 2006, the Government Accounting Standards Board (GASB) required retirement systems to estimate their liability for health care benefits similar to the manner in which pension liabilities are estimated. However, unlike pensions, the health care benefits OPERS provides (with the exception of Medicare B reimbursements) are not a guaranteed benefit. As of December 31, 2008, the date of the latest actuarial valuation, OPERS has an estimated liability for future health care of $29.6 billion. OPERS is one of a relatively few retirement systems that has systematically set aside assets to fund health care. As of December 31, 2008, OPERS had $10.7 billion in assets as stated on a funding basis (actuarially smoothed over a four-year period in the same manner as pensions), leaving an unfunded liability of $18.9 billion. Simply put, OPERS had accumulated 36% of the assets necessary to pay these benefits. Similar to pensions, the market value of the health care assets was $9.6 billion and was less than the actuarial or funding value of assets of $10.7 billion. By comparison, the health care liability as of December 31, 2007 was $29.8 billion compared to the actuarial value of assets of $12.8 billion, leaving an unfunded liability of $17.0 billion and a funded ratio of 43%.

OPERS continues to make changes to the plan design of the health care benefits. However, the investment losses of 2008 have reduced the period of time that the accumulated assets will be able to provide benefits, known as the solvency period, from 31 years as of December 31, 2007 to 11 years as of December 31, 2008. OPERS continues to proactively pursue plan design changes to extend the solvency period of the fund while maintaining the funding priority of pension benefits.

## Financial Analysis Summary

Over time, net assets may serve as a useful indication of OPERS' financial position. (Please refer to Table 9.) At the close of calendar years 2009 and 2008, the net assets of OPERS totaled $69.5 billion and $59.2 billion respectively, compared to the record high of $83.6 billion in 2007. These net assets are available to meet OPERS' ongoing obligations to plan participants and their beneficiaries, and to the extent possible, OPERS post-employment health care benefits.

**Net Assets** (as of December 31, 2009, 2008 and 2007) **Table 9**

| | 2009 | 2008 | 2007 | Amount Increase/ (Decrease) from 2008 to 2009 | Percent Increase/ (Decrease) from 2008 to 2009 |
|---|---|---|---|---|---|
| Current and Other Assets | $1,976,438,032 | $1,016,437,950 | $1,029,607,934 | $960,000,082 | 94.4% |
| Cash and Investments at Fair Value | 78,540,512,304 | 66,384,749,035 | 96,191,475,646 | 12,155,763,269 | 18.3 |
| Capital Assets | 113,508,936 | 117,521,350 | 120,859,724 | (4,012,414) | (3.4) |
| Total Assets | 80,630,459,272 | 67,518,708,335 | 97,341,943,304 | 13,111,750,937 | 19.4 |
| Total Liabilities | 11,105,083,043 | 8,317,189,532 | 13,781,315,575 | 2,787,893,511 | 33.5 |
| **Net Assets, End of Year** | **$69,525,376,229** | **$59,201,518,803** | **$83,560,627,729** | **$10,323,857,426** | **17.4%** |
| Net Assets, Beginning of Year | 59,201,518,803 | 83,560,627,729 | 78,361,267,777 | (24,359,108,926) | (29.2) |
| Net Increase (Decrease) in Net Assets | $10,323,857,426 | $(24,359,108,926) | $5,199,359,952 | $34,682,966,352 | 142.4% |

The market losses of 2008 greatly affected OPERS' funding position, returning the system to its 2005 net asset level. Rising pension and health care costs will continue to impact OPERS' ability to fund retirement health care in an unstable market. The distribution of contribution revenues will shift away from health care to meet the priority funding needs of pensions. The passage of Senate Bill 267 in late December 2008 further expanded the Board of Trustees authority to set member contribution rates for public safety and law enforcement members at levels commensurate with the benefits payable to these groups. The contribution rate changes became effective January 1, 2010. If favorable investment returns continue, the percentage of employer contributions used to fund post-employment health care benefits may be increased. However, OPERS' first priority remains to be in the position of adequately funding pension benefits.

## Capital Assets

As of December 31, 2009, OPERS' investment in capital assets totaled $113.5 million, net of accumulated depreciation and amortization. This investment in capital assets includes equipment, furniture, information technology systems, and the home office complex.

OPERS invested $6.3 million in capital asset additions during 2009, compared to an investment of $8.6 million in 2008. The majority of these capital expenditures relate to the development of information technology systems necessary to support ongoing operations. The most significant projects included implementation of investment software, $1.7 million; Phase II expansion of the Health Care Preservation Plan project, $1.0 million; and disaster recovery/business continuity systems, $0.8 million.

Refer to Note 2c (page 48) in the Notes to Combining Financial Statements for information regarding OPERS' capital asset policies and asset activity.

## Combining Statements of Fiduciary Net Assets (as of December 31, 2009 and 2008)

2009

| | Traditional Plan | Post-employment Health Care | Combined Plan | Member-Directed Plan | Voluntary Employees' Beneficiary Association |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| **Cash and Short-Term Investments** | $1,652,107,085 | $82,384,335 | $3,716,643 | $2,322,907 | $2,007,102 |
| **Receivables:** | | | | | |
| Members' and Employers' | 203,311,933 | 70,351,872 | 4,411,664 | 4,832,717 | 1,256,032 |
| Retirement Incentive Plan | 49,493,438 | 3,185,825 | | | |
| Vendor and Other | 561,723 | 49,921,976 | | | |
| Investment Sales Proceeds | 429,058,518 | 884,914,266 | 1,423,066 | 962,241 | 490,314 |
| Accrued Interest and Dividends | 183,969,257 | 37,732,716 | 424,282 | 106,958 | 210,234 |
| Due From Other Plans | 49,582,710 | | | | |
| **Total Receivables** | 915,977,579 | 1,046,106,655 | 6,259,012 | 5,901,916 | 1,956,580 |
| **Investments, at fair value:** | | | | | |
| Global Bonds | 13,738,789,635 | 3,746,406,051 | 49,623,346 | 53,310,186 | 7,700,053 |
| Domestic Equities | 23,415,898,204 | 3,806,887,666 | 105,569,884 | 98,394,583 | 26,758,930 |
| Real Estate | 3,683,320,569 | | 7,200,347 | 13,383 | 4,209,179 |
| Private Equity | 2,470,937,233 | 39,341,186 | 4,830,317 | 8,978 | 2,823,707 |
| International Equities | 12,432,867,926 | 2,974,380,740 | 66,547,377 | 69,496,898 | 14,207,879 |
| **Total Investments** | 55,741,813,567 | 10,567,015,643 | 233,771,271 | 221,224,028 | 55,699,748 |
| **Collateral on Loaned Securities** | 9,653,891,069 | 299,502,780 | 16,765,205 | 30,222 | 8,260,699 |
| **Capital Assets:** | | | | | |
| Land | 3,069,419 | 665,394 | | | |
| Building and Building Improvements | 91,992,503 | 19,660,159 | | | |
| Furniture and Equipment | 48,874,755 | 20,582,082 | 1,078,717 | 1,424,708 | 1,733,479 |
| **Total Capital Assets** | 143,936,677 | 40,907,635 | 1,078,717 | 1,424,708 | 1,733,479 |
| Accumulated Depreciation | (57,873,324) | (13,530,325) | (1,076,785) | (1,422,414) | (1,669,432) |
| **Net Capital Assets** | 86,063,353 | 27,377,310 | 1,932 | 2,294 | 64,047 |
| **Prepaid Expenses and Other Assets** | 236,290 | | | | |
| **TOTAL ASSETS** | **68,050,088,943** | **12,022,386,723** | **260,514,063** | **229,481,367** | **67,988,176** |
| **Liabilities:** | | | | | |
| Undistributed Deposits | 2,216,054 | 52,974 | | | |
| Medical Benefits Payable | 6,950,608 | 134,007,772 | | | 1,487 |
| Investment Commitments Payable | 749,608,796 | 163,153,464 | 1,942,496 | 787,160 | 856,629 |
| Accounts Payable and Other Liabilities | 6,998,459 | | | | |
| Accounts Payable RMA Claims | | 10,474,459 | | | |
| Due To Other Plans | | | 18,421,565 | 28,075,915 | 3,085,230 |
| Obligations Under Securities Lending | 9,653,891,069 | 299,502,780 | 16,765,205 | 30,222 | 8,260,699 |
| **TOTAL LIABILITIES** | **10,419,664,986** | **607,191,449** | **37,129,266** | **28,893,297** | **12,204,045** |
| **Net Assets Held in Trust for Pension and Post-employment Health Care Benefits** | **$57,630,423,957** | **$11,415,195,274** | **$223,384,797** | **$200,588,070** | **$55,784,131** |

See Notes to Combining Financial Statements, beginning on page 40.

## Combining Statements of Fiduciary Net Assets (continued)

| | 2008 | | | | | |
|---|---|---|---|---|---|---|
| 2009 Total All Plans | Traditional Plan | Post-employment Health Care | Combined Plan | Member-Directed Plan | Voluntary Employees' Beneficiary Association | 2008 Total All Plans |
| $1,742,538,072 | $1,208,848,813 | $214,267,049 | $2,982,361 | $2,194,785 | $1,339,485 | $1,429,632,493 |
| | | | | | | |
| 284,164,218 | 206,639,231 | 99,321,334 | 4,349,742 | 4,802,580 | 1,333,537 | 316,446,424 |
| 52,679,263 | 4,588,839 | 344,045 | | | | 4,932,884 |
| 50,483,699 | 475,637 | 57,775,901 | | | | 58,251,538 |
| 1,316,848,405 | 247,429,155 | 57,319,401 | 1,046,783 | 1,091,566 | 225,768 | 307,112,673 |
| 222,443,447 | 220,468,520 | 46,426,349 | 392,336 | 101,831 | 201,168 | 267,590,204 |
| 49,582,710 | 61,819,381 | | | | | 61,819,381 |
| 1,976,201,742 | 741,420,763 | 261,187,030 | 5,788,861 | 5,995,977 | 1,760,473 | 1,016,153,104 |
| | | | | | | |
| 17,595,829,271 | 13,982,135,842 | 4,363,406,922 | 43,862,509 | 35,874,773 | 12,756,338 | 18,438,036,384 |
| 27,453,509,267 | 18,340,502,082 | 2,731,493,461 | 64,575,389 | 59,936,148 | 16,734,915 | 21,213,241,995 |
| 3,694,743,478 | 4,299,826,067 | | 6,426,525 | 11,605 | 3,923,405 | 4,310,187,602 |
| 2,517,941,421 | 2,263,251,876 | 5,150,008 | 3,382,659 | 6,109 | 2,065,120 | 2,273,855,772 |
| 15,557,500,820 | 8,763,939,843 | 2,201,764,403 | 38,779,938 | 41,407,353 | 7,996,716 | 11,053,888,253 |
| 66,819,524,257 | 47,649,655,710 | 9,301,814,794 | 157,027,020 | 137,235,988 | 43,476,494 | 57,289,210,006 |
| 9,978,449,975 | 5,357,710,312 | 2,297,927,070 | 7,044,675 | 9,177 | 3,215,302 | 7,665,906,536 |
| | | | | | | |
| 3,734,813 | 3,069,419 | 665,394 | | | | 3,734,813 |
| 111,652,662 | 92,008,802 | 19,663,497 | | | | 111,672,299 |
| 73,693,741 | 49,500,042 | 17,141,828 | 1,155,609 | 1,470,136 | 1,663,632 | 70,931,247 |
| 189,081,216 | 144,578,263 | 37,470,719 | 1,155,609 | 1,470,136 | 1,663,632 | 186,338,359 |
| (75,572,280) | (53,364,763) | (11,267,149) | (1,155,491) | (1,469,999) | (1,559,607) | (68,817,009) |
| 113,508,936 | 91,213,500 | 26,203,570 | 118 | 137 | 104,025 | 117,521,350 |
| 236,290 | 284,846 | | | | | 284,846 |
| **80,630,459,272** | **55,049,133,944** | **12,101,399,513** | **172,843,035** | **145,436,064** | **49,895,779** | **67,518,708,335** |
| | | | | | | |
| 2,269,028 | 1,454,665 | 52,974 | | | | 1,507,639 |
| 140,959,867 | 130,259 | 131,776,992 | | | 15,228 | 131,922,479 |
| 916,348,545 | 364,423,724 | 69,811,443 | 1,527,796 | 1,585,226 | 332,521 | 437,680,710 |
| 6,998,459 | 12,603,830 | | | | | 12,603,830 |
| 10,474,459 | | 5,748,957 | | | | 5,748,957 |
| 49,582,710 | | | 25,320,079 | 26,499,640 | 9,999,662 | 61,819,381 |
| 9,978,449,975 | 5,357,710,312 | 2,297,927,070 | 7,044,675 | 9,177 | 3,215,302 | 7,665,906,536 |
| **11,105,083,043** | **5,736,322,790** | **2,505,317,436** | **33,892,550** | **28,094,043** | **13,562,713** | **8,317,189,532** |
| | | | | | | |
| **$69,525,376,229** | **$49,312,811,154** | **$9,596,082,077** | **$138,950,485** | **$117,342,021** | **$36,333,066** | **$59,201,518,803** |

## Combining Statements of Changes in Fiduciary Net Assets (for the years ended December 31, 2009 and 2008)

2009

| | Traditional Plan | Post-employment Health Care | Combined Plan | Member-Directed Plan | Voluntary Employees' Beneficiary Association |
|---|---|---|---|---|---|
| **Additions:** | | | | | |
| Members' Contributions | $1,236,966,262 | $94,370,543 | $26,096,068 | $27,742,884 | |
| Employers' Contributions | 1,019,834,609 | 740,817,891 | 23,397,299 | 26,356,764 | $12,485,134 |
| Contract and Other Receipts | 159,979,887 | 58,649,547 | 124,823 | 173,832 | 2,328 |
| Medicare Part D Reimbursements | | 69,132,772 | | | |
| Other Income, Net | 140,494 | 654,031 | | | |
| Interplan Activity | 7,839,790 | | | | 39,978 |
| **Total Non-investment Income** | **2,424,761,042** | **963,624,784** | **49,618,190** | **54,273,480** | **12,527,440** |
| **Income/(Loss) from Investing Activities:** | | | | | |
| Net Appreciation/(Depreciation) in Fair Value | 8,958,294,554 | 2,081,098,064 | 41,356,531 | 40,946,399 | 7,665,560 |
| Bond Interest | 667,145,486 | 152,358,418 | 1,640,807 | 766,903 | 570,872 |
| Dividends | 588,890,367 | 134,487,014 | 1,990,363 | 1,536,607 | 503,910 |
| Real Estate Operating Income/(Loss), net | (357,389,882) | | (620,655) | (1,118) | (305,816) |
| International Income | 231,831 | 52,944 | 404 | | 198 |
| Other Investment Income/(Loss) | 110,806,780 | 661,628 | 192,430 | 347 | 94,817 |
| External Asset Management Fees | (107,025,189) | (7,709,148) | (334,015) | (247,870) | (91,581) |
| **Net Investment Income/(Loss)** | **9,860,953,947** | **2,360,948,920** | **44,225,865** | **43,001,268** | **8,437,960** |
| From Securities Lending Activity: | | | | | |
| Security Lending Income | 75,320,295 | 2,336,740 | 130,803 | 236 | 64,451 |
| Security Lending Expenses | (18,142,779) | (562,862) | (31,507) | (57) | (15,525) |
| Net Security Lending Income | 57,177,516 | 1,773,878 | 99,296 | 179 | 48,926 |
| Unrealized Loss | (77,234,663) | (2,396,132) | (134,128) | (242) | (66,088) |
| **Net Income/(Loss) from Securities Lending** | **(20,057,147)** | **(622,254)** | **(34,832)** | **(63)** | **(17,162)** |
| **Investment Administrative Expenses** | **(17,918,047)** | **(3,771,803)** | **(156,426)** | **(165,877)** | **(26,564)** |
| **Net Income/(Loss) from Investing Activity** | **9,822,978,753** | **2,356,554,863** | **44,034,607** | **42,835,328** | **8,394,234** |
| **TOTAL ADDITIONS** | **12,247,739,795** | **3,320,179,647** | **93,652,797** | **97,108,808** | **20,921,674** |
| **Deductions:** | | | | | |
| Benefits | 3,661,076,709 | 1,488,032,855 | 35,566 | 61,834 | 233,364 |
| Refunds of Contributions | 212,209,227 | | 2,905,883 | 7,465,144 | |
| Administrative Expenses | 56,805,048 | 13,033,595 | 2,638,279 | 2,514,665 | 853,358 |
| Interplan Activity | 36,008 | | 3,638,757 | 3,821,116 | 383,887 |
| **TOTAL DEDUCTIONS** | **3,930,126,992** | **1,501,066,450** | **9,218,485** | **13,862,759** | **1,470,609** |
| Net Increase/(Decrease) | 8,317,612,803 | 1,819,113,197 | 84,434,312 | 83,246,049 | 19,451,065 |
| Net Assets Held in Trust for Pension and Post-employment Health Care Benefits | | | | | |
| Balance, beginning of year | 49,312,811,154 | 9,596,082,077 | 138,950,485 | 117,342,021 | 36,333,066 |
| **Balance, end of year** | **$57,630,423,957** | **$11,415,195,274** | **$223,384,797** | **$200,588,070** | **$55,784,131** |

See Notes to Combining Financial Statements, beginning on page 40.

## Combining Statements of Changes in Fiduciary Net Assets (continued)

| | 2008 | | | | | |
|---|---|---|---|---|---|---|
| 2009 Total All Plans | Traditional Plan | Post-employment Health Care | Combined Plan | Member-Directed Plan | Voluntary Employees' Beneficiary Association | 2008 Total All Plans |
| $1,385,175,757 | $1,253,053,822 | $82,695,255 | $25,123,220 | $25,688,905 | | $1,386,561,202 |
| 1,822,891,697 | 892,693,746 | 891,561,073 | 20,352,999 | 24,411,834 | $11,565,614 | 1,840,585,266 |
| 218,930,417 | 113,351,117 | 66,343,542 | 844,005 | 223,485 | 1,353 | 180,763,502 |
| 69,132,772 | | 63,310,194 | | | | 63,310,194 |
| 794,525 | 1,021,007 | 614,989 | | | | 1,635,996 |
| 7,879,768 | 7,289,779 | | 68,857 | 55,277 | 56,292 | 7,470,205 |
| **3,504,804,936** | **2,267,409,471** | **1,104,525,053** | **46,389,081** | **50,379,501** | **11,623,259** | **3,480,326,365** |
| 11,129,361,108 | (19,897,254,038) | (3,734,049,668) | (55,610,780) | (48,078,210) | (11,940,931) | (23,746,933,627) |
| 822,482,486 | 974,197,413 | 182,944,355 | 2,296,938 | 1,659,232 | 584,645 | 1,161,682,583 |
| 727,408,261 | 740,717,057 | 139,099,121 | 1,368,024 | 644,199 | 444,526 | 882,272,927 |
| (358,317,471) | (634,567,228) | | (834,367) | (1,085) | (380,822) | (635,783,502) |
| 285,377 | 2,944,258 | 552,901 | 3,871 | 5 | 1,767 | 3,502,802 |
| 111,756,002 | (373,698,236) | 147,998 | (491,361) | (639) | (224,268) | (374,266,506) |
| (115,407,803) | (107,174,711) | (8,674,498) | (259,384) | (192,983) | (64,319) | (116,365,895) |
| **12,317,567,960** | **(19,294,835,485)** | **(3,419,979,791)** | **(53,527,059)** | **(45,969,481)** | **(11,579,402)** | **(22,825,891,218)** |
| 77,852,525 | 240,158,577 | 103,004,243 | 315,777 | 412 | 144,125 | 343,623,134 |
| (18,752,730) | (186,448,193) | (79,967,808) | (245,155) | (320) | (111,892) | (266,773,368) |
| 59,099,795 | 53,710,384 | 23,036,435 | 70,622 | 92 | 32,233 | 76,849,766 |
| (79,831,253) | | | | | | |
| **(20,731,458)** | **53,710,384** | **23,036,435** | **70,622** | **92** | **32,233** | **76,849,766** |
| **(22,038,717)** | **(17,415,336)** | **(3,703,986)** | **(115,129)** | **(115,011)** | **(21,987)** | **(21,371,449)** |
| **12,274,797,785** | **(19,258,540,437)** | **(3,400,647,342)** | **(53,571,566)** | **(46,084,400)** | **(11,569,156)** | **(22,770,412,901)** |
| **15,779,602,721** | **(16,991,130,966)** | **(2,296,122,289)** | **(7,182,485)** | **4,295,101** | **54,103** | **(19,290,086,536)** |
| 5,149,440,328 | 3,388,862,796 | 1,377,146,173 | 11,911 | 79,154 | 128,346 | 4,766,228,380 |
| 222,580,254 | 212,802,651 | | 3,623,723 | 4,874,451 | | 221,300,825 |
| 75,844,945 | 53,853,085 | 13,596,943 | 2,990,092 | 2,762,484 | 820,376 | 74,022,980 |
| 7,879,768 | 180,426 | | 4,105,870 | 3,183,909 | | 7,470,205 |
| **5,455,745,295** | **3,655,698,958** | **1,390,743,116** | **10,731,596** | **10,899,998** | **948,722** | **5,069,022,390** |
| 10,323,857,426 | (20,646,829,924) | (3,686,865,405) | (17,914,081) | (6,604,897) | (894,619) | (24,359,108,926) |
| 59,201,518,803 | 69,959,641,078 | 13,282,947,482 | 156,864,566 | 123,946,918 | 37,227,685 | 83,560,627,729 |
| **$69,525,376,229** | **$49,312,811,154** | **$9,596,082,077** | **$138,950,485** | **$117,342,021** | **$36,333,066** | **$59,201,518,803** |

## 1. Description of OPERS

a. **Organization**—The Ohio Public Employees Retirement System (OPERS, or the System) is a cost-sharing, multiple-employer public employee retirement system comprised of three separate pension plans: the Traditional Plan—a defined benefit plan; the Combined Plan—a combination defined benefit/defined contribution plan; and the Member-Directed Plan—a defined contribution plan. All public employees in Ohio, except those covered by one of the other state or local retirement systems in Ohio, are members of OPERS. New public employees (those who establish membership in OPERS on or after January 1, 2003) have 180 days from the commencement of employment to select membership in one of the three plans. Contributions to OPERS are effective with the first day of the employee's employment. Contributions made prior to the employee's plan selection are maintained in the Traditional Plan and later transferred, as appropriate.

OPERS maintains two health care related plans: a cost-sharing, multiple-employer health care plan and a Voluntary Employees' Beneficiary Association (VEBA). The cost-sharing plan provides health care coverage to retirees in the Traditional and Combined plans and their beneficiaries. This plan is reported as an Other Post-employment Benefit Plan (OPEB) based on the criteria established by the Government Accounting Standards Board (GASB). Periodically, OPERS alters the health care plan design to protect the ongoing solvency of the plan, but generally, 10 or more years of service are required to qualify for benefits under this plan. The VEBA plan provides Member-Directed Plan participants with a medical spending account option.

OPERS is administered in accordance with Chapter 145 of the Ohio Revised Code (ORC). The accompanying financial statements comply with the provisions of GASB Statement 14, *The Financial Reporting Entity,* and with the provisions of GASB Statement 39, *Determining Whether Certain Organizations Are Component Units.* GASB Statement 39 amended portions of Statement 14. These statements require that financial statements of the reporting entity include all the organizations, activities, functions and component units for which the reporting entity is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board of directors and either (1) the reporting entity's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to, or impose a financial burden on, the reporting entity. OPERS does not have financial accountability over any entities.

OPERS is not part of the state of Ohio financial reporting entity, nor is OPERS a component unit of the state of Ohio. Responsibility for the organization is vested in the System's Board of Trustees, and there is no financial interdependency with the state of Ohio. The Board of Trustees is the governing body of OPERS, with responsibility for administration and management. Seven members are elected by the group they represent: the retirees (two representatives); employees of the state, employees of counties, employees of municipalities, non-teaching employees of state colleges and universities and miscellaneous employees. The remaining four members are appointed or designated by position. The Governor, general assembly and Treasurer of state each appoint a representative. The Director of the Ohio Department of Administrative Services completes the Board of Trustees.

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

Employer, employee and retiree data as of December 31, 2009 and 2008 follows:

## Employer, Employee and Retiree Data (as of December 31, 2009 and 2008)

| Year | 2009 | 2008 |
|---|---|---|
| **Employer units** | | |
| State group | 270 | 269 |
| Local government group | 3,207 | 3,207 |
| Law enforcement and public safety group | 237 | 248 |
| **Employees, members and retirees—pension** | | |
| Traditional Plan retirees and beneficiaries currently receiving benefits | 171,927 | 166,499 |
| Combined and Member-Directed Plan retirees and beneficiaries currently receiving benefits | 28 | 17 |
| Traditional and Combined Plan terminated employees not yet receiving benefits | 30,675 | 29,471 |
| **Employees, members and retirees—post-employment health care** | | |
| Retirees and beneficiaries currently receiving benefits—OPEB (Traditional and Combined Plan) | 213,220 | 208,857 |
| Retirees and beneficiaries currently receiving benefits—VEBA (Member-Directed Plan) | 1,260 | 365 |
| Traditional and Combined Plan terminated employees not yet receiving benefits | 13,940 | 13,487 |
| **Active employees (all plans)** | | |
| State group | 121,518 | 118,584 |
| Local government group | 235,588 | 247,099 |
| Law enforcement group | 8,029 | 8,191 |
| Public safety group | 94 | 128 |

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

b. **Benefits**—All benefits of the System, and any benefit increases are established by the legislature pursuant to ORC Chapter 145. The Board of Trustees, pursuant to Chapter 145 of the ORC, has elected to maintain funds to provide health care benefits to Traditional and Combined plan retirees and survivors of members. Health care benefits do not vest and are not a required benefit under ORC 145. As a result they may be reduced or eliminated at the discretion of the Board of Trustees.

- ***Age-and-Service Defined Benefits***—Benefits in the Traditional Plan for state and local members are calculated on the basis of age, final average salary, and service credit. Members are eligible for retirement benefits at age 60 with five years or 60 contributing months of service credit, at age 55 with 25 or more years of service credit, or at any age with 30 or more years of service credit. The annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. Members retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment.

  Effective January 1, 2001, HB 416 divided the OPERS law enforcement program into two separate divisions: Law Enforcement and Public Safety. Both groups of members, as defined in ORC Chapter 145, are eligible for special retirement options under the Traditional Plan and are not eligible to participate in the Member-Directed or Combined Plans. Law enforcement officers may file an application for retirement benefits at age 48 or older with 25 or more years of credited service. Those members classified within the public safety group are eligible for retirement at age 52, with 25 or more years of credited service. Annual benefits under both divisions are calculated by multiplying 2.5% of final average salary by the actual years of service for the first 25 years of service credit, and 2.1% of final average salary for each year of service over 25 years. These options also permit early retirement under qualifying circumstances as early as age 48.

  Prior to 2000, payments to OPERS' benefit recipients were limited under Section 415(b) of the Internal Revenue Code (IRC). OPERS entered into a Qualified Excess Benefit Arrangement (QEBA) with the Internal Revenue Service to allow OPERS' benefit recipients to receive their full statutory benefit even when the benefit exceeds IRC 415(b) limitations. Monthly QEBA payments start when the total amount of benefits received by the recipients exceeds the IRC limit. The portion of the benefit in excess of the 415(b) limit is paid out of the QEBA and taxed as normal payroll.

  Benefits in the Combined Plan consist of both an age-and-service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, final average salary and years of service. Members are eligible for retirement benefits at age 60 with five years or 60 contributing months of service credit, at age 55 with 25 or more years of service credit, or at any age with 30 or more years of service credit. The annual benefit is based on 1.0% of final average salary multiplied by the years of service in the Combined Plan, rather than the 2.2% used in the Traditional Plan. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions plus or minus any investment gains or losses on those contributions.

- ***Defined Contribution Benefits***—Member-Directed and Combined Plan members who have met the retirement eligibility requirements may apply for retirement benefits. A variety of payout options are available to members eligible for these benefits. The amount available for defined contribution benefits in the Combined Plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. Combined Plan members wishing to receive benefits must meet the requirements for both types—the defined benefit and defined contribution plans. Member-Directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the Member-Directed Plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year.

- ***Early Retirement Incentive Plan***—Employers under OPERS may establish an early retirement incentive plan utilizing the purchase of service credit. To be eligible, employees must be able to retire under existing plan provisions after the purchase of the additional credit. Electing employers must contribute all such additional costs as are actuarially determined to fund the benefit. Such a plan, if adopted by an employer, must be offered to a minimum of 5% of covered employees, and may provide for the purchase of up to five years service credit, limited to a maximum of 20% of the member's total service credit.

- ***Disability Benefits***—OPERS administers two disability plans for participants in the Traditional and Combined plans. Members in the plan as of July 29, 1992, could elect, by April 7, 1993, coverage under either the original plan or the revised plan. All members who entered the System after July 29, 1992, are automatically covered under the revised plan. Under the original plan, a member who becomes disabled before age 60 and has completed 60 contributing months is eligible for a disability benefit. Benefits are funded by the employee and employer contributions and terminate if the member is able to return to work. The revised plan differs in that a member who becomes disabled at any age with 60 contributing months will be eligible for disability benefits until a determined age. After the disability benefit ends, the member has an opportunity to apply for a service retirement benefit or a refund of contributions, which are not reduced by the amount of disability benefits received. Law enforcement officers are immediately eligible for disability benefits if disabled by an on-duty illness or injury. Those in the Member-Directed Plan are not eligible for disability benefits.

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

- ***Health Care Benefits***—The ORC permits, but does not require, OPERS to offer post-employment health care benefits (OPEB). The ORC allows a portion of the employers' contributions to be used to fund health care benefits. OPERS maintains a Health Care Fund to provide benefits to the retirees and beneficiaries of the Traditional and Combined plans. The System currently provides comprehensive health care benefits to retirees with 10 or more years of qualifying service credit and offers coverage to their dependents on a premium deduction or direct bill basis. Coverage includes hospitalization, medical expenses, prescription drugs, and reimbursement of monthly Medicare premiums. The System determines the amount, if any, of the associated health care costs that will be absorbed by the System and attempts to control costs by using managed care, HMOs, case management, disease management, and other programs.

Effective January 1, 2007, OPERS implemented the first phase of the Health Care Preservation Plan (HCPP) to improve the long-term solvency of the Health Care Fund. The plan provides monthly allowances for health care coverage for retirees and their dependents based on the retiree's years of service. The monthly allowances must be used for the purchase of medical and pharmacy coverage. Three levels of coverage are offered with varying costs, co-pays, deductibles, and out-of-pocket maximums. If the cost of the coverage level selected exceeds the retiree's monthly allowance, the difference is billed to the retiree. Monthly allowances that exceed the cost of coverage are deposited to a Retiree Medical Account (RMA). The retiree may use the funds in the RMA to pay for health care expenses not covered by the plan. Recipients with household income below 150% of the poverty level may apply for a 30% reduction in the cost of premiums.

Participants in the Member-Directed Plan are not eligible for health care benefits under Post-employment Health Care. A portion of employer contributions is placed in a Voluntary Employees' Beneficiary Association (VEBA or RMA) on behalf of members in the Member-Directed Plan. Terminated members and retirees may be reimbursed for qualified medical expenses from their VEBA funds.

- ***Other Benefits***—Once a benefit recipient retiring under the Traditional Plan has received benefits for 12 months, an annual 3% cost-of-living adjustment is provided on the member's base benefit. Members retiring under the Combined Plan receive a 3% cost-of-living adjustment on the defined benefit portion of their benefit. A death benefit of $500-$2,500, determined by number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Traditional and Combined plans. Death benefits are not available to beneficiaries of Member-Directed Plan participants.
- ***Money Purchase Annuity***—OPERS' age-and-service retirees who become re-employed in an OPERS-covered position must contribute to the System. All re-employed retirees are required to contribute toward a money purchase annuity. The money purchase annuity calculation is based on the accumulated contributions of the retiree for the period of re-employment, and an amount of the employer contributions determined by the Board of Trustees. Upon termination of service, the member can elect to receive a lump-sum payout or a monthly annuity.
- ***Refunds***—Members who have terminated service in OPERS-covered employment may file an application for refund of their account. The ORC requires a three-month waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's rights and benefits in OPERS.

  Refunds processed for Traditional Plan members include the member's accumulated contributions, interest and any qualifying employer funds. A Combined Plan member's refund may consist of qualifying employer funds plus the value of their account in the defined contribution plan, which consists of member contributions adjusted by the gain or losses incurred, based on their investment selections. Refunds paid to members in the Member-Directed Plan include member contributions and vested employer contributions adjusted by the gains or losses incurred, based on their investment selections.

c. **Contributions**—OPERS' funding policy provides for periodic employee and employer contributions to all three plans (Traditional, Combined and Member-Directed plans) at rates established by the Board of Trustees. The rates established for member and employer contributions were approved based upon the recommendations of the System's actuary. All contribution rates were within the limits authorized by the Ohio Revised Code.

Member and employer contribution rates, as a percent of covered payroll, were the same across all three plans for the year ended December 31, 2009. Within the Traditional and Combined plans, member and employer contributions (employer contributions only for the Combined Plan) and an actuarially determined rate of return are adequate to accumulate sufficient assets to pay defined benefits when due. Employee contributions within the Combined Plan are not used to fund the defined benefit retirement allowance. Employer contribution rates as a level percent of payroll dollars are determined using the entry age normal actuarial funding method. This formula determines the amount of contributions necessary to fund: (1) the current service cost, which represents the estimated amount necessary to pay for defined benefits earned by the employees during the current service year; and (2) the prior service cost for service earned prior to the current year and subsequent benefit increases. These contributions represent the amount necessary to fund accrued liabilities for retirement allowances and survivor benefits over a period of time. The annual employer contributions reported for the Traditional Plan for 2009 and 2008 were \$1,019,834,609 and \$892,693,746, respectively. Employer contributions for the Combined Plan for 2009 and 2008 were \$23,397,299 and \$20,352,999, respectively. Employers satisfied 100% of the contribution requirements.

The following table displays the employee and employer contribution rates as a percent of covered payroll for each division for 2009, 2008, and 2007. Based upon the recommendation of the System's actuary, a portion of each employer's contribution to OPERS is set aside for the funding of post-employment health care benefits. The portion of Traditional and Combined plans employer contributions allocated to health care was 7.0% for January 1 through March 31, 2009, and 5.5% from April 1 through December 31, 2009, as compared to 7.0% for 2008. The employer contribution as a percent of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for both 2009 and 2008 was 4.5%.

### Board of Trustees-Approved Contribution Rates—All Plans

| | Employee Rate | | | Employer Rate | | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| State division | 10.00% | 10.00% | 9.50% | 14.00% | 14.00% | 13.77% |
| Local government division | 10.00 | 10.00 | 9.50 | 14.00 | 14.00 | 13.85 |
| Law enforcement division | 10.10 | 10.10 | 10.10 | 17.63 | 17.40 | 17.17 |
| Public safety division | 10.10 | 10.10 | 9.75 | 17.63 | 17.40 | 17.17 |

The 2009 employee and employer contribution rates for the state and local divisions are currently set at the maximums authorized by the Ohio Revised Code of 10% and 14% respectively. The authorized maximum contribution rate for public safety and law enforcement employers is 18.1%. The employee public safety rate is determined by the Board and has no maximum rate established by the Ohio Revised Code. The employee rate for law enforcement members is also determined by the Board, but is limited by the Ohio Revised Code to not more than 2% greater than the public safety rate.

ORC Chapter 145 assigns authority to the Board of Trustees to amend the funding policy. As of December 31, 2009, the Board of Trustees adopted the contribution rates that were recommended by the actuary.

As of December 31, 2008, the date of the last actuarial study, the funding period was 30 years. The funding period for the actuarial study performed for the year ended December 31, 2007, was 14 years.

d. **Commitments and Contingencies**—OPERS has committed to fund various private equity and closed-end real estate investments totaling approximately $2.7 billion and $2.0 billion at December 31, 2009 and December 31, 2008, respectively. The expected funding dates for these commitments extend through 2019.

   OPERS is a party in various lawsuits relating to plan benefits. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material adverse effect on OPERS' financial position.

## 2. Summary of Significant Accounting Policies

The following are the significant accounting policies followed by OPERS for all pension and health care plans:

a. **Basis of Accounting**—The financial statements are prepared using the accrual basis of accounting under which deductions are recorded when the liability is incurred. Pension benefit payments are due the first day of the month following the retirement of a member, and the first of each month thereafter. Refunds, for any member who makes a written application to withdraw their contributions, are payable three months after the member's termination of OPERS-covered employment. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Additions to the plans consist of contributions (member and employer), health care reimbursements, other contract receipts, interplan activities, net investment income, and other miscellaneous income. Contributions are recorded in the period the related salaries are earned and become measurable pursuant to formal commitments, statutory or contractual requirements. Accordingly, both member and employer contributions for the years ended December 31, 2009 and 2008 include year-end accruals based upon estimates derived from subsequent payment activity and historical payment patterns. Member and employer contributions, which are based on members' salaries, are due 30 days after the month in which salaries are earned. Health care reimbursements are recognized when they become measurable and due OPERS based on contractual requirements. Therefore, health care reimbursements contain estimates based on information received from health care vendors and other sources. Plan changes, settlement activity and other interplan activity are recorded as an addition or deduction, based on the nature of the transaction, when the transactions occur. Investment purchases and sales are recorded as of their trade date.

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

GASB Statement 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and Statement 26, *Financial Reporting for Post-employment Health Care Plans Administered by Defined Benefit Pension Plans,* require that the three pension plans (Traditional, Member-Directed and Combined) and the two health care funds (Post-employment Health Care and VEBA) be shown separately in the Combined Financial Statements as they are legally separate plans. To meet this requirement, plan assets and liabilities, where possible, were specifically identified to a plan or health care fund. Assets and liabilities that were not specifically identifiable to a plan or health care fund were allocated based on calculations and projection formulas that take into account daily investment returns, daily plan cash inflows and outflows, and analysis and allocation of administrative expenses.

GASB Statement 50, *Pension Disclosures,* established the standards for enhancing footnote disclosures for pension plans consistent with standards under GASB Statements 43 and 45. GASB Statement 51, *Accounting and Financial Reporting for Intangible Assets,* provides authoritative guidance related to the accounting and financial reporting of intangible assets, including internally developed software. GASB Statement 51 was early implemented for the year ended December 31, 2008.

GASB Statement 53, *Accounting and Financial Reporting for Derivative Instruments,* established the standards for recognizing, measuring, and disclosing information regarding derivative instruments and transactions. GASB Statement 53 was early implemented for the year ended December 31, 2009.

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

Member-Directed Plan participants self direct the investment of both member and employer contributions. Contributions must be invested with an investment manager approved by the OPERS Board of Trustees. Similarly, participants in the Combined Plan self direct the investment of member contributions. The investment assets for all other plans are invested under the direction of OPERS' Investment staff in conformance with Board of Trustees-approved policies.

Plan investments are reported at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. All investments, with the exception of real estate and private equity, are valued based on closing market prices or broker quotes. Securities not having a quoted market price have been valued based on yields currently available on comparable securities of issuers with similar credit ratings. The fair value of real estate investments is based on estimated current values and independent appraisals. The fair value of private equities are based on management's valuation of estimates and assumptions from information and representations provided by the respective general partners, in the absence of readily ascertainable market values.

Net appreciation (depreciation) in the fair value of investment assets is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value. Commissions paid to brokers are considered a part of the investment asset cost and are, therefore, not reported as expenses of the System. Brokerage commissions for 2009 and 2008 were $27,109,337 and $30,289,376, respectively. Investment administrative expenses consist of custodial banking fees and those expenses directly related to OPERS' internal investment operations, and include a proportional amount of overhead that is allocated based on either the ratio of OPERS' Investment Division square footage to total office square footage or investment personnel to total OPERS personnel, as appropriate.

c. **Capital Assets**—Capital assets are recorded at cost. OPERS has adopted a capitalization threshold that is used to identify whether assets purchased by the System are classified as capital assets or operating expenses. Building enhancements, furniture and equipment with a cost equal to or greater than $5,000 and computer software purchases of $25,000 or more are recorded as capital assets and depreciated based on the useful life of the asset. OPERS implemented GASB 51 in 2008 for internally developed software and capitalizes software projects in accordance with this standard.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets according to the following schedule:

### Straight-line Method of Computing Depreciation

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

The table below is a schedule of the capital asset account balances as of December 31, 2008, and changes to those account balances during the year ended December 31, 2009.

## Capital Asset Account Balances

| | Land | Building and Building Improvements | Furniture, Fixtures and Equipment | Total Capital Assets |
|---|---|---|---|---|
| **Cost:** | | | | |
| Balances, December 31, 2008 | $3,734,813 | $111,672,299 | $70,931,247 | $186,338,359 |
| Additions | | 116,768 | 6,172,097 | 6,288,865 |
| Write-offs | | (136,405) | (3,409,603) | (3,546,008) |
| Balances, December 31, 2009 | 3,734,813 | 111,652,662 | 73,693,741 | 189,081,216 |
| **Accumulated Depreciation:** | | | | |
| Balances, December 31, 2008 | | 15,704,196 | 53,112,813 | 68,817,009 |
| Depreciation Expense | | 2,336,645 | 7,512,278 | 9,848,923 |
| Write-offs | | (17,662) | (3,075,990) | (3,093,652) |
| Balances, December 31, 2009 | | 18,023,179 | 57,549,101 | 75,572,280 |
| **Net Capital Assets, December 31, 2009** | **$3,734,813** | **$93,629,483** | **$16,144,640** | **$113,508,936** |

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

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

f. **Funds**—In accordance with the ORC and Internal Revenue Service (IRS) regulations, various funds have been established to account for the reserves held for future and current benefit payments. Statutory and IRS-mandated funds within each of the three pension plans are as follows:

### Traditional Plan

- ***The Employees' Savings Fund***—represents members' contributions held in trust pending their refund or transfer to a benefit disbursement fund. Upon an employee's refund or retirement, such employee's account is credited with an amount of interest (statutory interest) on the employee's contributions based on a Board of Trustees approved rate in effect, which can range from 1% to 4%. Employees eligible for a refund also receive additional funds from the Employers' Accumulation Fund, if qualified. The ORC Chapter 145 requires statutory interest to be compounded annually.
- ***The Employers' Accumulation Fund***—is used to accumulate employers' contributions to be used in providing the reserves required for transfer to the Annuity and Pension Reserve Fund as members retire or become eligible for disability benefits, and to the Survivors' Benefit Fund for benefits due dependents of deceased members.

- ***The Employers' Accumulation Health Care Fund***—is used to accumulate employers' contributions to be used in providing the reserves required for transfer to the Annuity and Pension Reserve and Survivors' Benefit Funds for health care benefits paid for retirees and dependents of deceased members.
- ***The Annuity and Pension Reserve Fund***—is the fund from which annuity, disability, and health care benefits that do not exceed the IRC 415(b) limitations are paid. This reserve was fully funded according to the latest actuarial study dated December 31, 2008. Accordingly, sufficient assets are available in this fund to pay the vested pension benefits of all retirees and beneficiaries as of the valuation date.
- ***The Survivors' Benefit Fund***—is the fund from which benefits due dependents of deceased members of the System that do not exceed the IRC 415(b) limitations are paid. This fund also was fully funded in relation to vested pension benefits as of December 31, 2008.
- ***Qualified Excess Benefit Arrangement (QEBA)***—is the fund from which annuity, disability and survivors' benefits are paid when the recipient exceeds the IRC 415(b) limits. This reserve is funded by employer contributions on an as-needed basis; therefore, it is fully funded.
- ***The Income Fund***—is the fund credited with all investment earnings and miscellaneous income. Annually, the balance in this fund is transferred to other funds to aid in the funding of future benefit payments and administrative expenses.
- ***The Expense Fund***—provides for the payment of administrative expenses with the necessary monies allocated to it from the Income Fund.

### Member-Directed Plan

- ***The Defined Contribution Fund***—represents members' and employers' contributions held in trust pending their refund or commencement of benefit payments. Members self-direct the investment of these funds. Employer funds vest with the member over a five-year period at a rate of 20% per year.
- ***The Annuity and Pension Reserve Fund***—is the fund from which annuity benefits are paid. Upon retirement, Member-Directed participants may elect to liquidate their defined contribution accounts for deposit into a defined benefit annuity. The value of the annuity is based on the value of the defined contribution account at the time of liquidation.
- ***The Income Fund***—is the fund credited with all investment earnings and miscellaneous income. The balance in this fund is used to fund the gains or losses incurred by participants and to fund administrative expenses of the Member-Directed Plan.
- ***The Expense Fund***—provides for the payment of administrative expenses with the necessary monies allocated to it from the Income Fund.
- ***The Voluntary Employees' Beneficiary Association (VEBA) Fund***—is the fund used to accumulate employer contributions in a retiree medical account. The effective date of the VEBA program coincides with the effective date of the Member-Directed Plan. Accordingly, since January 1, 2003, a portion of employer contributions made on behalf of members electing to participate in the Member-Directed Plan has been deposited to the VEBA. Upon termination, Member-Directed participants can use vested VEBA funds for reimbursements of qualified medical expenses. VEBA funds vest with the member over a five-year period.

### Combined Plan

- ***The Defined Contribution Fund***—represents members' contributions held in trust pending their refund or commencement of benefit payments. Members self-direct the investment of these funds.
- ***The Employees' Savings Fund***—represents members' deposits for the purchase of service credit held in trust pending their refund or transfer to the Annuity and Pension Reserve or Survivors' Benefit Funds. Upon an employee's refund or retirement, such employee's accounts are credited with an amount of interest (statutory interest) on the employee's deposits based on a rate of 1%.
- ***The Employers' Accumulation Fund***—is used to accumulate employers' contributions to be used in providing the reserves required for transfer to the Annuity and Pension Reserve Fund as members retire. Disability and survivor benefits are funded by transfers to Traditional Plan funds, which pay such benefits.
- ***The Employers' Accumulation Health Care Fund***—is used to accumulate employers' contributions to be used in providing health care benefits to retirees and dependents of deceased members.
- ***The Annuity and Pension Reserve Fund***—is the fund from which retirement allowances and health-care benefits are paid. This reserve was fully funded according to the latest actuarial study dated December 31, 2008.
- ***Qualified Excess Benefit Arrangement (QEBA)***—is the fund from which annuity benefits exceeding the IRC 415(b) limits are paid for the defined benefit portion of the Combined Plan. As of December 31, 2009, there were no benefits being paid out of the fund to Combined Plan participants.
- ***The Income Fund***—is the fund credited with all investment earnings and miscellaneous income. The balance in this fund is transferred to other funds to the credit of the member account and to aid in the funding of future benefit payments and administrative expenses.
- ***The Expense Fund***—provides for the payment of administrative expenses with the necessary monies allocated to it from the Income Fund.

The statutory funds defined by ORC 145 and the IRC-required funds are not mutually exclusive. The Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets are presented based on IRC requirements. The following schedule provides the values of the statutory funds and how they are distributed among the various retirement and health care plans administered by the System. The rows represent the statutory funds required by the ORC. In total, these funds will equal the fiduciary net assets of the System. To support the fiduciary net assets for each plan included in the statements, the schedule has been expanded to include the value of the statutory funds as they relate to each plan.

Statutory and IRC Fund balances at December 31, 2009 and 2008 are as follows:

## Statutory and IRC Fund Balances (as of December 31, 2009 and 2008)

| For Year Ended December 31, 2009 | Traditional Plan | Post-employment Health Care | Combined Plan | Member-Directed Plan | VEBA | Total |
|---|---|---|---|---|---|---|
| Employees' Savings Fund | $11,932,873,455 | | $768,977 | $(99) | | $11,933,642,333 |
| Employers' Accumulation Fund | 8,508,596,858 | $11,415,195,274 | 102,108,811 | 105,609 | | 20,026,006,552 |
| Annuity and Pension Reserve Fund | 35,615,840,849 | | 251,905 | 102,422 | | 35,616,195,176 |
| Survivors' Benefit Fund | 1,472,264,995 | | | | | 1,472,264,995 |
| Defined Contribution Fund | | | 120,255,104 | 200,380,138 | $55,784,131 | 376,419,373 |
| Income Fund | 95,184,666 | | | | | 95,184,666 |
| Expense Fund | 5,663,134 | | | | | 5,663,134 |
| **Total** | **$57,630,423,957** | **$11,415,195,274** | **$223,384,797** | **$200,588,070** | **$55,784,131** | **$69,525,376,229** |

| For Year Ended December 31, 2008 | Traditional Plan | Post-employment Health Care | Combined Plan | Member-Directed Plan | VEBA | Total |
|---|---|---|---|---|---|---|
| Employees' Savings Fund | $11,545,651,011 | | $557,956 | | | $11,546,208,967 |
| Employers' Accumulation Fund | 3,832,714,973 | $9,596,082,077 | 74,976,136 | $(39,679) | | 13,503,733,507 |
| Annuity and Pension Reserve Fund | 32,410,136,478 | | 73,758 | 171,800 | | 32,410,382,036 |
| Survivors' Benefit Fund | 1,418,388,692 | | | | | 1,418,388,692 |
| Defined Contribution Fund | | | 63,342,635 | 117,209,900 | $36,333,066 | 216,885,601 |
| Income Fund | 100,226,117 | | | | | 100,226,117 |
| Expense Fund | 5,693,883 | | | | | 5,693,883 |
| **Total** | **$49,312,811,154** | **$9,596,082,077** | **$138,950,485** | **$117,342,021** | **$36,333,066** | **$59,201,518,803** |

g. **Risk Management**—OPERS is exposed to various risks of loss related to theft of, damage to, and destruction of assets; injuries to employees; and court challenges to fiduciary decisions. To cover these risks OPERS maintains commercial insurance and holds fidelity bonds on employees. There were no reductions in coverage nor have there been any settlements exceeding insurance coverage for the past three years. As required by state law, OPERS is registered and insured through the state of Ohio Bureau of Workers' Compensation for injuries to employees. OPERS is self-insured for employee health care coverage. The only outstanding liabilities at the end of 2009 and 2008 were related to the employee health care coverage (see Note 7).

h. **Reclassifications**—Certain 2008 balances have been reclassified to conform with the current-year presentation.

## 3. Cash and Investments

A summary of cash and short-term securities and investments held at December 31, 2009 and 2008 is as follows:

### Summary of Cash and Short-term Securities and Investments (held at December 31, 2009 and 2008)

| | 2009 Fair Value | 2008 Fair Value |
|---|---|---|
| **Cash and Short-Term Investments:** | | |
| Cash | $28,420,420 | $73,288,487 |
| Short-Term Securities: | | |
| Commercial Paper | 611,781,530 | 172,632,458 |
| U.S. Treasury Obligations | 154,241,956 | 88,587,414 |
| Agency Discount Notes | 19,993,800 | 856,879 |
| Repurchase Agreements | | 460,994,550 |
| Corporate Bonds | 67,999,859 | 1,290,824 |
| Short-Term Investment Funds (STIF) | 860,100,507 | 631,981,881 |
| Total Short-Term Securities | $1,714,117,652 | $1,356,344,006 |
| **Total Cash and Short-Term Investments** | **$1,742,538,072** | **$1,429,632,493** |
| **Investments:** | | |
| Global Bonds: | | |
| U.S. Corporate Bonds | $5,803,060,011 | $5,329,750,656 |
| Non-U.S. Notes/Bonds | 2,057,102,873 | 1,556,255,062 |
| U.S. Government and Agencies | 6,708,199,352 | 7,427,099,632 |
| U.S. Mortgage Backed | 3,027,467,035 | 4,124,931,034 |
| Total Global Bonds | $17,595,829,271 | $18,438,036,384 |
| Domestic Equities | $27,453,509,267 | $21,213,241,995 |
| Real Estate | 3,694,743,478 | 4,310,187,602 |
| Private Equities | 2,517,941,421 | 2,273,855,772 |
| International Equities | 15,557,500,820 | 11,053,888,253 |
| **Total Investments Before Collateral** | **$66,819,524,257** | **$57,289,210,006** |
| Collateral on Loaned Securities: | | |
| Cash | $9,978,449,975 | $7,665,906,536 |
| **Total Collateral on Loaned Securities** | **$9,978,449,975** | **$7,665,906,536** |
| **Total Investments Including Collateral** | **$76,797,974,232** | **$64,955,116,542** |

a. **Custodial Credit Risk, Deposits**—Custodial credit risk for deposits is risk that, in the event of the failure of a depository financial institution, OPERS will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. At December 31, 2009, the carrying amounts of OPERS' non-investment cash deposits totaled $497,702 and the corresponding bank balance totaled $10,660,660, of which $10,410,660 was uninsured and uncollateralized. Deposits held in the investment-related bank account were neither insured nor collateralized for amounts in excess of FDIC insurance limits. As of December 31, 2009, the carrying amounts of OPERS' investment related bank accounts totaled $27,922,469 of which $24,358,057 were neither insured nor collateralized. OPERS has no formal policy specific to custodial credit risk. These assets are under the custody of the Treasurer of the state of Ohio.

b. **Custodial Credit Risk, Investments**—Custodial credit risk for investments is the risk that, in the event of the failure of the custodian, OPERS will not be able to recover the value of its investment or collateral securities that are in the possession of the custodian. Since the Treasurer of the state of Ohio, as custodian, holds all investments in the name of OPERS or its nominee, OPERS' investments are not exposed to custodial credit risk.

**c. Credit Risk**—Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by ratings assigned by a nationally recognized statistical rating organization.

*OPERS' Public Fixed Income Policy* includes limiting non-investment grade securities to 30% of the Public Fixed Income assets within the Defined Benefit portfolio, Health Care portfolio, fixed income components of any Target Date Funds and fixed income funds offered directly to OPERS members. Limitations on holdings of non-investment grade securities are included in portfolio guidelines.

**d. Interest Rate Risk**—Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. OPERS monitors the interest rate risk inherent in its portfolio by measuring the weighted average duration of its portfolio. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The effective duration measures the sensitivity of the market price to parallel shifts in the yield curve. The *OPERS Public Fixed Income Policy* states for the Defined Benefit and Health Care portfolios, the Public Fixed Income duration will be within 20% of the option-adjusted duration of the aggregate option-adjusted duration of the Public Fixed Income asset class, excluding the Liquidity Funds. The Liquidity Funds' durations may range from zero to 120% of the average option-adjusted duration.

The following table presents the credit quality ratings and effective durations of OPERS' global bond assets, including short-term investments as of December 31, 2009.

## Average Credit Quality and Exposure Levels of Guaranteed Securities

| Fixed Income Security Type | Fair Value | Percent of All Fixed Income Assets | Weighted Average Duration to Maturity (years) | AAA | AA |
|---|---|---|---|---|---|
| Commercial Paper | $611,781,530 | 3.2% | 0.00 | $554,344,794 | $57,436,736 |
| Short Term—Other | 67,999,859 | 0.4 | 0.00 | 35,000,000 | |
| Money Market/STIF | 860,100,506 | 4.5 | 0.00 | 860,100,506 | |
| Corporate Bonds | 4,879,888,647 | 25.3 | 7.50 | 478,591,755 | 596,657,042 |
| Municipal Bonds | 251,029,759 | 1.3 | 8.95 | 35,391,533 | 94,779,534 |
| Asset Backed Securities | 557,165,236 | 2.9 | 1.06 | 292,908,652 | 60,607,930 |
| Collateralized Mortgage Obligations | 385,018,976 | 2.0 | 1.09 | 319,065,409 | 27,730,806 |
| Mortgages | 236,092,084 | 1.2 | 2.92 | 66,174,709 | 8,219,736 |
| Non-U.S. Corporate Bonds | 1,425,579,070 | 7.4 | 6.59 | 287,876,110 | 157,095,986 |
| Non-U.S. Mortgage | 28,242,218 | 0.1 | 0.34 | 13,123,617 | |
| Non-U.S. Asset Backed Securities | 2,250 | 0.0 | 0.00 | | |
| Non-U.S. Government | 603,279,335 | 3.1 | 7.23 | 67,098,306 | 3,828,500 |
| Commingled Long-Term Global Funds | 215,181,132 | 1.1 | 1.69 | | |
| Agency Mortgages | 2,306,151,212 | 11.9 | 3.01 | 2,306,151,212 | |
| Agency Bonds | 602,855,292 | 3.1 | 5.47 | 556,847,240 | |
| Agency Discount Note | 19,993,800 | 0.1 | 0.28 | 19,993,800 | |
| **Total Non-Government Guaranteed** | **$13,050,360,906** | **67.6%** | | **$5,892,667,643** | **$1,006,356,270** |
| U.S. Treasury Notes | $1,453,787,204 | 7.5% | 3.23 | $1,453,787,204 | |
| U.S. Treasury Bonds | 2,257,863,305 | 11.7 | 12.26 | 2,257,863,305 | |
| U.S. Strips | 91,002,574 | 0.5 | 10.10 | 91,002,574 | |
| U.S. Treasury Inflation Protected | 2,302,690,977 | 11.9 | 8.01 | 2,302,690,977 | |
| U.S. Treasury Discount Notes | 154,241,956 | 0.8 | 0.42 | 154,241,956 | |
| **Total Global Bonds and Short-Term Securities** | **$19,309,946,922** | **100.0%** | **6.64** | **$12,152,253,659** | **$1,006,356,270** |

e. **Concentration of Credit Risk**—Concentration of credit risk is the risk of loss that may be attributed to the magnitude of an investment in a single issuer. As of December 31, 2009, OPERS' portfolio has no single issuer exposure that comprises 5% or more of the overall portfolio. Therefore, there is no concentration of credit risk.

f. **Foreign Currency Risk**—Foreign currency risk is the risk that changes in exchange rates will adversely impact the local currency value of an investment. OPERS' foreign currency exposures primarily reside within OPERS' non-U.S. investment holdings. OPERS' implementation policy is to allow OPERS' external managers to decide what action to take within approved portfolio guidelines, regarding their respective portfolio's foreign currency exposures using forward-currency contracts.

### Average Credit Quality and Exposure Levels of Guaranteed Securities (continued)

| A | BBB | BB | B | CCC | CC | C | D | Not Rated |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| | | | | | | | | $32,999,859 |
| | | | | | | | | |
| $1,624,659,680 | $1,719,996,535 | $166,997,906 | $218,345,517 | $51,707,117 | $4,881,100 | | $96,236 | 17,955,759 |
| 109,835,373 | 11,023,319 | | | | | | | |
| 32,783,344 | 12,019,486 | 48,228,159 | 37,137,700 | 38,256,518 | 8,006,198 | | 27,217,249 | |
| 15,461,120 | 14,385,075 | 6,495,345 | | 1,881,221 | | | | |
| 1,362,121 | 23,958,200 | 10,557,626 | 20,905,481 | 47,925,992 | 49,186,166 | $1,100,529 | 4,708,652 | 1,992,872 |
| 249,796,960 | 605,254,013 | 25,576,814 | 47,530,904 | 11,442,426 | 6,807,375 | | 1,904,500 | 32,293,982 |
| 1,420,741 | 4,721,167 | | 280,946 | 945,747 | | 7,750,000 | | |
| | | | | | 2,250 | | | |
| 82,110,351 | 271,367,953 | 112,511,076 | 17,404,323 | 2,886,076 | | | 6,547,486 | 39,525,264 |
| | | | | | | | | 215,181,132 |
| | | | | | | | | |
| 26,048,652 | | | | | | | | 19,959,400 |
| | | | | | | | | |
| **$2,143,478,342** | **$2,662,725,748** | **$370,366,926** | **$341,604,871** | **$155,045,097** | **$68,883,089** | **$8,850,529** | **$40,474,123** | **$359,908,268** |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| **$2,143,478,342** | **$2,662,725,748** | **$370,366,926** | **$341,604,871** | **$155,045,097** | **$68,883,089** | **$8,850,529** | **$40,474,123** | **$359,908,268** |

OPERS' exposure to foreign currency risk in U.S. dollars as of December 31, 2009 is as follows:

## Exposure to Foreign Currency Risk in U.S. Dollars (as of December 31, 2009)

| Currency | Cash | Forwards | Global Bonds | International Equities | Real Estate | Private Equities |
|---|---|---|---|---|---|---|
| Argentine Peso | $656,358 | | $171,876 | | | |
| Australian Dollar | 1,143,768 | | | $211,562,033 | | |
| Brazilian Real | 4,097,083 | $(14,041,273) | 31,378,079 | 139,773,283 | | |
| British Pound Sterling | 1,874,782 | | | 1,268,274,607 | $5,320,809 | $30,334,351 |
| Canadian Dollar | 569,245 | | | 190,245,310 | | |
| Colombian Peso | | (3,388,255) | 9,565,672 | | | |
| Czech Koruna | 6,215 | | | 9,831,453 | | |
| Danish Krone | 646,861 | | | 47,589,523 | | |
| Egyptian Pound | 345 | | 963,437 | 2,303,200 | | |
| Euro Currency | 14,822,937 | (22,622,236) | 6,529,952 | 1,959,740,509 | 63,361,264 | 222,831,892 |
| Hong Kong Dollar | 1,635,946 | | | 518,974,400 | | |
| Hungarian Forint | 95,414 | (228,318) | 384,357 | 16,113,212 | | |
| Indian Rupee | 233,847 | | | 49,566,376 | | |
| Indonesian Rupiah | 57,391 | | 9,007,050 | 15,692,291 | | |
| Israeli Shekel | 134,600 | (474,040) | 964,631 | 27,411,768 | | |
| Japanese Yen | 3,432,572 | (20,703,670) | 2,530,558 | 1,245,562,356 | | |
| Malaysian Ringgit | 307,326 | | 3,903,409 | 49,574,203 | | |
| Mexican Peso (new) | 309,032 | 2,570,522 | 14,578,623 | 52,694,119 | | |
| New Zealand Dollar | 132,358 | | | 4,455,163 | | |
| Norwegian Krone | 854,089 | | | 26,968,881 | | |
| Philippine Peso | 4,976 | | | 4,357,303 | | |
| Polish Zolty | 29,049 | (1,039,778) | 7,422,994 | 18,505,547 | | |
| Singapore Dollar | 536,479 | | | 67,993,132 | | |
| South African Rand | 1,484,509 | 3,790,394 | | 56,919,994 | | |
| South Korean Won | 156,669 | | 3,407,836 | 245,800,217 | | |
| Swedish Krona | 1,429,151 | | | 100,201,447 | | |
| Swiss Franc | 1,457,366 | | | 302,323,856 | | |
| Taiwan Dollar (new) | 4,837,810 | | | 149,988,813 | | |
| Thailand Baht | 3,080 | | 1,929,848 | 51,799,612 | | |
| Turkish Lira (new) | 716,739 | (5,720,165) | 13,613,897 | 79,121,548 | | |
| Uruguay Peso | 7,884 | | 3,605,852 | | | |
| **Total** | **$41,673,881** | **$(61,856,819)** | **$109,958,070** | **$6,913,344,157** | **$68,682,073** | **$253,166,243** |

g. **Securities Lending**—OPERS maintains a securities lending program. OPERS uses its discretion to determine the type and amount of securities lent under the program. Under this program securities are loaned to brokers. In return, OPERS receives cash collateral and agrees to return the collateral for the same securities in the future. Cash collateral from securities loaned is, simultaneous to the loan, reinvested in repurchase agreements (repos) and short-term securities. Securities loaned are collateralized at a minimum of 102% of the market value of loaned U.S. securities and 105% of the market value of loaned international securities. Collateral is marked-to-market daily. OPERS does not have the ability to pledge or sell collateral securities absent a broker default. If the market value of the collateral held falls below the required levels, additional collateral is provided. The securities lending industry has been adversely affected by the financial turmoil over the last 18 months, resulting in a decline in fair value of the reinvested cash collateral. In 2009, OPERS injected $79.8 million into the securities lending program so that the fair value of reinvested cash collateral equaled the liability for collateral held.

   As of December 31, 2009, the fair value of securities on loan was $9,669,288,909. Associated collateral totaling $9,978,449,975 was comprised of cash.

   As of December 31, 2008, the fair value of securities on loan was $7,429,831,435. Associated collateral totaling $7,665,906,536 was comprised of cash.

   Net security lending income/(loss) is composed of four components: gross income, broker rebates, agent fees and unrealized gain/(loss) on collateral. Gross income is equal to earnings on cash collateral received in a security lending transaction. A broker rebate is the cost of using that cash collateral. Agent fees represent the fees paid to the agent for administering the lending program. Unrealized gain/(loss) results from the change in fair value of the reinvested cash collateral. Net security lending income is equal to gross income less broker rebates, agent fees, and unrealized loss on collateral. Security lending income for 2009 and 2008 was recorded on a cash basis, which approximated accrual basis.

h. **Derivatives**—Derivatives are generally defined as contracts whose values depend on, or are derived from, the value of an underlying asset, reference rate or index. OPERS has classified the following as derivatives:

   - ***Forward-Currency Contracts***—OPERS enters into various forward-currency contracts to manage exposure to changes in foreign-currency exchange rates on its foreign portfolio holdings. The System may also enter into forward-currency exchange contracts to provide a quantity of foreign currency needed at a future time at the current exchange rates, if rates are expected to change dramatically. A forward-exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risk associated with such contracts includes movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. The contracts are valued at forward-exchange rates, and the changes in value of open contracts are recognized as net appreciation/depreciation in the statement of changes in fiduciary net assets. The realized gain or loss on forward-currency contracts represents the difference between the value of the original contracts and the closing value of such contracts and is included as net appreciation/depreciation in the Combining Statements of Changes in Fiduciary Net Assets.

The fair values of forward-currency contracts and contracts hedged were as follows:

**Fair Values of Forward-Currency and Hedged Contracts** (as of December 31, 2009 and 2008)

| | 2009 | 2008 |
|---|---|---|
| Forward-currency purchases | $148,190,879 | $139,402,978 |
| Forward-currency sales | 206,832,609 | 203,413,538 |
| Unrealized gain (loss) | 1,259,414 | 1,958,700 |

- ***Stock Index Futures Contracts***—OPERS enters into various stock index futures contracts to manage exposure to changes in foreign equity markets and to take advantage of equity index movements on an opportunistic basis. A stock index future is a futures contract that uses a stock index as its base, and which is settled by cash or delivery of the underlying stocks in the index. Financial futures represent an off-balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts; however, the realized and unrealized gains and losses on futures are recorded in the Combining Statement of Changes in Fiduciary Net Assets. Futures contracts differ from forward contracts by their standardization, exchange trading, margin requirements, and daily settlement (marking to market). Risk associated with stock index futures contracts includes adverse movements in the underlying stock index. The following table shows the futures positions held by OPERS as of December 31, 2009 and 2008.

**Futures Positions Held** (as of December 31, 2009 and 2008)

| | 2009 | | 2008 | |
|---|---|---|---|---|
| Stock Index Futures | Number of Contracts | Contract Principal | Number of Contracts | Contract Principal |
| Equity Index Futures purchased long | 25,015 | $1,458,950,565 | 13,168 | $613,872,785 |
| U.S. Treasury Futures purchased long | 0 | 0 | 392 | 47,695,016 |
| U.S. Treasury Futures purchased short | 0 | 0 | (118) | (14,930,813) |
| Euro Futures purchased short | 0 | 0 | (24) | (5,929,500) |

- ***Total Return Swaps***—OPERS may manage market exposure through the use of total return swaps. A total return swap is an agreement in which one party commits to pay a fee in exchange for a return linked to the market performance of an underlying security, group of securities, index or other asset (reference obligation). Risks may arise if the value of the swap acquired decreases because of an unfavorable change in price of the reference obligation or the counterparty's ability to meet the terms of the contract. As of December 31, 2009, OPERS held total return swaps with a notional value of $248,580,679. The unrealized loss at December 31, 2009 was $3,142,325.

## 4. Vacation and Sick Leave

As of December 31, 2009 and 2008, $6,561,898 and $6,048,576, respectively, were accrued for unused vacation and sick leave for OPERS' employees. Employees who resign or retire are entitled to full compensation for all earned but unused vacation leave. Unused sick leave pay is forfeited upon termination. However, employees who retire with more than 10 years of service with OPERS are entitled to receive payment for a percentage of their unused sick leave.

## 5. Deferred Compensation Plan

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

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

## 6. Schedule of Required Contributions

All employees of OPERS are eligible for membership in the benefit plans of the System. The annual required pension and health care contributions for OPERS' employees for the years ended December 31, 2009, 2008 and 2007 are as follows:

### Annual Required Pension and Health Care Contributions

| | Pension | | Health Care | |
|---|---|---|---|---|
| Year Ended | Annual Required Contribution | Percent Contributed | Annual Required Contribution | Percent Contributed |
| 2009 | $3,225,327 | 100% | $2,320,470 | 100% |
| 2008 | 2,673,093 | 100 | 2,673,093 | 100 |
| 2007 | 3,109,122 | 100 | 2,046,417 | 100 |

Under GASB 51, internal payroll related to the implementation of capital projects is capitalized as part of the fixed asset cost. OPERS implemented GASB 51 at the end of 2008, and began capitalizing internal labor costs effective January 1, 2009. The capitalized cost includes salary and wages as well as the corresponding employer paid Medicare and OPERS contribution expenses. The portion of the 2009 annual required contribution included in fixed assets was $71,868 for pension and $55,519 for health care.

## 7. Self-insured Employee Health Care

OPERS is self-insured under a professionally administered plan for general health, hospitalization, and prescription drug employee benefits. OPERS maintained specific stop-loss coverage per employee for medical benefits in the amount of $250,000 for both 2009 and 2008. OPERS has a lifetime maximum coverage per employee for medical benefits in the amount of $2,500,000.

Employees share in the cost of coverage by payroll deductions which are netted against the claims cost. Employee deductions and vendor rebates totaled $739,774 in 2009 and $693,615 in 2008. The summary of changes in incurred but not reported claims for the years ended December 31, 2009 and 2008 follows:

### Employee Health Insurance

| | 2009 | 2008 |
|---|---|---|
| Balance January 1 | $22,166 | $71,907 |
| Claims Incurred | 5,239,131 | 3,891,949 |
| Claims Paid | (5,250,689) | (3,941,690) |
| **Balance December 31** | **$10,608** | **$22,166** |

The liability for self-insured employee health care is included in Accounts Payable and Other Liabilities on the Combining Statements of Fiduciary Net Assets.

## 8. Pension and Health Care Plans

The funded status of the Pension and Health Care plans as of December 31, 2008, the most recent actuarial valuation date, is as follows:

### Funded Status of the Pension and Health Care Plans ($ in thousands)

| Plan | Actuarial Accrued Liabilities (AAL) | Valuation Assets | Unfunded Actuarial Accrued Liabilities (UAAL) | Ratio of Assets to AAL | Active Member Payroll | UAAL as a % of Active Member Payroll |
|---|---|---|---|---|---|---|
| Pension Total: | $73,466,166 | $55,315,148 | $18,151,018 | 75% | $12,801,000 | 142% |
| Traditional Plan | 73,346,000 | 55,230,000 | 18,116,000 | 75 | 12,546,000 | 144 |
| Combined Plan | 120,000 | 85,000 | 35,000 | 71 | 255,000 | 14 |
| Member-Directed Plan | 166 | 148 | 18 | 89 | N/A | N/A |
| Health Care | 29,623,000 | 10,748,000 | 18,875,000 | 36 | 12,801,000 | 147 |

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 assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future. The Schedules of Funding Progress present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Schedules of Funding Progress for defined pension benefits and post-employment health care are presented on pages 62-63 of the Required Supplementary Information section of this document.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the Actuarial Required Contribution rate (ARC), an amount that is actuarially determined in accordance with the parameters of GASB Statements 25 and 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

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 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. Key methods and assumptions used in the latest actuarial valuations are presented below.

## Key Methods and Assumptions Used in Pension and Health Care Actuarial Valuations

| Actuarial Information | Pension (Traditional and Combined Plans) | Health Care |
|---|---|---|
| Valuation date | December 31, 2008 | December 31, 2008 |
| Actuarial cost method | Individual entry age | Individual entry age |
| Amortization method | Level percentage of pay, open | Level percentage of pay, open |
| Amortization period: | | 30 years |
| Traditional Plan | 30 years | |
| Combined Plan | 4 years | |
| Asset valuation method | 4-year, smoothed market, 12% corridor | 4-year, smoothed market, 12% corridor |
| Actuarial assumptions: | | |
| Investment rate of return | 8.00% | 6.50% |
| Projected salary increases | 4.5%-10.3% (includes wage inflation at 4.0%) | 4.5%-10.3% (includes wage inflation at 4.0%) |
| Health care cost trend rate | N/A | 7.0% initial, 4.0% ultimate |

## Schedule of Funding Progress* ($ in millions) — All Pension Plans

| Valuation Year | Actuarial Accrued Liabilities (AAL) | Valuation Assets | Unfunded Actuarial Accrued Liabilities (UAAL) | Ratio of Assets to AAL | Active Member Payroll | UAAL as a % of Active Member Payroll |
|---|---|---|---|---|---|---|
| 2008 | $73,466 | $55,315 | $18,151 | 75% | $12,801 | 142% |
| 2007 | 69,734 | 67,151 | 2,583 | 96 | 12,583 | 21 |
| 2006 | 66,161 | 61,296 | 4,865 | 93 | 12,175 | 40 |
| 2005# | 62,498 | 54,473 | 8,025 | 87 | 11,807 | 68 |
| 2005#* | 61,146 | 54,473 | 6,673 | 89 | 11,807 | 57 |
| 2004 | 57,604 | 50,452 | 7,152 | 88 | 11,454 | 62 |
| 2003 | 54,774 | 46,746 | 8,028 | 85 | 11,165 | 72 |

* The amounts reported on this schedule do not include assets or liabilities for post-employment health care benefits.
#* Results from original valuation prior to re-statement after completion of experience study.
# Revised actuarial assumptions based on experience study.

## Schedule of Funding Progress* ($ in millions) — Traditional Plan

| Valuation Year | Actuarial Accrued Liabilities (AAL) | Valuation Assets | Unfunded Actuarial Accrued Liabilities (UAAL) | Ratio of Assets to AAL | Active Member Payroll | UAAL as a % of Active Member Payroll |
|---|---|---|---|---|---|---|
| 2008 | $73,346 | $55,230 | $18,116 | 75% | $12,546 | 144% |
| 2007 | 69,639 | 67,067 | 2,572 | 96 | 12,347 | 21 |
| 2006 | 66,089 | 61,235 | 4,854 | 93 | 11,971 | 41 |
| 2005# | 62,447 | 54,433 | 8,014 | 87 | 11,633 | 69 |
| 2005#* | 61,099 | 54,433 | 6,666 | 89 | 11,633 | 57 |
| 2004 | 57,573 | 50,430 | 7,143 | 88 | 11,313 | 63 |
| 2003 | 54,756 | 46,737 | 8,019 | 85 | 11,056 | 73 |

* The amounts reported on this schedule do not include assets or liabilities for post-employment health care benefits.
#* Results from original valuation prior to re-statement after completion of experience study.
# Revised actuarial assumptions based on experience study.

See Notes to Required Supplementary Information, beginning on page 66.

See accompanying independent auditor’s report on pages 18-19.

## Schedule of Funding Progress* ($ in millions) — Combined Plan**

| Valuation Year | Actuarial Accrued Liabilities (AAL) | Valuation Assets | Unfunded Actuarial Accrued Liabilities (UAAL) | Ratio of Assets to AAL | Active Member Payroll | UAAL as a % of Active Member Payroll |
|---|---|---|---|---|---|---|
| 2008 | $120 | $85 | $35 | 71% | $255 | 14% |
| 2007 | 95 | 84 | 11 | 88 | 236 | 5 |
| 2006 | 72 | 61 | 11 | 85 | 205 | 5 |
| 2005# | 51 | 40 | 11 | 78 | 174 | 6 |
| 2005#* | 47 | 40 | 7 | 85 | 174 | 4 |
| 2004 | 31 | 22 | 9 | 71 | 141 | 6 |
| 2003 | 18 | 9 | 9 | 50 | 109 | 8 |

* The amounts reported on this schedule do not include assets or liabilities for post-employment health care benefits.
** Plan inception January 1, 2003. Values include defined benefits and defined contribution accounts annuitized at retirement.
#* Results from original valuation prior to re-statement after completion of experience study.
# Revised actuarial assumptions based on experience study.

## Schedule of Funding Progress* ($ in thousands) — Member-Directed Annuities**

| Valuation Year | Actuarial Accrued Liabilities (AAL) | Valuation Assets | Unfunded Actuarial Accrued Liabilities (UAAL) | Ratio of Assets to AAL | Active Member Payroll | UAAL as a % of Active Member Payroll |
|---|---|---|---|---|---|---|
| 2008 | $166 | $148 | $18 | 89% | N/A | N/A |

* The amounts reported on this schedule do not include assets or liabilities for post-employment health care benefits.
** Plan inception January 1, 2003. Values represent defined contribution accounts annuitized at retirement. Actuarial data for retired members not available prior to 2008.

## Schedule of Funding Progress*** ($ in millions) — Post-employment Health Care Plan

| Valuation Year | Actuarial Accrued Liabilities (AAL) | Valuation Assets | Unfunded Actuarial Accrued Liabilities (UAAL) | Ratio of Assets to AAL | Active Member Payroll | UAAL as a % of Active Member Payroll |
|---|---|---|---|---|---|---|
| 2008 | $29,623 | $10,748 | $18,875 | 36% | $12,801 | 147% |
| 2007 | 29,825 | 12,801 | 17,024 | 43 | 12,584 | 135 |
| 2006 | 30,748 | 12,025 | 18,723 | 39 | 12,175 | 154 |
| 2005# | 31,796 | 11,070 | 20,726 | 35 | 11,806 | 176 |
| 2005#* | 31,307 | 11,070 | 20,237 | 35 | 11,806 | 171 |
| 2004 | 29,479 | 10,816 | 18,663 | 37 | 11,454 | 163 |

*** GASB 43 was implemented in 2006. Actuarial data prior to 2004 is not available.
#* Results from original valuation prior to re-statement after completion of experience study.
# Revised actuarial assumptions based on experience study.

See Notes to Required Supplementary Information, beginning on page 66.

See accompanying independent auditor's report on pages 18-19.

## Schedule of Employer Contributions* — Traditional and Combined Plans

| Year Ended December 31 | Annual Required Contributions | % Contributed |
|---|---|---|
| 2009 | $1,043,231,908 | 100% |
| 2008 | 913,046,745 | 100 |
| 2007 | 1,071,049,868 | 100 |
| 2006 | 1,110,687,879 | 100 |
| 2005 | 1,122,388,137 | 100 |
| 2004 | 1,069,594,041 | 100 |

## Schedule of Employer Contributions* — Traditional Plan

| Year Ended December 31 | Annual Required Contributions | % Contributed |
|---|---|---|
| 2009 | $1,019,834,609 | 100% |
| 2008 | 892,693,746 | 100 |
| 2007 | 1,051,808,289 | 100 |
| 2006 | 1,092,998,459 | 100 |
| 2005 | 1,106,755,953 | 100 |
| 2004 | 1,057,429,880 | 100 |

## Schedule of Employer Contributions* — Combined Plan**

| Year Ended December 31 | Annual Required Contributions | % Contributed |
|---|---|---|
| 2009 | $23,397,299 | 100% |
| 2008 | 20,352,999 | 100 |
| 2007 | 19,241,579 | 100 |
| 2006 | 17,689,419 | 100 |
| 2005 | 15,632,184 | 100 |
| 2004 | 12,164,161 | 100 |

* The Board of Trustees has approved all contribution rates as recommended by the actuary. Annual required contributions exclude funds deposited for purchase of service credit, employer-paid retirement incentive programs, interest and penalties. These deposits are included in Contract and Other Receipts in the Combining Statements of Changes in Fiduciary Net Assets.

** Plan inception January 1, 2003.

See Notes to Required Supplementary Information, beginning on page 66.

See accompanying independent auditor’s report on pages 18-19.

## Schedule of Contributions from Employers and Other Contributing Entities — Post-employment Health Care

| Year Ended December 31 | Annual Required Contributions | % Contributed by Employers# | Federal Subsidy | Total % Contributed |
|---|---|---|---|---|
| 2009 | $1,698,928,499 | 43.61% | $69,132,772 | 47.67% |
| 2008 | 1,855,720,690 | 48.04 | 63,310,194 | 51.46 |
| 2007 | 2,068,922,571 | 33.64 | 59,075,120 | 36.49 |
| 2006*** | 1,990,561,830 | 27.06 | 58,987,181 | 30.01 |

*** GASB 43 was implemented in 2006.
# The % Contributed by Employers displays the percentage of the annual required contributions that was billed to employers (and paid) each year.

See Notes to Required Supplementary Information, beginning on page 66.

See accompanying independent auditor’s report on pages 18-19.

## Description of Schedule of Funding Progress

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

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

## Actuarial Assumptions and Methods

### Defined Benefit Pension Plans:

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

  As of December 31, 2008, the date of the last actuarial study, the funding period was 30 years for the Traditional Plan and four years for the Combined Plan.

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

- ***Significant Actuarial Assumptions*** employed by the actuary for funding purposes as of December 31, 2008, the date of the latest actuarial study, and 2007 include:

  - ***Investment Return***—An investment return rate of 8%, compounded annually, for all members, retirees and beneficiaries was assumed for the years 2008 and 2007.
  - ***Salary Scale***—The active member payroll was assumed to increase 4% annually, which is the portion of the individual pay increase assumption attributable to inflation and overall productivity. Also assumed were additional projected salary increases, ranging from 0.50% to 6.30% per year depending on age, attributable to seniority and merit.
  - ***Benefit Payments***—Benefit payments are assumed to increase by 3% of the original retirement benefit per year after retirement.

- ***Multiple Decrement Tables:***
  - ***Mortality***—The rates used for retiree allowances in the 2008 and 2007 valuations were 110% of RP-2000 mortality table for males, and 100% of RP-2000 mortality table for females with 15 years of projected mortality improvements. The rates used for disability allowances were the RP-2000 mortality table for disabled lives, setback four years for males and set-forward four years for females. OPERS changed the mortality tables for the December 31, 2006 actuarial valuation based on the results of an experience study.
  - ***Disability***—Projections for active employees are based on OPERS' experience.
  - ***Withdrawal***—Projections for active employees are based on OPERS' experience.

## Post-employment Health Care Benefits:

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

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

- ***Significant Actuarial Assumptions***—Assumptions employed by the actuary for funding purposes as of December 31, 2008, the date of the latest actuarial study, and for 2007 include:
  - ***Investment Return***—An investment return rate of 6.5%, compounded annually, for all members, retirees, and beneficiaries for the years 2008 and 2007.
  - ***Salary Scale***—The active member payroll was assumed to increase 4% annually, which is the portion of the individual pay increase assumption attributable to inflation and overall productivity. Also assumed were additional projected salary increases ranging from 0.50% to 6.30% per year depending on age, attributable to seniority and merit.
  - ***Benefit Payments***—Health-care expenses are assumed to increase at the projected wage inflation rate of 4% plus an additional factor ranging from 0.5% to 3.0% for the next six years. In subsequent years (seven and beyond), health care costs were assumed to increase at the projected wage inflation rate.

- ***Multiple Decrement Tables:***
  - ***Mortality***—The rates used for retiree allowances were 110% of RP-2000 combined mortality table for males, and 100% of RP-2000 combined mortality table for females with 15 years of projected mortality improvements. The rates used for disability allowances were the RP-2000 mortality table for disabled lives, setback four years for males and set-forward four years for females.

## Administrative Expenses (for the years ended December 31, 2009 and 2008)

| | 2009 | 2008 |
|---|---|---|
| **Personnel Expenses:** | | |
| Wages and Salaries | $39,915,131 | $39,501,426 |
| Retirement Contributions—OPERS | 5,418,410 | 5,346,186 |
| Retirement Contributions—Medicare | 530,044 | 521,024 |
| Employee Insurance | 6,108,813 | 4,681,177 |
| Other Personnel Expense | 542,110 | 323,030 |
| **Purchased Services and Supplies:** | | |
| Professional expenses: | | |
| Audit Services | 288,616 | 457,466 |
| Actuarial Services | 793,413 | 656,625 |
| Consulting Services | 1,700,639 | 1,349,495 |
| Investment and Financial Services | 6,489,109 | 7,123,210 |
| Legal and Investigation Services | 1,129,207 | 1,154,059 |
| Medical Examinations | 2,012,552 | 2,006,742 |
| Retirement Study Council | 270,272 | 257,629 |
| Custodial and Banking Fees | 4,308,200 | 2,378,005 |
| Information Technology | 8,024,651 | 8,186,637 |
| Communications | 2,828,828 | 2,623,720 |
| Office Supplies and Equipment | 975,707 | 606,172 |
| Education—Member and Staff | 1,851,054 | 1,673,275 |
| Other Miscellaneous | 38,214 | 120,589 |
| Facility Expenses | 4,822,048 | 4,655,231 |
| **Subtotal Operating Expenses** | **88,047,018** | **83,621,698** |
| **Depreciation Expense:** | | |
| Building | 2,336,419 | 2,329,727 |
| Furniture and Equipment | 7,500,225 | 9,443,004 |
| **Subtotal Depreciation** | **9,836,644** | **11,772,731** |
| **Total Administrative Expenses** | **97,883,662** | **95,394,429** |
| Investment Expenses | (22,038,717) | (21,371,449) |
| **Net Administrative Expenses** | **$75,844,945** | **$74,022,980** |

## Schedule of Investment Expenses (for the years ended December 31, 2009 and 2008)

| | 2009 | 2008 |
|---|---|---|
| Investment Staff Expense | $9,793,809 | $9,892,203 |
| Investment Services | 10,931,213 | 8,968,991 |
| Investment Legal Services* | 381,025 | 708,526 |
| Allocation of Administrative Expenses | 932,670 | 1,801,729 |
| (See Note 2b to Financial Statements) | | |
| **Total Investment Expenses*** | **$22,038,717** | **$21,371,449** |

*Excludes fees and commissions, please see Schedules of Brokerage Commissions Paid beginning on page 82.

## Schedule of Payments to Consultants

| OPERS incurred expenses with the following investment consultants during 2009: | |
|---|---|
| Hamilton Lane Advisors LLC | $525,000 |
| Mercer Investment Consulting | 650,004 |
| Morningstar Inc. | 41,000 |
| Pacific Corporate Group Asset Management LLC | 75,025 |
| Strategic Capital Management AG | 25,000 |
| The Townsend Group | 387,500 |
| **Total** | **$1,703,529** |

## Schedule of External Asset Managers' Fees (for the years ended December 31, 2009 and 2008)

| | 2009 | 2008 |
|---|---|---|
| Global Bonds | $3,577,899 | $6,243,580 |
| Domestic Equities | 7,374,971 | 9,450,980 |
| International Equities | 29,357,927 | 38,065,249 |
| Real Estate | 36,451,377 | 29,585,058 |
| Private Equities | 38,645,629 | 33,021,028 |
| **Total** | **$115,407,803** | **$116,365,895** |

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# Investment Section

In 1966, assets passed the $1 billion threshold, with investments, deposits, and accounts receivable totaling $1,007,650,411. In 1985, celebrating 50 years of service, OPERS had an asset base of $9.18 billion. Now in its 75th year, OPERS has an asset base of more than $69.5 billion as of year-end 2009.

OPERS
1935 2010
Your Trusted Retirement Partner

Dear Members of the OPERS Board of Trustees:

On behalf of the Investment Division, it is a privilege to report on our stewardship of OPERS' investments for the year ending December 31, 2009.

## The Year in Review

Calendar year 2009 will long be remembered as the year that the U.S. financial system recovered from near collapse. The sub-prime mortgage crisis that started the financial crisis caused an $11 trillion decline in equity markets ending in March 2009. The U.S. government responded with an $8 trillion stimulus program to stabilize the banks and the financial markets. The Federal Reserve moved the target rate for overnight loans between banks to near zero. Before year-end 2009, the equity markets would rebound with $6 trillion in gains. The year ended with uncertainty on when the real economy, employment and prosperity would return.

## Recent Market Performance

The beginning of 2009 was a continuation of 2008 as both the public and private equity markets as well as real estate markets were under continued downward pressure.

- The broad-based Russell 3000 equity index declined approximately 23% to its low of the year on March 9, 2009, (following a 37% decline in 2008) before it rallied back to end the year up 28%.
- The international equity markets, as measured by the MSCI All Country World Index (excluding the United States), declined 23% in the first three months of 2009 but finished the year up 41%.
- The global fixed income markets, as evidenced by the Barclays U.S. Universal Index, advanced marginally in the first quarter of 2009 but finished the year up 8.6%.
- Overall, in 2009, many of the markets in which OPERS invests had significant recoveries. The OPERS funds were able to fully participate in these market recoveries due to the Board and staff's discipline in rebalancing the funds allocations in a timely and effective manner.

## Investment Results

Both the OPERS Defined Benefit and Health Care Funds are diversified portfolios of public and private global financial assets. OPERS' total portfolio posted a return of 20.60% for 2009, narrowly missing the benchmark of 20.75%.

- The Defined Benefit Portfolio returned 19.1% for 2009, and underperformed its customized benchmark return of 20.1%. The 1.0% underperformance was largely due to real estate and private equity underperformance as well as the write-down in assets related to securities lending.
- The Health Care Portfolio returned 24.8% during 2009, and outperformed its customized benchmark of 24.1% for the year by 70 basis points largely due to manager outperformance and asset allocation activities.
- The Defined Contribution Portfolio had positive performance for 2009. Of the 16 investment options, eight outperformed their respective benchmarks and eight underperformed.

## Managing the Investment Portfolio

Following the investment experiences of 2008 and early 2009, the Investment Division worked closely with the Board's consultant, Mercer Investment Consulting, on a review of the asset allocations for each of the Defined Benefit and Health Care Funds. The results of that effort are revised Defined Benefit and Health Care asset allocations and investment policies. These changes are designed to improve the projected level of future returns at acceptable levels of risk to better meet future pension and health care benefits. Staff will be implementing the new allocations throughout 2010 and beyond.

The Investment Division has also modified its organizational structure. In 2009, the compliance function was realigned to report directly to the Chief Executive Officer. The risk management function was realigned to report directly to the Chief Investment Officer.

Investing involves managing assets in a world of continual change. Working with the Board and outside consultants, the Investment Division will continue to invest in a manner that meets the challenges of the investment environment.

Respectfully,

John C. Lane
Chief Investment Officer

## Board Investment and Fiduciary Duties

(A) The members of the public employees retirement board shall be the trustees of the funds created by section 145.23 of the Revised Code. The board shall have full power to invest the funds. The board and other fiduciaries shall discharge their duties with respect to the funds solely in the interest of the participants and beneficiaries; for the exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the public employees retirement system; with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims; and by diversifying the investments of the system so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

(B) In exercising its fiduciary responsibility with respect to the investment of the funds, it shall be the intent of the board to give consideration to investments that enhance the general welfare of the state and its citizens where the investments offer quality, return, and safety comparable to other investments currently available to the board. In fulfilling this intent, equal consideration shall also be given to investments otherwise qualifying under this section that involve minority owned and controlled firms and firms owned and controlled by women either alone or in joint venture with other firms.

OPERS

MERCER

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GUY CARPENTER OLIVER WYMAN

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www.mercer.com

April 13, 2010

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

As an independent investment advisor to the Ohio Public Employees Retirement System ('OPERS') and the Board of Trustees (the 'Board'), Mercer is providing an opinion on the reporting of OPERS investment results, investment policies, internal compliance procedures and the Board's oversight of the Retirement System's investments:

**Investment Results**

To the best of Mercer's knowledge and belief, OPERS investment results, as presented in this Comprehensive Annual Financial Report (CAFR), accurately represent the performance of the Retirement System's Defined Benefit (DB), Health Care (HC) and Defined Contribution (DC) assets. All measurements shown have been calculated using standard performance evaluation methods and are presented in a manner that is consistent with investment industry standards. For liquid asset classes, performance numbers for OPERS assets (and their respective benchmarks) were calculated using time weighted rates of return and are shown net of investment management fees.

**Investment Policies**

OPERS investment policies can be accessed online at https://www.opers.org/investments/inv-policies.shtml and are organized as follows: Part I - Funds; Part II - Asset Class Policies; Part III - External Manager Public Policies and Part IV - Investment Administrative Policies.

In Mercer's opinion, OPERS assets are managed under a set of transparent investment policies and guidelines. These policies and guidelines adequately highlight the strategic performance objectives of the Ohio Public Employees Retirement System and emphasize the dual importance of maintaining robust risk controls and program diversification.

The Mercer team continues to provide its independent opinion on the augmentation and evolution of the investment policy guidelines that govern the DB, HC and DC Plans and the underlying asset classes that comprise these Plans. During 2009 OPERS, with the assistance of Mercer, conducted an Asset Liability Modeling Study for each plan (DB, HC and a Glide Path analysis for the DC Plan). These studies re-evaluated and confirmed

Services provided by Mercer Investment Consulting, Inc.

Consulting. Outsourcing. Investments.

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April 13, 2010
Board of Trustees
Ohio Public Employees Retirement System

objectives as well as set new asset allocation policy targets that were in line with the updated risk, return and liquidity goals.

**Internal Compliance**

Mercer believes that OPERS internal compliance structure for the Investment Division is appropriately resourced and operates effectively. Mercer acknowledges OPERS ongoing efforts to improve the effectiveness of its internal compliance procedures. During 2009, OPERS implemented organizational modifications to improve the efficiency in accountability for both the compliance and risk management functions. Mercer also believes that the Investment Division's support of the CFA® Institute's Code of Ethics and Standards of Professional Conduct as well as the guidelines and procedures that are set forth in the OPERS Code of Ethics and OPERS Personal Trading Policies are consistent with industry best practice for investment professionals.

**Prudent Oversight**

The daily management of the OPERS assets has been clearly delegated to the Retirement System's investment Staff. In Mercer's opinion, this clear delegation of accountability helps the Board maintain effective oversight of the OPERS Defined Benefit, Health Care and Defined Contribution Plans through quarterly performance reviews, regular oversight of Staff's activities and monthly meetings with Staff, the investment consultants and other independent service providers.

Sincerely,

| | | |
|---|---|---|
| Brian Birnbaum, CFA<br>Partner | Kristin Finney-Cooke<br>Principal | Doug Kryscio, CFA<br>Partner |

## Introduction

OPERS' total investment portfolio, as reflected in the Combining Statements of Fiduciary Net Assets, pages 36-37, is comprised of Defined Benefit (DB), Defined Contribution (DC) and Health Care (HC) portfolio assets. The DB assets originate from member and employer contributions to the Traditional Plan, employer contributions to the Combined Plan and the VEBA Plan, and funds received from defined contribution account transfers to defined benefit plans. The management of these assets is the responsibility of OPERS' Investment staff under the direction of the Board of Trustees. DC assets originate from member contributions to the Combined Plan and both member and employer contributions to the Member-Directed Plan. The investment of DC assets is self-directed by members of the Combined and Member-Directed plans, but is limited to investment vehicles approved by the Board of Trustees. During 2005, the HC portfolio assets were segregated from the pension portfolio and invested with a more conservative asset-allocation strategy. The HC portfolio is comprised of the assets set aside to provide post-employment health care for the Traditional and Combined plans.

## The Investment Summary

OPERS' Total Investment Summary (page 78), relates to the System-wide investments and includes the assets of all three portfolios (DB, HC and DC). The balance of information in this Investment Section is organized as follows: OPERS' DB portfolio investments (pages 87-89) relates exclusively to the DB investments; OPERS' HC portfolio investments (pages 90-92) relates exclusively to the HC investments; OPERS' DC portfolio investments (pages 93-95) relates exclusively to the DC investments. The Investment Objectives and Policies (pages 97-100) provide information on System-wide policies.

A complete listing of assets held at December 31, 2009, is available from OPERS upon request. All returns presented throughout the Investment Section are net of external manager fees, overdraft charges, debit interest, registration expenses and stamp duties and taxes spent on foreign securities. In addition, the securities lending money market returns are net of custodial fees, transfer agent expenses and professional fees.

The following table reflects the total investment portfolio, which includes all three component portfolios—the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio.

Performance results and market values for the real estate and private equities asset classes are typically reported on a quarter lag basis, adjusted for cash flow activity during the fourth quarter. If any significant market gains or losses occur in the fourth quarter, these asset classes are adjusted for financial reporting purposes to reflect the estimated market value at year end. The investment results reported for these asset classes in the Investment Section reflect this practice. The table below displays the comparative market values of investment assets consistent with the presentation in the financial statements on pages 36-39.

## Total Investment Summary (as of December 31, 2009 and 2008)

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Fair Value | % of Total Fair Value | Fair Value | % of Total Fair Value |
| **Investments:** | | | | |
| Global Bonds: | | | | |
| U.S. Corporate Bonds | $5,803,060,011 | 8.46% | $5,329,750,656 | 9.08% |
| Non-U.S. Notes Bonds | 2,057,102,873 | 3.00 | 1,556,255,062 | 2.65 |
| U.S. Government and Agencies | 6,708,199,352 | 9.79 | 7,427,099,632 | 12.65 |
| U.S. Mortgage Backed | 3,027,467,035 | 4.42 | 4,124,931,034 | 7.02 |
| **Total Global Bonds** | **17,595,829,271** | **25.67** | **18,438,036,384** | **31.40** |
| Domestic Equities | 27,453,509,267 | 40.04 | 21,213,241,995 | 36.13 |
| Real Estate | 3,694,743,478 | | 4,759,402,602 | |
| Less Market Adjustments | | | (449,215,000) | |
| **Adjusted Real Estate** | **3,694,743,478** | **5.39** | **4,310,187,602** | **7.34** |
| Private Equities | 2,517,941,421 | | 2,531,470,264 | |
| Less Market Adjustments | | | (257,614,492) | |
| **Adjusted Private Equities** | **2,517,941,421** | **3.67** | **2,273,855,772** | **3.87** |
| International Equities | 15,557,500,820 | 22.69 | 11,053,888,253 | 18.83 |
| **Total Long-term Investments** | **66,819,524,257** | **97.46** | **57,289,210,006** | **97.57** |
| **Cash and Short-term Investments:** | | | | |
| Cash | 28,420,420 | 0.04 | 73,288,487 | 0.12 |
| Short-term Securities: | | | | |
| Commercial Paper | 611,781,530 | 0.89 | 172,632,458 | 0.29 |
| U.S. Treasury Obligations | 154,241,956 | 0.23 | 88,587,414 | 0.15 |
| Agency Discount Notes | 19,993,800 | 0.03 | 856,879 | |
| Repurchase Agreements | | | 460,994,550 | 0.79 |
| Corporate Bonds | 67,999,859 | 0.10 | 1,290,824 | |
| Short-Term Investment Funds (STIF) | 860,100,507 | 1.25 | 631,981,881 | 1.08 |
| **Total Cash and Short-term Investments** | **1,742,538,072** | **2.54** | **1,429,632,493** | **2.43** |
| **Total Cash and Investments** | **$68,562,062,329** | **100.00%** | **$58,718,842,499** | **100.00%** |

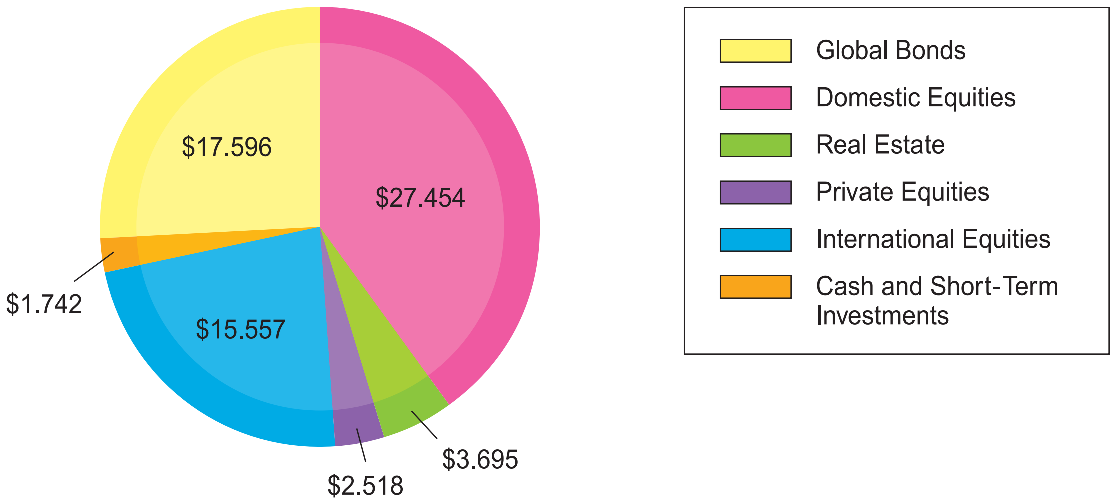
The following table reflects the breakdown of the total investment portfolio into the three component portfolios—the Defined Benefit, Health Care, and the Defined Contribution portfolios.

### Total Investment Summary by Portfolio* (as of December 31, 2009)

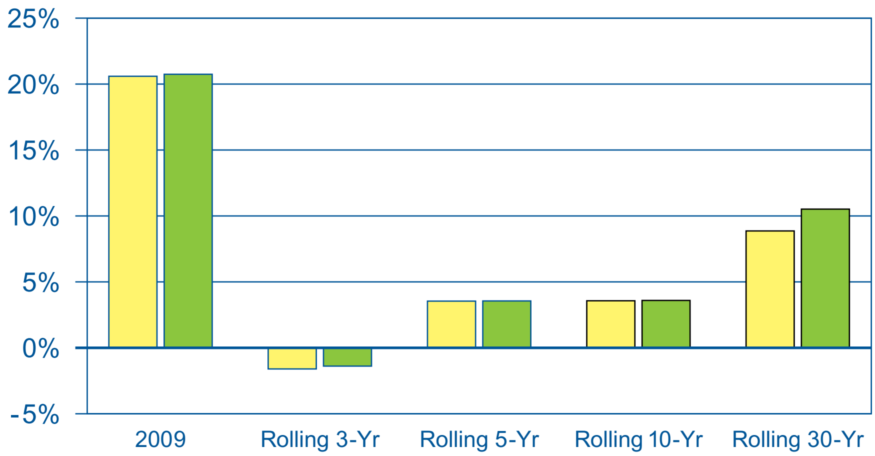
| | Defined Benefit | Health Care | Defined Contribution | Total |
|---|---|---|---|---|
| Global Bonds | $13,762,975,452 | $3,746,406,051 | $86,447,768 | $17,595,829,271 |
| Equities | 23,488,516,834 | 3,806,887,666 | 158,104,767 | 27,453,509,267 |
| Real Estate | 3,694,743,478 | | | 3,694,743,478 |
| Private Equities | 2,478,600,235 | 39,341,186 | | 2,517,941,421 |
| International Equities | 12,471,425,397 | 2,974,380,740 | 111,694,683 | 15,557,500,820 |
| Cash & Short-term Investments | 1,657,471,051 | 82,384,335 | 2,682,686 | 1,742,538,072 |
| **Total** | **$57,553,732,447** | **$10,649,399,978** | **$358,929,904** | **$68,562,062,329** |

*Assets summarized on performance basis.

## Total Investment Summary (as of December 31, 2009) ($ in billions)




## Total Investment Returns—Annual Rates of Return*




| | 2009 | Rolling 3-Yr | Rolling 5-Yr | Rolling 10-Yr | Rolling 30-Yr |
|---|---|---|---|---|---|
| OPERS' Return | 20.60% | -1.62% | 3.54% | 3.57% | 8.85% |
| Policy Benchmark Return | 20.75% | -1.30% | 3.59% | 3.61% | 10.54% |

*Annual rates of return—The OPERS return is the result of the returns generated by defined benefit, health care and defined contribution investments, based on a combination of time-weighted calculations and market-value-weighted calculations. The policy benchmark is derived by a market-value-weighted calculation of the defined benefit, health care and defined contribution investments policy benchmarks while all other returns throughout the remainder of this section are derived from a time-weighted calculation. All returns presented throughout the Investment Section are net of external manager fees, overdraft charges, debit interest, registration expenses and stamp duties and taxes spent on foreign securities. In addition, the securities lending money market returns are net of custodial fees, transfer agent expenses and professional fees.

## Historical Investment Returns

| Year | Total Portfolio Return | Total Defined Benefit Return* | Total Health Care Return* | Total Defined Contribution Return** |
|---|---|---|---|---|
| 2009 | 20.60% | 19.09% | 24.80% | 26.44% |
| 2008 | (26.92) | (27.15) | (25.77) | (28.00) |
| 2007 | 8.53 | 8.89 | 6.87 | 5.80 |
| 2006 | 14.70 | 15.10 | 12.80 | 13.00 |
| 2005 | 9.00 | 9.30 | 8.00 | 6.90 |
| 2004 | 12.50 | 12.50 | N/A | 9.73 |
| 2003 | 25.33 | 25.39 | N/A | |
| 2002 | (10.74) | (10.74) | N/A | |
| 2001 | (4.60) | (4.60) | N/A | |
| 2000 | (0.74) | (0.74) | N/A | |
| 1999 | 11.94 | 11.94 | N/A | |
| 1998 | 14.35 | 14.35 | N/A | |
| 1997 | 13.33 | 13.33 | N/A | |
| 1996 | 7.88 | 7.88 | N/A | |
| 1995 | 20.51 | 20.51 | N/A | |

* Prior to 2005, the Health Care assets were included in the Defined Benefit Portfolio. In 2005 the Health Care assets were segregated from the Defined Benefit into a separate portfolio with portfolio specific asset allocation and investment policies. Accordingly, Defined Benefit returns for 2004 and prior represent a composite of the Defined Benefit and Health Care assets.

** Defined Contribution plans commenced January 1, 2003, with a separate portfolio established in 2004.

## Largest Equity Holdings (by fair value)* (as of December 31, 2009)

| Description | Shares | Fair Value |
|---|---|---|
| Exxon Mobil Corporation | 10,569,544 | $720,737,205 |
| Microsoft Corporation | 17,255,928 | 526,133,245 |
| Apple Incorporated | 2,036,265 | 429,366,838 |
| Procter & Gamble Company | 6,833,667 | 414,325,230 |
| Johnson & Johnson Company | 5,764,206 | 371,272,508 |
| AT&T Incorporated | 13,102,713 | 367,269,045 |
| JPMorgan Chase & Company | 8,689,569 | 362,094,340 |
| Chevron Corporation | 4,683,915 | 360,614,616 |
| General Electric Company | 23,579,408 | 356,756,443 |
| International Business Machines Corporation | 2,647,857 | 346,604,481 |
| **Total** | **95,163,072** | **$4,255,173,952** |

## Largest Bond Holdings (by fair value)* (as of December 31, 2009)

| Description | Coupon | Maturity | Rating | Par Value | Fair Value |
|---|---|---|---|---|---|
| U.S. Treasury Note | 1.000% | 10/31/2011 | AAA | $393,907,000 | $393,564,309 |
| U.S. Treasury Bond | 6.125 | 11/15/2027 | AAA | 166,000,000 | 197,845,423 |
| U.S. Treasury Bond | 4.500 | 8/15/2039 | AAA | 173,323,000 | 169,499,495 |
| U.S. Treasury Bond | 8.000 | 11/15/2021 | AAA | 105,000,000 | 143,043,595 |
| U.S. Treasury Inflation Index Bond | 2.375 | 1/15/2025 | AAA | 115,505,000 | 139,877,132 |
| U.S. Treasury Note | 3.500 | 5/31/2013 | AAA | 121,945,000 | 128,511,741 |
| U.S. Treasury Bond | 5.250 | 2/15/2029 | AAA | 117,000,000 | 126,785,878 |
| U.S. Treasury Inflation Index Note | 2.375 | 1/15/2017 | AAA | 107,035,000 | 123,970,185 |
| U.S. Treasury Inflation Index Bond | 2.500 | 1/15/2029 | AAA | 113,950,000 | 123,320,678 |
| U.S. Treasury Inflation Index Bond | 3.625 | 4/15/2028 | AAA | 72,200,000 | 119,328,478 |
| **Total** | | | | **$1,485,865,000** | **$1,665,746,913** |

*A complete list of assets held at December 31, 2009, is available from OPERS upon request.

## U.S. Equity Commissions (for the year ended December 31, 2009)

| Brokerage Firm | U.S. Equity Commissions Paid | Shares Traded | Average Commission Per Share |
|---|---|---|---|
| Goldman Sachs & Co. | $1,776,668 | 53,314,284 | $0.033 |
| Merrill Lynch, Pierce, Fenner & Smith | 1,597,745 | 141,270,676 | 0.011 |
| JPMorgan Securities Inc. | 1,435,922 | 59,822,983 | 0.024 |
| Morgan Stanley Co. Inc. | 1,398,242 | 97,663,764 | 0.014 |
| Barclays Capital Inc. | 1,241,309 | 31,151,384 | 0.040 |
| Citigroup Global Markets Inc. | 1,156,920 | 50,151,249 | 0.023 |
| Credit Suisse First Boston Corp. | 1,002,265 | 53,922,417 | 0.019 |
| Deutsche Bank Securities Inc. | 908,568 | 37,273,231 | 0.024 |
| UBS Warburg LLC | 875,567 | 42,981,845 | 0.020 |
| Investment Technology Group Inc. | 803,510 | 41,712,891 | 0.019 |
| Sanford C. Bernstein Co. LLC | 742,273 | 31,686,368 | 0.023 |
| Simmons & Co. International | 447,107 | 12,967,199 | 0.034 |
| Thomas Weisel Partners | 301,816 | 9,148,248 | 0.033 |
| Leerink Swann & Co. | 297,310 | 8,954,610 | 0.033 |
| Green Street Advisors | 250,538 | 8,177,597 | 0.031 |
| Societe Generale Securities Corp. | 219,513 | 2,263,023 | 0.097 |
| Jeffries & Co. | 215,972 | 12,856,848 | 0.017 |
| Raymond James & Assoc. Inc. | 207,941 | 6,149,726 | 0.034 |
| Stifel Nicolaus & Co. Inc. | 203,403 | 6,371,445 | 0.032 |
| Robert W. Baird & Co. | 199,960 | 6,019,727 | 0.033 |
| Cowen & Co. | 192,417 | 5,997,872 | 0.032 |
| Keefe Bruyette & Woods Inc. | 188,397 | 5,971,469 | 0.032 |
| Miller Tabak & Co. LLC | 162,240 | 4,891,487 | 0.033 |
| Wedbush Morgan Securities Inc. | 128,077 | 3,950,111 | 0.032 |
| Baypoint Trading LLC | 121,627 | 4,045,757 | 0.030 |
| National Financial Services Corp. | 107,323 | 4,903,898 | 0.022 |
| Oppenheimer & Co. | 104,933 | 3,263,243 | 0.032 |
| ISI Group Inc. | 98,993 | 2,718,257 | 0.036 |
| Sandler O'Neill & Partners LP | 93,105 | 2,946,830 | 0.032 |
| William Blair & Co. LLC | 83,490 | 2,418,846 | 0.035 |
| Pershing LLC | 82,880 | 3,486,742 | 0.024 |

continued on page 83

continued from page 82

## U.S. Equity Commissions (for the year ended December 31, 2009)

| Brokerage Firm | U.S. Equity Commissions Paid | Shares Traded | Average Commission Per Share |
|---|---|---|---|
| Dowling & Partners | $82,017 | 2,559,248 | $0.032 |
| Cantor Fitzgerald & Co. | 76,566 | 3,697,237 | 0.021 |
| BMO Capital Markets | 71,132 | 2,337,061 | 0.030 |
| Fox Pitt Kelton Inc. | 60,358 | 1,904,077 | 0.032 |
| Soleil Securities | 58,318 | 1,767,059 | 0.033 |
| Stanford Group Co. | 57,510 | 1,438,695 | 0.040 |
| Instinet Clearing Services Inc. | 55,180 | 4,626,791 | 0.012 |
| Midwest Research Securities | 54,880 | 1,738,015 | 0.032 |
| RBC Dain Rauscher Inc. | 46,814 | 2,285,414 | 0.020 |
| Cabrera Capital Markets | 39,923 | 1,787,996 | 0.022 |
| Wachovia Securities LLC | 37,727 | 1,398,534 | 0.027 |
| Piper Jaffray & Co. | 33,691 | 1,297,349 | 0.026 |
| Pacific American Securities LLC | 30,605 | 1,334,778 | 0.023 |
| Magna Securities Corp. | 29,577 | 2,490,649 | 0.012 |
| Williams Capital Group | 26,455 | 766,267 | 0.035 |
| BNY Convergex Execution Solutions LLC | 26,397 | 1,314,442 | 0.020 |
| KeyBanc Capital Markets | 25,002 | 823,727 | 0.030 |
| Liquidnet Inc. | 24,216 | 1,688,433 | 0.014 |
| Cap Institutional Services | 23,281 | 766,393 | 0.030 |
| Banc of America Securities LLC | 22,789 | 699,629 | 0.033 |
| Other Commissions less than $20,000 | 248,373 | 8,957,463 | 0.028 |
| **Total U.S. Equity Commissions** | **$17,776,839** | **804,133,284** | **$0.022** |

## Non-U.S. Equity Commissions (for the year ended December 31, 2009)

| Brokerage Firm | Non-U.S. Equity Commissions Paid | Proceeds | Percent of Proceeds |
|---|---|---|---|
| Credit Suisse First Boston Corp. | $732,833 | $760,738,851 | 0.10% |
| UBS Securities LLC | 688,051 | 802,117,311 | 0.09 |
| Morgan Stanley Co. Inc. | 656,256 | 718,861,455 | 0.09 |
| Merrill Lynch Professional Clearing Corp. | 620,712 | 793,660,923 | 0.08 |
| Goldman Sachs & Co. | 541,026 | 544,260,825 | 0.10 |
| Citigroup Global Markets Inc. | 520,332 | 471,682,348 | 0.11 |
| JPMorgan Securities Inc. | 393,150 | 241,313,237 | 0.16 |
| Deutsche Bank Securities Inc. | 387,911 | 330,205,772 | 0.12 |
| Nomura Securities International Inc. | 314,716 | 307,448,275 | 0.10 |
| ABN Amro Securities LLC | 258,338 | 333,612,658 | 0.08 |
| Macquarie Securities | 232,665 | 173,811,286 | 0.13 |
| Credit Lyonnais Securities | 207,475 | 106,271,430 | 0.20 |
| Societe Generale Securities Corp. | 172,723 | 182,765,784 | 0.09 |
| HSBC Securities | 144,131 | 103,960,475 | 0.14 |
| Pershing LLC | 95,247 | 108,676,536 | 0.09 |
| BNP Paribas | 91,935 | 72,934,306 | 0.13 |
| SG Securities | 90,237 | 93,380,662 | 0.10 |
| Fator-Doria & Atherino | 86,205 | 82,653,922 | 0.10 |
| Bear Stearns Securities Corp. | 83,974 | 136,337,119 | 0.06 |
| Deutsche Securities Ltd. | 79,942 | 51,150,093 | 0.16 |
| Instinet Clearing Services Inc. | 78,916 | 129,970,064 | 0.06 |
| China International Capital Corp. | 76,394 | 38,196,879 | 0.20 |
| Liquidnet Inc. | 72,274 | 110,810,195 | 0.07 |
| Daiwa Securities | 69,009 | 69,202,999 | 0.10 |
| Brockhouse & Cooper Inc. | 66,640 | 102,644,710 | 0.06 |
| Investment Technology Group Inc. | 63,100 | 127,365,037 | 0.05 |
| Bunting Warburg Inc. | 57,231 | 31,287,174 | 0.18 |
| Exane SA | 54,495 | 43,107,156 | 0.13 |
| Main First Bank | 48,123 | 37,583,537 | 0.13 |
| SG Securities LLC | 44,593 | 74,128,695 | 0.06 |
| Jeffries & Co. | 40,955 | 37,165,826 | 0.11 |
| Credit Agricole | 40,195 | 39,728,878 | 0.10 |
| Samsung Securities Co. | 39,365 | 15,364,766 | 0.26 |
| Tera Menkul Degerler | 36,506 | 18,253,108 | 0.20 |
| ICAP Securities Ltd. | 35,387 | 46,653,065 | 0.08 |
| Socopa Sociedade Corretora Paulista | 35,128 | 27,021,645 | 0.13 |

continued on page 85

continued from page 84

## Non-U.S. Equity Commissions (for the year ended December 31, 2009)

| Brokerage Firm | Non-U.S. Equity Commissions Paid | Proceeds | Percent of Proceeds |
|---|---|---|---|
| KBC Financial Products UK Ltd. | $34,075 | $25,625,734 | 0.13% |
| CLSA Securities Korea Ltd. | 32,979 | 16,542,567 | 0.20 |
| Barclays Bank PLC | 29,131 | 27,015,882 | 0.11 |
| Sanford C. Bernstein Co. LLC | 27,472 | 23,085,710 | 0.12 |
| Daishin Securities Co. Ltd. | 23,410 | 26,011,263 | 0.09 |
| Other Commissions less than $20,000 | 584,803 | 541,554,471 | 0.11 |
| **Total Non-U.S. Equity Commissions** | **$7,988,041** | **$8,024,162,628** | **0.10%** |

| Brokerage Firm | Futures Commissions Paid | Contracts | Average Commission Per Contract |
|---|---|---|---|
| Goldman Sachs & Co. | $632,851 | 275,025 | $2.301 |
| Credit Suisse First Boston Corp. | 10,453 | 4,962 | 2.107 |
| JPMorgan Securities Inc. | 9,119 | 3,304 | 2.760 |
| **Total Futures Commissions** | **$652,423** | **283,291** | **$2.303** |

| Brokerage Firm | TR Swaps Commissions Paid | Notional Amount |
|---|---|---|
| BNP Paribas | $658,390 | $200,629,075 |
| Credit Suisse First Boston Corp. | 33,644 | 99,999,413 |
| **Total TR Swaps Commissions** | **$692,034** | **$300,628,488** |

| | | | |
|---|---|---|---|
| **Total U.S. Equity, Non-U.S. Equity, Futures, and TR Swaps Commissions** | **$27,109,337** | **N/A** | **N/A** |

The brokerage commissions do not include commissions paid by external investment managers utilizing commingled fund structures. OPERS maintains a commission recapture program with several of its investment managers. Capital Institutional Services Inc., Donaldson Co. and Frank Russell Securities Inc. perform record-keeping services for the commission recapture program.

## Schedule of Fees to External Asset Managers (for the year ended December 31, 2009)

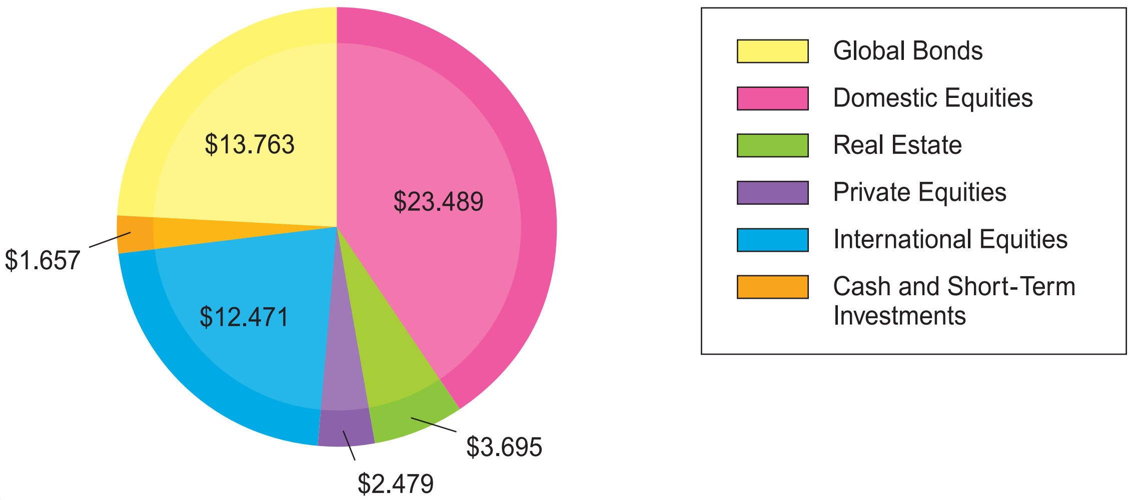
| | Defined Benefit | Health Care | Defined Contribution | Total |
|---|---|---|---|---|
| Global Bonds | $2,991,219 | $463,915 | $122,765 | $3,577,899 |
| Domestic Equities | 6,445,281 | 876,065 | 53,625 | 7,374,971 |
| International Equities | 22,968,838 | 6,169,792 | 219,297 | 29,357,927 |
| Real Estate | 36,451,377 | 0 | 0 | 36,451,377 |
| Private Equities | 38,446,253 | 199,376 | 0 | 38,645,629 |
| **Total Fees** | **$107,302,968** | **$7,709,148** | **$395,687** | **$115,407,803** |

## Schedule of External Asset Managers (for the year ended December 31, 2009)

| U.S. Equity Managers | Non-U.S. Equity Managers | Bond Managers |
|---|---|---|
| BlackRock | Acadian | AFL-CIO Housing Investment Trust |
| Goldman Sachs | AllianceBernstein | Capital Guardian |
| Invesco | BlackRock | Fort Washington |
| Leading Edge | Baring | Goldman Sachs |
| Piedmont | Brandes | Goode Investment Management |
| PIMCO | JPMorgan Fleming | Invesco |
| Progress | Lazard | Post Advisory Group |
| Pyramis | LSV | Stone Harbor |
| | T Rowe Price | |
| | TT International | |
| | Walter Scott | |

As noted previously, the Investment Division manages the OPERS total investment portfolio by dividing it into three sub-portfolios. These portfolios are: the Defined Benefit portfolio, the Defined Contribution portfolio, and the Health Care portfolio. All information prior to this point has been reported on the OPERS total investment portfolio, however, all the following information will be presented on the specific portfolio level.

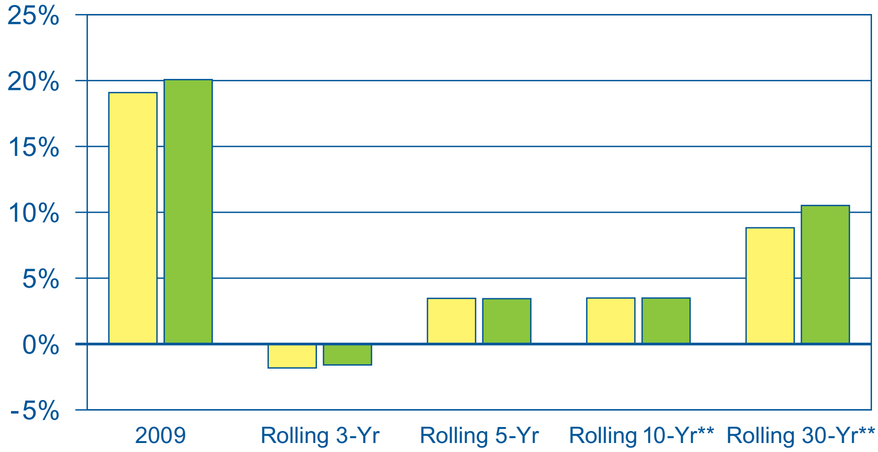
### Defined Benefit Portfolio Asset Allocation (as of December 31, 2009) ($ in billions)




## Investment Returns

The OPERS DB portfolio returned 19.09% in 2009. The overall portfolio return is compared to a composite benchmark return that could be achieved by a portfolio that is passively invested in the broad market, with percentage weights allocated to each asset class as specified in OPERS' *Statement of Investment Objectives and Policies.* The return of the policy benchmark for 2009 was 20.05%.

### Investment Returns—Annual Rates of Return—Defined Benefit Portfolio*




| | 2009 | Rolling 3-Yr | Rolling 5-Yr | Rolling 10-Yr** | Rolling 30-Yr** |
|---|---|---|---|---|---|
| OPERS' Defined Benefit Portfolio | 19.09% | -1.88% | 3.50% | 3.54% | 8.84% |
| Policy Benchmark Return | 20.05% | -1.64% | 3.47% | 3.55% | 10.52% |

* Annual rates of return—The OPERS Defined Benefit portfolio return is based on a time-weighted calculation. The policy benchmark is derived by a market-value-weighted calculation of the defined benefit investments policy benchmarks. All returns are net of external manager fees, overdraft charges, debit interest, registration expenses and stamp duties and taxes spent on foreign securities.

** The Health Care portfolio was segregated from the Defined Benefit portfolio in 2005, thus the 10-year and 30-year rolling return information reflects both the Defined Benefit and Health Care portfolios.

Historical returns for the Defined Benefit investments underlying asset class composites and their respective benchmarks are shown

## Schedule of Investment Results—Defined Benefit Portfolio (for the year ended December 31, 2009)

| | 2009 | Rolling 3-Year | Rolling 5-Year |
|---|---|---|---|
| **Total Defined Benefit Portfolio** | **19.09%** | **(1.88)%** | **3.50%** |
| **Defined Benefit Portfolio Benchmark [1]** | **20.05** | **(1.64)** | **3.47** |
| U.S. Equity Composite | 28.68 | (5.58) | 0.65 |
| U.S. Equity Composite Benchmark | 28.34 | (5.42) | 0.76 |
| Opportunistic | 18.83 | 4.35 | N/A |
| Opportunistic Custom Benchmark | 14.92 | 10.22 | N/A |
| Universal Bond Composite | 10.98 | 3.80 | 4.09 |
| Universal Bond Composite Benchmark | 8.60 | 5.80 | 5.01 |
| Stable Value Composite | 3.20 | 3.78 | 4.01 |
| Stable Value Composite Benchmark | 0.23 | 2.51 | 3.09 |
| Long-Duration Bond Composite | 3.78 | 5.28 | N/A |
| Long-Duration Bond Composite Benchmark | 1.92 | 5.62 | N/A |
| Non-U.S. Equity Composite | 40.78 | (3.84) | 5.84 |
| Non-U.S. Equity Composite Benchmark | 41.45 | (3.49) | 5.83 |
| Private Real Estate Composite | (22.16) | (4.45) | 4.31 |
| Private Real Estate Composite Benchmark | (22.11) | (2.73) | 5.00 |
| REITS Composite | 29.22 | (13.99) | 0.04 |
| REITS Composite Benchmark | 29.01 | (13.93) | (0.28) |
| Private Equity Composite | (9.29) | 3.24 | 11.29 |
| Private Equity Composite Benchmark | (3.60) | (2.16) | 4.65 |
| Cash Equivalents Composite | (6.91) | 0.04 | 1.72 |
| Cash Equivalents Composite Benchmark | 0.21 | 2.41 | 3.02 |

### Footnotes for Schedule of Investment Results—Defined Benefit Portfolio

[1] **Defined Benefit Portfolio Benchmark**—The returns for this benchmark are derived from the asset class composite benchmark returns summarized in the table above, the historical asset class target allocations listed in the following table and the asset class composite benchmark indices listed in the table on the following page.

## Historical Asset Class Target Allocations—Defined Benefit Portfolio

| Asset Class | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| U.S. Equity | 42.4% | 43.4% | 45.4% | 45.6% | 46.1% |
| Opportunistic | 0.6 | 0.2 | 0.1 | 0.0 | 0.0 |
| Universal Bond | 14.0 | 14.4 | 16.2 | 24.6 | 25.9 |
| Stable Value | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Long-Duration Bond | 10.0 | 9.6 | 8.6 | 0.0 | 0.0 |
| Non-U.S. Equity | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 |
| Private Real Estate | 7.0 | 7.0 | 6.2 | 6.5 | 6.1 |
| REITS | 1.0 | 1.0 | 1.0 | 1.0 | 0.0 |
| Private Equity | 5.0 | 4.4 | 2.5 | 1.3 | 0.9 |
| Cash Equivalents | 0.0 | 0.0 | 0.0 | 1.0 | 1.0 |
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

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

## Historical Asset Class Composite Benchmark Indices—Defined Benefit Portfolio

| Asset Class Composite Benchmarks | 12/31/2009-12/31/2008 | 12/31/2007 | 12/31/2006 | 12/31/2005 |
|---|---|---|---|---|
| U.S. Equity | Russell 3000 [2] | Russell 3000 | Russell 3000 | Russell 3000 |
| Opportunistic | LIBOR (2 month lag) + 4% [3] | LIBOR (2 month lag) + 4% | LIBOR (2 month lag) + 4% | N/A |
| Universal Bond | Barclays Universal [4] | Barclays Universal | Barclays Universal | Barclays Universal |
| Stable Value | 90-day U.S. Treasury Bill [5] | 90-day U.S. Treasury Bill | 90-day U.S. Treasury Bill | 90-day U.S. Treasury Bill |
| Long-Duration Bond | Barclays U.S. Long Government/Credit Bond [6] | Barclays U.S. Long Government/Credit Bond | N/A | N/A |
| Non-U.S. Equity | MSCI ACWIF x U.S. (net) [7] | MSCI ACWIF x U.S. (net) | MSCI ACWIF x U.S. (net) | MSCI ACWIF x U.S. (net) |
| Private Real Estate | NCREIF Property Index (quarter lag) [8] | NCREIF Property Index | NCREIF Property Index | NCREIF Property Index |
| REITS | DJ Wilshire RESI (adjusted cap) [9] | DJ Wilshire RESI | DJ Wilshire RESI (full cap) | DJ Wilshire RESI (full cap) |
| Private Equities | Russell 3000 (quarter lag) + 3% [2] | Russell 3000 (quarter lag) + 3% | Russell 3000 (quarter lag) + 3% | Russell 3000 (quarter lag) + 3% |
| Cash Equivalents | 90-day U.S. Treasury Bill [5] | 90-day U.S. Treasury Bill | 90-day U.S. Treasury Bill | 90-day U.S. Treasury Bill |

The footnotes below provide definitions for the 12/31/2009 asset class composite benchmark indices.

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

3 **LIBOR Index**—London Interbank Offered Rate (LIBOR) is the rate of interest at which banks offer to lend money to one another in the wholesale money markets in London. This index is a standard financial index used in U.S. capital markets.

4 **Barclays Universal Index**—A market-value-weighted index consisting of the Barclays Brothers Corporate, Government and Mortgage-backed indices. This index is the broadest available measure of the aggregate U.S. fixed income market.

5 **90-day U.S. Treasury Bill Index**—The 90-day Treasury Bill return as measured by Barclays.

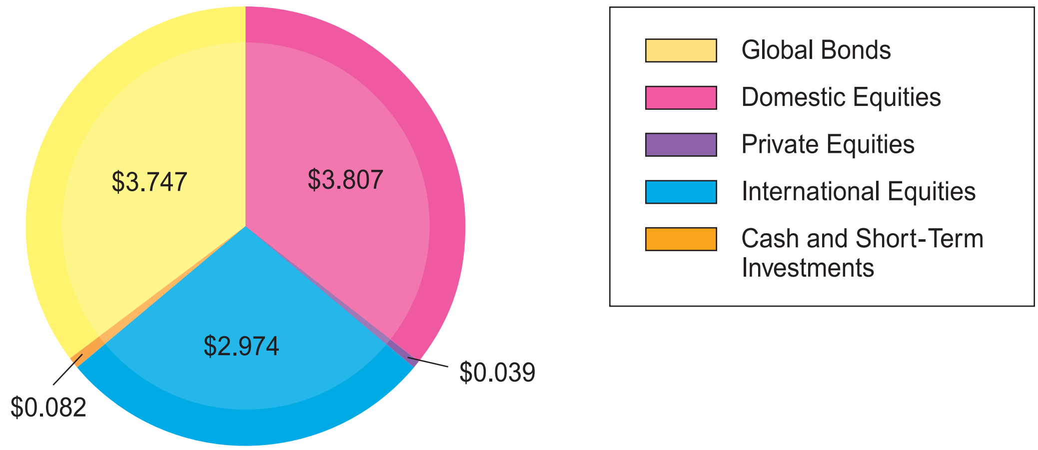
6 **Barclays U.S. Long Government/Credit Bond Index**—The long component of the Barclays U.S. Government/Credit Index, a widely recognized index that features a blend of U.S. Treasury, government-sponsored (U.S. Agency and supranational), mortgage, and corporate securities limited to a maturity of more than 10 years.

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

8 **NCREIF Property Index (NPI)**—Appraisal-based valuations of privately owned commercial real estate that consists of both equity and leveraged properties, reported on an unleveraged basis. Prior to 1/1/2006, 100 basis points were deducted annually.

9 **DJ Wilshire Real Estate Securities Index (RESI)**—Float-adjusted market capitalization index that is designed to serve as proxies for direct real estate investment by institutions. Prior to 7/1/2007, OPERS used the DJ RESI full market capitalization. Prior to 1/1/2006, 20 basis points were deducted annually.

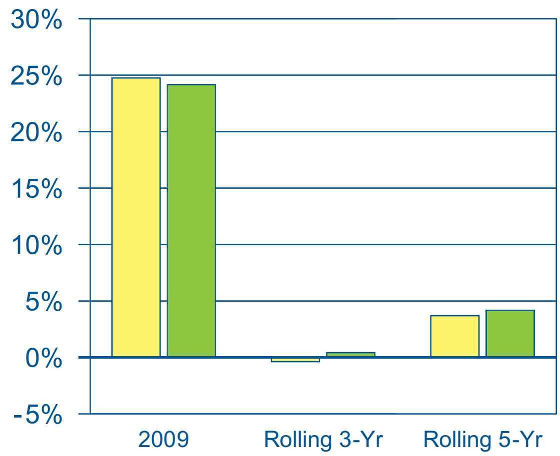
## Health Care Portfolio Asset Allocation (as of December 31, 2009) ($ in billions)




## Investment Returns

The OPERS Health Care portfolio returned 24.8% in 2009. The overall portfolio return is compared to a composite benchmark return that could be achieved by a portfolio that is passively invested in the broad market, with percentage weights allocated to each asset class as specified in OPERS' *Statement of Investment Objectives and Policies.* The return of the policy benchmark for 2009 was 24.11%.

## Investments Returns—Annual Rates of Return—Health Care Portfolio*




| | 2009 | Rolling 3-Yr | Rolling 5-Yr |
|---|---|---|---|
| OPERS' Health Care Portfolio | 24.80% | -0.33% | 3.81% |
| Policy Benchmark Return | 24.11% | 0.41% | 4.10% |

*Annual rates of return—The OPERS Health Care portfolio return is based on a time-weighted calculation and market-value-weighted calculation. The policy benchmark is derived by a market-value-weighted calculation of the health care investments policy benchmarks. All returns are net of external manager fees, overdraft charges, debit interest, registration expenses and stamp duties and taxes spent on foreign securities.

Investment returns for the Health Care portfolio underlying asset class composites and their respective benchmarks are shown below.

## Schedule of Investment Results—Health Care Portfolio[1] (for the year ended December 31, 2009)

| | 2009 | Rolling 3-Year | Rolling 5-Year |
|---|---|---|---|
| **Total Health Care Portfolio** | **24.80%** | **(0.33)%** | **3.81%** |
| **Health Care Portfolio Benchmark** | **24.11** | **0.41** | **4.10** |
| U.S. Equity Composite | 28.68 | (5.58) | 0.65 |
| U.S. Equity Composite Benchmark | 28.34 | (5.42) | 0.76 |
| Universal Bond Composite | 10.98 | 3.80 | 4.09 |
| Universal Bond Composite Benchmark | 8.60 | 5.80 | 5.01 |
| TIPS Portfolio | 11.68 | 6.90 | N/A |
| TIPS Portfolio Benchmark | 11.41 | 6.69 | N/A |
| Short-Duration Bond Composite | 3.86 | (0.06) | N/A |
| Short-Duration Bond Composite Benchmark | 1.41 | 5.03 | N/A |
| Non-U.S. Equity Composite | 40.78 | (3.84) | 5.84 |
| Non-U.S. Equity Composite Benchmark | 41.45 | (3.49) | 5.83 |
| REITS Composite | 29.22 | (13.99) | 0.04 |
| REITS Composite Benchmark | 29.01 | (13.93) | (0.28) |
| Cash Equivalents Composite | 1.01 | 2.80 | N/A |
| Cash Equivalents Composite Benchmark | 0.21 | 2.41 | N/A |

### Footnotes for Schedule of Investment Results—Health Care Portfolio

[1] **Health Care Portfolio Benchmark**—The returns for this benchmark are derived from the asset class composite benchmark returns summarized in the table above, the historical asset class target allocations listed in the following table and the asset class composite benchmark indices listed in the tables on the following page.

## Historical Asset Class Target Allocations—Health Care Portfolio

| Asset Class | 2009 | 2008 | 2007 | 2006* | 2005* |
|---|---|---|---|---|---|
| U.S. Equity | 28.4% | 29.0% | 30.0% | 34.6% | 44.6% |
| Opportunistic | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Universal Bond | 10.0 | 10.3 | 15.0 | 16.8 | 20.7 |
| TIPS | 20.0 | 20.2 | 20.0 | 15.4 | 5.5 |
| Short-Duration Bond | 10.0 | 11.5 | 15.0 | 11.6 | 4.3 |
| Non-U.S. Equity | 24.5 | 23.0 | 15.0 | 16.8 | 20.9 |
| REITS | 6.0 | 6.0 | 5.0 | 4.7 | 4.0 |
| Cash Equivalents | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Private Equity | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

*Average target allocations that reflect monthly adjustments during the implementation of the Health Care portfolio.

## Historical Asset Class Composite Benchmark Indices—Health Care Portfolio

| Asset Class Composite Benchmarks | Asset Class Composite Benchmark Indices |
|---|---|
| U.S. Equity | Russell 3000 [2] |
| Global Bonds | Barclays Universal [3] |
| TIPS | Barclays U.S. TIPS [4] |
| Short Duration | Barclays Government 1-3 Year [5] |
| Non-U.S. Equity | MSCI ACWIF x U.S. [6] |
| Private Equity | Russell 3000 (quarter lag) + 3% [2] |
| REITS | DJ Wilshire RESI (full cap) [7] |
| Opportunistic | LIBOR (2 month lag) + 4% [8] |
| Cash Equivalents | 90-day U.S. Treasury Bill [9] |

The footnotes below provide definitions for the asset class composite benchmark indices.

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

[3] **Barclays Universal Index**—A market-value-weighted index consisting of the Barclays corporate, government and mortgage-backed indices. This index is the broadest available measure of the aggregate U.S. fixed income market.

[4] **Barclays U.S. TIPS Index**—This index consists of Inflation-protection securities issued by the U.S. Treasury.

[5] **Barclays Government 1-3 Year**—Securities in the U.S. Government Index with a maturity from one up to (but not including) three years.

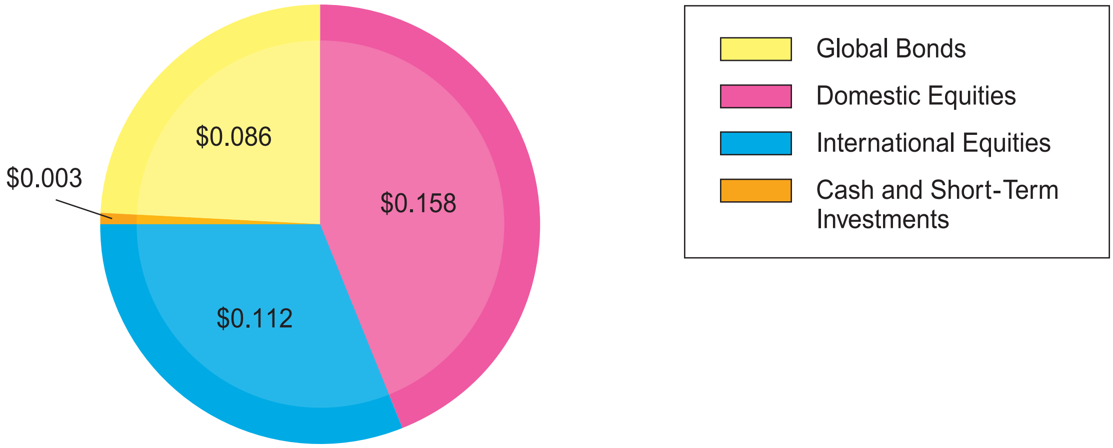
[6] **MSCI All Country World Ex-U.S. Index (MSCI ACWIF x U.S.)**—A capitalization-weighted index of stocks representing 47 developed and emerging country markets, excluding the U.S. market.

[7] **DJ Wilshire RESI (Full Cap)**—Wilshire Real Estate Securities Index adjusted for representative fees.

[8] **LIBOR Index**—London Interbank Offered Rate (LIBOR) is the rate of interest at which banks offer to lend money to one another in the wholesale money markets in London. This index is a standard financial index used in U.S. capital markets.

[9] **90-day U.S. Treasury Bill**—The 90-day Treasury Bill return as measured by Barclays.

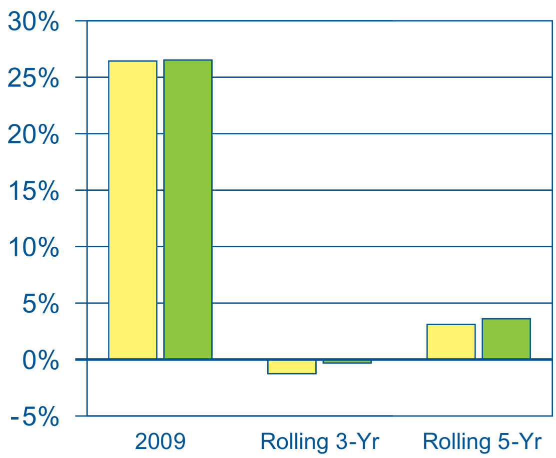
## Defined Contribution Portfolio Asset Allocation (as of December 31, 2009) ($ in billions)




## Investment Returns

The OPERS Defined Contribution portfolio returned 26.44% in 2009. The portfolio composite is derived from the individual investment option returns and their actual year-end market values. Members may not invest in this portfolio composite but may invest in the individual investment options as they choose. The returns for the OPERS investment options and their respective indices are shown on the following page.

## Investment Returns—Annual Rates of Return—Defined Contribution Portfolio*




| | 2009 | Rolling 3-Yr | Rolling 5-Yr |
|---|---|---|---|
| OPERS' Defined Contribution Portfolio | 26.44% | -1.24% | 3.06% |
| Policy Benchmark Return | 26.55% | -0.24% | 3.77% |

*Annual rates of return—The OPERS Defined Contribution portfolio return is the result of the returns generated by defined contribution investments based on a combination of time-weighted and market-value-weighted calculations. The defined contribution plans began in 2003, thus 10-year and 30-year return information does not exist.

Historical returns for the Defined Contribution investments underlying asset class composites and their respective benchmarks are shown below.

## Schedule of Investment Results—Defined Contribution Portfolio (for the year ended December 31, 2009)

| | 2009 | Rolling 3-Year | Rolling 5-Year |
|---|---|---|---|
| Target Payout Fund | 16.44% | 1.84% | 4.10% |
| Target Payout Fund [1] | 12.89 | 1.87 | 4.12 |
| Target 2010 Fund | 18.21 | 0.46 | 3.87 |
| Target 2010 Fund Index [2] | 15.21 | 1.39 | 4.48 |
| Target 2015 Fund | 21.14 | (2.15) | 3.05 |
| Target 2015 Fund Index [3] | 20.53 | 0.04 | 4.53 |
| Target 2020 Fund | 25.81 | (3.11) | 2.90 |
| Target 2020 Fund Index [4] | 25.75 | (1.13) | 4.30 |
| Target 2025 Fund | 28.98 | (3.62) | 2.82 |
| Target 2025 Fund Index [5] | 29.61 | (2.04) | 3.97 |
| Target 2030 Fund | 29.44 | (3.92) | 2.73 |
| Target 2030 Fund Index [6] | 30.33 | (2.39) | 3.87 |
| Target 2035 Fund | 29.72 | (4.15) | 2.68 |
| Target 2035 Fund Index [7] | 30.85 | (2.62) | 3.82 |
| Target 2040 Fund | 30.09 | (4.38) | 2.66 |
| Target 2040 Fund Index [8] | 31.50 | (2.83) | 3.81 |
| Target 2045 Fund | 30.51 | (4.71) | 2.56 |
| Target 2045 Fund Index [9] | 32.21 | (3.19) | 3.71 |
| Target 2050 Fund | 30.53 | (4.69) | 2.57 |
| Target 2050 Fund Index [10] | 32.21 | (3.19) | 3.71 |
| Stable Value Portfolio | 3.20 | 3.88 | 4.07 |
| ML 3-Month Treasury Bill [11] | 0.21 | 2.40 | 3.02 |
| Bond Portfolio | 17.67 | 5.10 | 4.57 |
| Barclays Universal Index [12] | 8.60 | 5.81 | 5.02 |
| Stock Index Portfolio | 28.35 | (5.34) | 0.82 |
| Russel 3000 Stock Index [13] | 28.33 | (5.43) | 0.77 |
| Large Cap Portfolio | 28.73 | (6.24) | (0.45) |
| Russel 1000 Stock Index [14] | 28.42 | (5.36) | 0.79 |
| Small Cap Portfolio | 27.16 | (6.33) | 0.39 |
| Russel 2000 Stock Index [15] | 27.19 | (6.06) | 0.51 |
| Non-U.S. Equity Portfolio | 35.90 | (6.60) | 3.45 |
| MSCI ACWIF x U.S. [16] | 41.47 | (3.48) | 5.84 |

## Footnotes for Schedule of Investment Results—Defined Contribution Portfolio

[1] **Target Payout Fund Index**—40% ML 3-Month U.S. Treasury, 30% Barclays Universal, 8% Russell 3000, 3% Russell 1000, 4% Russell 2000 and 15% MSCI All Country World Ex-U.S. Index (MSCI ACWIF x U.S.)

[2] **Target 2010 Fund Index**—35% ML 3-Month U.S. Treasury, 28% Barclays Universal, 10% Russell 3000, 3% Russell 1000, 5% Russell 2000 and 19% MSCI All Country World Ex-U.S. Index (MSCI ACWIF x U.S.)

[3] **Target 2015 Fund Index**—23% ML 3-Month U.S. Treasury, 23% Barclays Universal, 14% Russell 3000, 6% Russell 1000, 8% Russell 2000 and 26% MSCI All Country World Ex-U.S. Index (MSCI ACWIF x U.S.)

[4] **Target 2020 Fund Index**—11% ML 3-Month U.S. Treasury, 20% Barclays Universal, 17% Russell 3000, 7% Russell 1000, 10% Russell 2000 and 35% MSCI All Country World Ex-U.S. Index (MSCI ACWIF x U.S.)

[5] **Target 2025 Fund Index**—0% ML 3-Month U.S. Treasury, 20% Barclays Universal, 20% Russell 3000, 8% Russell 1000, 12% Russell 2000 and 40% MSCI All Country World Ex-U.S. Index (MSCI ACWIF x U.S.)

[6] **Target 2030 Fund Index**—0% ML 3-Month U.S. Treasury, 17% Barclays Universal, 21% Russell 3000, 9% Russell 1000, 12% Russell 2000 and 41% MSCI All Country World Ex-U.S. Index (MSCI ACWIF x U.S.)

[7] **Target 2035 Fund Index**—0% ML 3-Month U.S. Treasury, 15% Barclays Universal, 22% Russell 3000, 8% Russell 1000, 13% Russell 2000 and 42% MSCI All Country World Ex-U.S. Index (MSCI ACWIF x U.S.)

[8] **Target 2040 Fund Index**—0% ML 3-Month U.S. Treasury, 13% Barclays Universal, 22% Russell 3000, 8% Russell 1000, 13% Russell 2000 and 44% MSCI All Country World Ex-U.S. Index (MSCI ACWIF x U.S.)

[9] **Target 2045 Fund Index**—0% ML 3-Month U.S. Treasury, 10% Barclays Universal, 23% Russell 3000, 9% Russell 1000, 13% Russell 2000 and 45% MSCI All Country World Ex-U.S. Index (MSCI ACWIF x U.S.)

[10] **Target 2050 Fund Index**—0% ML 3-Month U.S. Treasury, 10% Barclays Universal, 23% Russell 3000, 9% Russell 1000, 13% Russell 2000 and 45% MSCI All Country World Ex-U.S. Index (MSCI ACWIF x U.S.)

[11] **ML 3-Month Treasury Bill**—The 3-Month Treasury Bill return as measured by Merrill Lynch.

[12] **Barclays Universal Index**—A market-value-weighted index consisting of the Barclays corporate, government and mortgage-backed indices. This index is the broadest available measure of the aggregate U.S. fixed income market.

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

[14] **Russell 1000 Stock Index**—A capitalization-weighted stock index consisting of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index.

[15] **Russell 2000 Stock Index**—A capitalization-weighted stock index consisting of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

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

The 10 largest direct investments in the state of Ohio, measured as the market value of our investment in the securities of firms headquartered in Ohio, totaled approximately $0.6 billion at the end of the year.

The 10 largest indirect investments, measured as the market value of our investment in the securities of 10 companies with the largest employment presence in the state, totaled approximately $1.7 billion. Employment presence is measured by the number of persons employed at a business located in Ohio, as defined by the Office of Strategic Research, Ohio Department of Development. Firms with the largest employment presence in Ohio employed approximately 212,000 people in Ohio.

## Top Ohio Holdings (for the year ended December 31, 2009)

| Direct | | Indirect | | |
|---|---|---|---|---|
| Largest Firms Headquartered in Ohio | Fair Value | Firms With Largest Employment Presence | Ohio Employment Estimated Headcount | Fair Value |
| Procter & Gamble Co. | $414,325,230 | Wal-Mart Stores Inc. | 54,200 | $257,423,805 |
| FirstEnergy Corp. | 36,224,776 | Kroger Co. | 38,000 | 25,350,116 |
| American Electric Power Co. | 35,745,612 | JPMorgan Chase & Co. | 17,500 | 362,094,340 |
| Eaton Corp. | 28,729,774 | Sears Holdings Corp. | 16,400 | 7,729,389 |
| Kroger Co. | 25,350,116 | Honda Motor Co. | 15,000 | 40,302,127 |
| Cardinal Health Inc. | 23,317,322 | PNC Financial Services Group | 15,000 | 51,161,323 |
| Progressive Corp. | 18,258,375 | United Parcel Service Inc. | 14,570 | 107,977,339 |
| Owens-Illinois Inc. | 17,751,246 | General Electric | 14,000 | 356,756,443 |
| Macy's Inc. | 15,712,835 | Procter & Gamble Co. | 14,000 | 414,325,230 |
| Parker Hannifin Corp. | 13,966,127 | Target Corp. | 13,200 | 75,997,009 |
| **Total** | **$629,381,413** | **Total** | **211,870** | **$1,699,117,121** |

The investment powers and fiduciary responsibilities of Ohio Public Employees Retirement System Board of Trustees (OPERS Board of Trustees) are governed by Section 145.11 of the Ohio Revised Code and the requirements of the OPERS *Code of Ethics and Personal Trading Policy,* and applicable state statutes. The OPERS Board of Trustees shall discharge their duties solely in the interest of participants and beneficiaries, for the exclusive purpose of providing benefits and defraying reasonable expenses of administering OPERS, with care, skill, prudence, and diligence of a prudent person, by diversifying the investments.

The OPERS Board of Trustees reviews all policies and approves changes or additions as appropriate. The Investment staff fulfills the mandates and obligations described in the policies and recommends changes to the OPERS Board of Trustees, as appropriate. The following policies reflect those in place for the 2008 fiscal year.

The OPERS Board of Trustees believes OPERS' assets should be managed in a fashion that reflects OPERS' unique liabilities, funding resources and portfolio size, by incorporating accepted investment theory and reliable, empirical evidence. The OPERS Board of Trustees ensures adequate risk control of the defined benefit, health care and defined contribution portfolios through diversification, portfolio guidelines, risk budgeting, compliance and monitoring.

The purpose of OPERS' policies is to provide a broad strategic framework for managing portfolios. Portfolio-related policies are summarized below. Approved OPERS Board of Trustees asset class policies are summarized beginning on page 101 and are posted on the OPERS Web site, www.OPERS.org, where they can be viewed in their entirety.

## Defined Benefit Investment Policies

### Investment Objective

The primary objective of the Defined Benefit portfolio is to secure statutory benefits provided by OPERS, earning sufficient returns to improve benefits periodically, and to keep OPERS' costs reasonable for employees and employers.

### Asset Allocation and Performance Objectives

The approved OPERS Board of Trustees asset allocation policy establishes a framework for OPERS that has a high likelihood of realizing OPERS' investment objective. The Defined Benefit portfolio's performance objectives are to exceed the OPERS performance benchmark, net of investment expenses over five-year periods; and exceed the actuarial interest rate (currently 8%) over a reasonable longer-time horizon. The following table lists the Defined Benefit portfolio asset allocation and performance benchmarks for each asset class.

### Defined Benefit Asset Allocation

| Asset Class | Target Allocation | Range | Market Index |
|---|---|---|---|
| U.S. Equity | 25% | +/– 5% | Russell 3000 Stock Index |
| Non-U.S. Equity | 25 | +/– 5 | MSCI All Country World Free Index Ex-U.S. |
| Global Bonds: | | | |
| Liquidity | 2 | +/– 2 | 91-day U.S. Treasury Bills |
| Core Fixed | 9 | +/– 3 | Barclays U.S. Aggregate Bond Index |
| Long Bonds | 9 | +/– 3 | Barclays U.S. Long Government/Credit Index |
| High Yield | 5 | +/– 3 | Barclays U.S. High Yield Index |
| Real Estate | 10 | 0 to 14 | NCREIF Property Index |
| Private Equity | 10 | 0 to 14 | Russell 3000 Stock Index + 300 basis points |
| Opportunistic Fund | 3 | 0 to 5 | 3-Month LIBOR + 4 percentage points |
| Infrastructure | 2 | 0 to 3 | CPI + 5 percentage points |
| **Total** | **100%** | | |

### Rebalancing

The staff shall ensure conformance with the asset allocation policy through monthly review. The OPERS Board of Trustees expects the Investment staff to ensure compliance with the target asset allocation percentages specified above at reasonable costs and in the best interest of OPERS.

The OPERS Board of Trustees establishes the asset allocation targets and ranges and reviews them periodically. The OPERS Board of Trustees will review, at least annually, the investment policy and asset allocation target and ranges in conjunction with the actuarial assessment of the solvency of the fund.

## Health Care Investment Policies

### Investment Objective

The primary objective of the Health Care portfolio is to secure health care benefits for eligible members, which is provided as a discretionary benefit. The assets of the Health Care portfolio shall be invested with the objectives of a) preservation of capital and b) maintaining a reasonable solvency period as defined by the OPERS Board of Trustees from time to time.

### Asset Allocation and Performance Objectives

The approved OPERS Board of Trustees asset allocation establishes a framework for OPERS that has a high likelihood of realizing OPERS' investment objective. The Health Care portfolio's performance objective is to exceed the OPERS performance benchmark. The following table lists the asset allocation and performance benchmarks for each asset class.

### Health Care Asset Allocation

| Asset Class | Target Allocation | Range | Market Index |
|---|---|---|---|
| U.S. Equity | 27.5% | +/– 5.5% | Russell 3000 Stock Index |
| Non-U.S. Equity | 27.5 | +/– 5.5 | MSCI All Country World Free Index Ex-U.S. |
| Global Bonds: | | | |
| Liquidity | 2.0 | +/– 2.0 | 91-day U.S. Treasury Bills |
| TIPS | 3.5 | +/– 1.5 | Barclays U.S. Aggregate Bond Index |
| Core Fixed | 21.5 | +/– 6.5 | Barclays U.S. Long Government/Credit Index |
| High Yield | 2.0 | +/– 2.0 | Barclays U.S. High Yield Index |
| Emerging Market Debt | 5.0 | +/– 4.0 | Custom Benchmark* |
| REITS | 6.0 | +/– 4.0 | Wilshire Real Estate Securities Index |
| Commodities | 1.0 | +/– 1.0 | Standard & Poors-Goldman Sachs Commodity Index Total Return |
| Opportunistic | 4.0 | +/– 4.0 | 3-Month LIBOR + 4 percentage points |
| **Total** | **100.0%** | | |

*50/50 mix of the JPMorgan Emerging Markets Bond Index Global & the JPMorgan Government Bond Index-Emerging Markets Global Diversified.

### Rebalancing

The staff shall ensure conformance with the asset allocation policy through monthly review. The OPERS Board of Trustees expects the Investment staff to ensure compliance with the target asset allocation percentages specified above at reasonable costs and in the best interest of OPERS.

The OPERS Board of Trustees establishes the asset allocation targets and ranges and reviews them periodically. The OPERS Board of Trustees will review, at least annually, the investment policy and asset allocation target and ranges in conjunction with the actuarial assessment of the solvency of the fund.

## Defined Contribution Investment Policies

### Investment Objective

The Defined Contribution portfolio investment options are intended to be primary retirement savings vehicles for members. The long-term objectives of the Defined Contribution portfolios are to offer members and beneficiaries a diversified mix of investment options that span the risk-return spectrum, avoid excessive risk, provide long-term rates of return with low fees and allow meaningful, independent control.

### Asset Allocation

The approved OPERS Board of Trustees asset allocation for the OPERS Target Date Funds presented below establishes a framework for members using the Defined Contribution portfolio investment options that have a high likelihood of enabling members to realize their investment objectives.

### Defined Contribution Asset Allocation

| | OPERS Target Date Funds | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Payout | | 2010 | | 2015 | | 2020 | | 2025 | |
| Funds | Target | Range | Target | Range | Target | Range | Target | Range | Target | Range |
| Stable Value | 24.6% | +/– 3.7% | 19.8% | +/– 2.2% | 0.8% | +/– 2.1% | 0.0% | +/– 0.0% | 0.0% | +/– 0.0% |
| Core Bond | 32.3 | +/– 4.0 | 33.2 | +/– 4.0 | 39.9 | +/– 4.1 | 28.2 | +/– 2.7 | 10.1 | +/– 2.4 |
| TIPS | 13.2 | +/– 3.4 | 12.9 | +/– 2.9 | 9.2 | +/– 3.5 | 0.0 | +/– 0.0 | 0.0 | +/– 0.0 |
| Long-Duration Bond | 0.0 | +/– 0.0 | 0.0 | +/– 0.0 | 0.0 | +/– 0.0 | 0.0 | +/– 0.0 | 5.0 | +/– 1.5 |
| High-Yield Bond | 0.0 | +/– 0.0 | 0.0 | +/– 0.0 | 0.0 | +/– 0.0 | 5.0 | +/– 2.6 | 5.0 | +/– 2.7 |
| Large Cap | 9.8 | +/– 1.3 | 10.6 | +/– 1.3 | 13.7 | +/– 1.4 | 18.2 | +/– 1.7 | 21.8 | +/– 1.9 |
| Small Cap | 5.1 | +/– 1.7 | 6.5 | +/– 1.7 | 11.4 | +/– 1.8 | 15.2 | +/– 2.1 | 18.2 | +/– 2.4 |
| Non-U.S. Stock | 15.0 | +/– 2.2 | 17.0 | +/– 2.3 | 25.0 | +/– 2.4 | 33.4 | +/– 2.6 | 40.0 | +/– 2.8 |

### Defined Contribution Asset Allocation (continued)

| | OPERS Target Date Funds | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2030 | | 2035 | | 2040 | | 2045 | | 2050 | |
| Funds | Target | Range | Target | Range | Target | Range | Target | Range | Target | Range |
| Stable Value | 0.0% | +/– 0.0% | 0.0% | +/– 0.0% | 0.0% | +/– 0.0% | 0.0% | +/– 0.0% | 0.0% | +/– 0.0% |
| Core Bond | 4.3 | +/– 2.4 | 3.8 | +/– 2.3 | 3.3 | +/– 2.2 | 2.5 | +/– 2.1 | 2.5 | +/– 2.1 |
| TIPS | 0.0 | +/– 0.0 | 0.0 | +/– 0.0 | 0.0 | +/– 0.0 | 0.0 | +/– 0.0 | 0.0 | +/– 0.0 |
| Long-Duration Bond | 4.3 | +/– 1.4 | 3.7 | +/– 1.3 | 3.3 | +/– 1.3 | 2.4 | +/– 1.2 | 2.4 | +/– 1.2 |
| High-Yield Bond | 8.6 | +/– 2.9 | 7.5 | +/– 2.6 | 6.6 | +/– 2.4 | 4.9 | +/– 2.0 | 4.9 | +/– 2.0 |
| Large Cap | 22.6 | +/– 2.1 | 23.2 | +/– 2.1 | 23.7 | +/– 2.2 | 24.6 | +/– 2.3 | 24.6 | +/– 2.3 |
| Small Cap | 18.8 | +/– 2.6 | 19.3 | +/– 2.7 | 19.7 | +/– 2.7 | 20.5 | +/– 2.8 | 20.5 | +/– 2.8 |
| Non-U.S. Stock | 41.4 | +/– 2.8 | 42.5 | +/– 2.9 | 43.5 | +/– 3.0 | 45.1 | +/– 3.1 | 45.1 | +/– 3.1 |

## Rebalancing

The ranges specified for the OPERS Target Date Funds are a function of the expected volatility of each asset class and the proportion of the total fund allocated to the asset class. The staff shall ensure conformance of the OPERS Target Date Funds with the asset allocation policy through quarterly review.

## Performance Objectives and Risk Management

The Defined Contribution portfolio investment options are to exceed the OPERS performance benchmarks over five-year periods. The following table lists the performance benchmarks for each investment option.

### Defined Contribution Market Indices

| Asset Class | Market Index |
|---|---|
| Stable Value | 91-day U.S. Treasury Bills |
| Bond Index | Barclays Aggregate |
| Bond | Barclays U.S. Universal |
| Core Bond | Barclays Aggregate |
| TIPS | Barclays TIPS |
| Long-Duration Bond | Barclays Long Government/Credit |
| High-Yield Bond | Barclays High Yield |
| Stock Index | Russell 3000 |
| Large Cap | Russell 1000 |
| Small Cap | Russell 2000 |
| Non-U.S. Stock Index | MSCI All Country World Index Ex-U.S. |
| Non-U.S. Stock | MSCI All Country World Index Ex-U.S. |

## Global Bonds

The Global Bonds program, which includes the Global Bonds Universal portfolio, the Long-Duration portfolio, the Treasury Inflation Protected Securities (TIPS) portfolio, and the Short-Duration portfolio, is expected to out perform their respective benchmarks by at least 15-32 basis points annualized over a three-to-five year market cycle, net of fees.

The Global Bonds program utilizes active and passive management strategies through internal and external managers. The internal core portfolio uses a risk-controlled active strategy focusing on investment grade securities. Currently, external managers are used for the high yield and emerging debt sectors, which require specialized expertise. The Long-Duration, the TIPS, and the Short-Duration portfolios are internally managed using risk controlled active strategies.

## Domestic Equities

The U.S. Equity program is expected to outperform the Russell 3000 Index by at least 20 basis points annualized over a three-to-five year market cycle, net of fees, with a tracking error generally between 20 and 100 basis points.

The active component is expected to deliver excess returns primarily through an optimal mix of large cap exposure versus small cap exposure and traditional fundamental analysis versus quantitative approaches incorporating both internal and external money managers. The active component's tracking error will generally range between 100 and 300 basis points.

The index component is expected to bring the overall risk tolerances within the specified limits, as set by the risk budgeting process at the OPERS total fund level. The primary vehicle to achieve this objective is an internally managed Russell 3000 Index portfolio shown to deliver low tracking error and index-like returns. The projected tracking error ceiling is 15 basis points.

## Real Estate

The private market Real Estate program is expected to meet or exceed the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index (NPI) over rolling five-year periods, net of manager fees. Leverage will be limited to 40% loan to value of the aggregate private market Real Estate program and 70% loan to value for an individual, directly held investment.

The private market Real Estate program uses active management strategies through external managers with single manager exposure limited to 20% of the private market Real Estate program. At least 80% of the private market Real Estate investments will be in apartment, industrial, office and retail assets. Single direct investments are limited to 5% of the private market Real Estate target allocation. Commingled fund commitments are limited to 40% of the private market Real Estate target allocation.

The U.S. public market Real Estate program is expected to meet or exceed the Wilshire Real Estate Securities Index (WRESI) by 50 basis points annualized over rolling five-year periods, net of fees.

The Non-U.S. public market Real Estate program is expected to meet or exceed the Financial Times Stock Exchange (FTSE) European Public Real Estate Association (EPRA)/National Association of Real Estate Investment Trusts (NAREIT) Global Index (ex-U.S.) by 100 basis points annualized over rolling five-year periods, net of fees.

The public market Real Estate program may engage in active and passive management strategies through internal and external managers. Liquidity, diversification and single security risk are controlled at an aggregate level within a reasonable tolerance of the benchmark to minimize biases and unintended portfolio mismatches.

## Private Equities

The Private Equity program is expected to out perform the Russell 3000 Index plus 300 basis points on a long-term, 7-10 year, rolling basis with an internal rate of return (IRR) cash-flow method.

The Private Equity program exclusively uses active management strategies and is 100% externally managed with single partnership exposure limited to 25%, or $200 million, of the Private Equity program. Risk is also managed beyond manager and firm exposure through a combination of quantitative and qualitative constraints for liquidity, vintage, currency, industry, leverage and geography. Diversification will be achieved by investing in partnerships that are complementary in nature regarding fund size, sector and strategic focus, including corporate finance, venture capital and special situations.

## International Equities

The Non-U.S. Equity program is expected to out perform the Morgan Stanley Capital International All Country World Index excluding U.S. (ACWI x U.S.) by at least 75 basis points annualized over a three-to-five year market cycle, net of fees, with a tracking error generally between 80 to 300 basis points.

The Non-U.S. Equity program utilizes both index and active management styles and is managed 100% through external investment managers. The active managers are selected for their expertise and the ability to add alpha with an allocation set at 80% of the portfolio.

Active managers within the ACWI x U.S. category are permitted to invest in emerging markets on an opportunistic or tactical basis up to a prescribed limit. The Non-U.S. Equity program includes strategic allocations to small cap stocks and emerging markets with a target of 3% and 5% through dedicated active managers, respectively. The allocation to growth and value styles through dedicated active managers should be within a range of plus or minus 5% of their weights in the ACWI x U.S. benchmark.

## Cash Management

The Cash Management program actively invests cash collateral to the respective benchmarks of each portfolio within established risk parameters. Interest rate, credit and liquidity risk are managed through a combination of quantitative and qualitative constraints.

## Derivatives

Derivatives may be used to facilitate cost-effective and timely investment and risk management as well as to provide for trading efficiency, and enhance or manage the risk/return profile of individual securities or portfolios.

Of the market value of the asset class, exposure for derivatives positions will not exceed 10% and currency hedges will not exceed 20%.

## Securities Lending

The Securities Lending program actively lends securities through various programs to qualified borrowers in order to provide incremental income to the respective asset classes. Staff will assess the performance of the securities lending program on a quarterly basis.

Cash reinvestment risk, counterparty risk and liquidity risk is managed through a combination of quantitative and qualitative constraints. Excess collateral, marked to market daily, is held for each loan in the amount of 102% for domestic securities and 105% for international securities. The maximum percentage of assets that may be on loan is 50% of the total plan while the maximum amount that may be on loan with any one borrower is 10% of the total plan.

The following exhibit illustrates the structure and relationship of the 19 investment policies within the total System and its three investment portfolios.

## TOTAL OPERS SYSTEM

| DEFINED BENEFIT PORTFOLIO | HEALTH CARE PORTFOLIO | DEFINED CONTRIBUTION PORTFOLIO |
|---|---|---|

## PORTFOLIO POLICIES

| *Statement of Investment Objectives and Policies Defined Benefit Portfolio* | *Statement of Investment Objectives and Policies Health Care Portfolio* | *Statement of Investment Objectives and Policies Defined Contribution Portfolio* |
|---|---|---|

## ASSET CLASS POLICIES

**Public Equities Policy**
**Public Fixed Income Policy**
**Cash Management Policy**
**Private Equity Policy**
**Real Estate Policy**
**Opportunistic Fund Policy**
**Member-Directed Policy**
**Hedge Fund Policy (TBD)**
**Infrastructure Policy (TBD)**
**Liquidity Policy (TBD)**

## OTHER INVESTMENT RELATED POLICIES

**Broker-Dealer Policy**
**Derivatives Policy**
**External Managers' Insurance Policy**
**External Public Manager Evaluation Policy**
**External Public Manager Search Policy**
**Iran and Sudan Divestment Policy**
**Material Nonpublic Information Policy**
**Ohio-Qualified Manager Policy**
**Personal Trading Policy**
**Responsible Contractor Policy**
**Securities Lending Policy**
**Soft Dollar and Other Brokerage Commission Policies**

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# Actuarial Section

In 1959, OPERS noted 25 years of service. At that time, almost $100 million had been paid to 19,659 retirees, surviving spouses, and beneficiaries.

OPERS
1935 2010
Your Trusted Retirement Partner

GRS

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April 8, 2010

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

Dear Board Members:

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

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

The financial objective is addressed within the annual actuarial valuation. The valuation process develops contribution rates that are sufficient to fund the plan's current cost (i.e., the costs assigned by the valuation method to the year of service about to be rendered), as well as to fund unfunded actuarial accrued liabilities as a level percent of active member payroll over a finite period. The most recent valuations were completed based upon population data, asset data, and plan provisions as of December 31, 2008.

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

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

**Actuarial Section**

Summary of Actuarial Assumptions
Individual Employee Pay Increases
Percent Separating Within Next Year
Percent of Eligible Active Members Retiring Next Year
Analysis of Financial Experience

**Financial Section**

Schedule of Funding Progress

The Retirement Board
April 8, 2010
Page 2

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

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

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. The Board adopts these assumptions after considering the advice of the actuary and other professionals. The assumptions comply with the requirements of the Governmental Accounting Standards Board Statement No. 25 and Statement No. 43, and meet the parameters set by GASB Statement No. 43 for the disclosures presented in the financial section. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed. The December 31, 2008 valuations were based upon assumptions that were recommended in connection with a study of experience covering the 2001-2005 period.

Pension experience was unfavorable during 2008, leading to a 30 year amortization period, compared with 14 years in the prior report. This increase in the amortization period was primarily due to poor investment experience. On a market value basis, investment return during 2008 was disappointing for OPERS, as it was for most other retirement plans across the nation. The actuarial method for recognizing pension asset gains and losses recognized $15.8 billion dollars in investment loss this year. Investment markets have since rebounded somewhat so that remaining unrecognized losses may have a lesser effect on results in future years. Experience in the retiree health plan continues to be cause for concern. The solvency period in the retiree health plan decreased since the prior valuation from 31 years to 11 years. Rapidly escalating health care costs, coupled with investment experience in 2008 are likely to lead to further restructuring of the plan.

**Based upon the results of the December 31, 2008 valuations, we are pleased to report to the Board that with respect to pension benefits, the Public Employees Retirement System of Ohio is meeting its basic financial objective and continues in sound condition in accordance with actuarial principles of level percent of payroll financing. However, continued recovery in the investment markets is very important to OPERS and most other retirement plans in the country.**

Respectfully submitted,

Brian B. Murphy

Mita Drazilov

Brian B. Murphy, FSA, MAAA

Mita D. Drazilov, ASA, MAAA

BBM/MDD:mdd

Gabriel Roeder Smith & Company

The actuarial information presented in the 2009 *Comprehensive Annual Financial Report* is based on the System's most current actuarial valuation data of December 31, 2008.

Following an experience study and based on the recommendation of the actuary, the Board of Trustees approved and adopted the following methods and assumptions in 2006. These methods and assumptions apply to both the Traditional Plan and the Combined Plan.

## Funding Method

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

## Economic Assumptions

The following economic assumptions were used by the actuary:

- ***Investment Return***—8.00% compounded annually, net after administrative expenses.
- ***Wage Inflation Rate***—4.00% compounded annually. The wage inflation is defined to be the portion of total pay increases for an individual that are due to macroeconomic forces including productivity, price inflation, and labor market conditions. The wage inflation rate does not include pay changes rated to individual merit and seniority effects.
- ***Assumed Real Rate of Return***—4.00% compounded annually. The assumed real rate of return is defined as the investment return of 8.00%, less the wage inflation rate of 4.00%.
- ***Active Member Population***—Consists of the sum of the active members in the Traditional and Combined pension plans, and is assumed to remain constant. For purposes of financing the unfunded liabilities, total payroll is assumed to grow at the wage inflation rate of 4.00% per year.
- ***Individual Employee Pay Increases***—An active employee's pay is assumed to increase each year, in accordance with an age-based table. Part of the assumed increase is for merit and/or seniority increases, and the balance recognizes the wage inflation rate. The following table describes annual increase percents for sample ages.

### Individual Employee Pay Increases

| Age | Merit and Seniority | | | | Wage Inflation | Total Increase Next Year | | | |
|---|---|---|---|---|---|---|---|---|---|
| | State | Local | Public Safety | Law | | State | Local | Public Safety | Law |
| 30 | 3.00% | 3.00% | 4.00% | 4.00% | 4.00% | 7.00% | 7.00% | 8.00% | 8.00% |
| 40 | 1.80 | 1.80 | 0.85 | 0.85 | 4.00 | 5.80 | 5.80 | 4.85 | 4.85 |
| 50 | 1.20 | 1.20 | 0.50 | 0.50 | 4.00 | 5.20 | 5.20 | 4.50 | 4.50 |
| 60 | 0.70 | 0.70 | 0.50 | 0.50 | 4.00 | 4.70 | 4.70 | 4.50 | 4.50 |

- ***Turnover***—Probabilities of separation from OPERS-covered employment before age-and-service retirement because of employment termination (withdrawal from service), death, or disability. The separation probabilities are based on historical trends of OPERS actual experience, without consideration of the manner in which the members' accounts are distributed.

## Percent Separating Within Next Year—Withdrawal from Employment

| Sample Ages | Years of Service | Withdrawal: State Men | State Women | Local Men | Local Women | Public Safety Men | Public Safety Women | Law Enforcement Men | Law Enforcement Women |
|---|---|---|---|---|---|---|---|---|---|
| | 0 | 40.00% | 40.00% | 40.00% | 40.00% | 16.00% | 18.00% | 15.00% | 18.00% |
| | 1 | 25.00 | 25.00 | 25.00 | 25.00 | 12.00 | 12.00 | 9.00 | 12.00 |
| | 2 | 15.00 | 17.00 | 15.00 | 17.00 | 8.00 | 8.00 | 7.00 | 8.00 |
| | 3 | 10.00 | 12.00 | 10.00 | 12.00 | 7.00 | 7.00 | 5.00 | 7.00 |
| | 4 | 8.00 | 9.00 | 8.00 | 9.00 | 7.00 | 7.00 | 5.00 | 7.00 |
| 30 | 5 & over | 5.44 | 7.28 | 5.90 | 7.04 | 3.90 | 3.16 | 2.66 | 2.90 |
| 40 | 5 & over | 3.32 | 3.88 | 3.32 | 4.18 | 2.20 | 2.80 | 1.48 | 1.50 |
| 50 | 5 & over | 2.18 | 2.88 | 2.50 | 3.14 | 1.60 | 2.00 | 1.20 | 1.20 |
| 60 | 5 & over | 2.10 | 2.70 | 2.50 | 3.00 | 1.60 | 2.00 | 1.20 | 1.20 |

## Percent Separating Within Next Year—Death or Disability

| Sample Ages | Years of Service | Death: All Divisions Men | All Divisions Women | Disability: State Men | State Women | Local Men | Local Women | Public Safety & Law Enforcement Men | Public Safety & Law Enforcement Women |
|---|---|---|---|---|---|---|---|---|---|
| 25 | 5 & over | 0.04% | 0.01% | 0.15% | 0.15% | 0.13% | 0.12% | 0.20% | 0.20% |
| 35 | 5 & over | 0.08 | 0.03 | 0.32 | 0.32 | 0.28 | 0.21 | 0.90 | 0.90 |
| 45 | 5 & over | 0.15 | 0.08 | 0.72 | 0.72 | 0.62 | 0.45 | 1.50 | 1.50 |
| 55 | 5 & over | 0.36 | 0.19 | 1.36 | 1.36 | 1.34 | 0.98 | 3.10 | 3.10 |
| 60 | 5 & over | 0.67 | 0.35 | 2.20 | 2.20 | 1.54 | 1.35 | 4.00 | 4.00 |

The turnover probabilities in the above table estimate the number of active members who will separate from employment based on the criteria of age, gender, and years of service. These members may be eligible for a refund of their account or an annuity benefit depending on the nature of the separation. The method of distribution and the resulting liabilities are calculated for this population based on the following assumptions (see next page).

- ***Withdrawal from Service***—Assumes that members terminating before age 35, members terminating with less than five years of service, and a percentage of all other members will withdraw their contributions and forfeit their entitlement to an employer-financed benefit. The percentage withdrawing their contributions is 100% at age 35 and is reduced for each year of age after 35, becoming 0% at age 55 (age 45 for law members).
- ***Death-in-service and Disability Benefits***—Assumes that members with at least five years of service will elect to receive an annuity benefit. It is assumed that Combined Plan members will transfer to, and take a benefit from, the Traditional Plan, unless a lump sum distribution from the Combined Plan would have a greater value.

## Assets Valuation Method

For actuarial purposes, the Funding Value of Defined Benefit Assets recognizes assumed investment returns fully each year. Differences between actual and assumed investment returns are phased in over a closed four-year period. Funding value is not permitted to deviate from market value by more than 12%. The Traditional and Combined Plan's retiree post-employment health care funding value of assets is developed independently beginning with the December 31, 2004 valuation.

## Valuation Data

The demographic and financial data used in the actuarial valuation were provided to the actuary by the System's administrative staff. The actuary examined the data for general reasonableness and year-to-year consistency, but did not audit the information.

## Decrement Assumptions

The probabilities used by the actuary related to specific risk areas are displayed in the following tables.

- ***Mortality***—The tables used in evaluating age-and-service and survivor benefit allowances to be paid were 110% of rates in the RP-2000 mortality table for males and 100% of the rates in the RP-2000 tables for females with 15 years of projected mortality improvements. The mortality rates used in evaluating disability allowances were the RP-2000 mortality table for disabled lives, set back four years for males and set forward four years for females.
- ***Retirement***—Probabilities of age-and-service retirement applicable to members eligible to retire are as shown in the following schedule.

## Percent of Eligible Active Members Retiring Within Next Year

### With Unreduced Age-and-Service Retirement Benefits

Members may retire with no reduction in benefits if they have the following total years of service credit and have attained division specific minimum ages:

- ***State and Local***—30 years of service at any age;
- ***Public Safety***—25 years of service and attained the age of 52;
- ***Law Enforcement***—25 years of service and attained the age of 48.

| Retirement Age | State | | Local | | Public Safety | Law Enforcement |
|---|---|---|---|---|---|---|
| | Men | Women | Men | Women | | |
| 45-47 | 40% | 30% | 30% | 30% | | |
| 48-51 | 40 | 30 | 30 | 30 | | 20% |
| 52 | 35 | 30 | 30 | 30 | 30% | 20 |
| 53 | 35 | 30 | 30 | 30 | 30 | 22 |
| 54 | 35 | 30 | 30 | 30 | 25 | 22 |
| 55 | 30 | 30 | 30 | 30 | 25 | 22 |
| 56-57 | 25 | 30 | 28 | 30 | 25 | 22 |
| 58 | 25 | 30 | 28 | 30 | 20 | 22 |
| 59 | 25 | 30 | 25 | 30 | 20 | 25 |
| 60 | 30 | 35 | 25 | 30 | 35 | 30 |
| 61 | 30 | 35 | 25 | 30 | 35 | 20 |
| 62-63 | 30 | 35 | 35 | 30 | 35 | 25 |
| 64 | 35 | 35 | 30 | 30 | 35 | 25 |
| 65 | 30 | 30 | 20 | 20 | 35 | 30 |
| 66 | 25 | 20 | 20 | 20 | 35 | 30 |
| 67-69 | 20 | 20 | 15 | 15 | 35 | 30 |
| 70-74 | 20 | 20 | 15 | 15 | 100 | 100 |
| 75 & over | 100 | 100 | 100 | 100 | 100 | 100 |

## Percent of Eligible Active Members Retiring Within Next Year

### With Reduced Age-and-Service Retirement Benefits

Members who have a minimum of 25 years of total service credit and who have attained the age of 55 for State and Local or 48 for Public Safety, may retire with a reduced benefit.

| Retirement Age | State | | Local | | Public Safety |
|---|---|---|---|---|---|
| | Men | Women | Men | Women | |
| 48-51 | N/A | N/A | N/A | N/A | 15% |
| 55-59 | 11% | 11% | 10% | 12% | N/A |
| 60 | 11 | 12 | 10 | 12 | N/A |
| 61 | 11 | 14 | 10 | 12 | N/A |
| 62-63 | 16 | 15 | 15 | 12 | N/A |
| 64 | 16 | 15 | 12 | 12 | N/A |

The following table displays statistical information for retired members of all plans:

## Statistical Data on OPERS Average Retirees — All Retirees

| Year | Average Age at Retirement | Average Service at Retirement | Average Pension at Retirement | Average Age on Valuation Date | Average Pension on Valuation Date |
|---|---|---|---|---|---|
| 2008 | 57.3 | 21.7 | $15,769 | 69.4 | $19,524 |
| 2007 | 57.3 | 21.6 | 15,176 | 69.4 | 18,731 |
| 2006 | 57.4 | 21.4 | 14,586 | 69.5 | 17,934 |
| 2005 | 57.4 | 21.3 | 14,026 | 69.5 | 17,186 |

The following tables display the actuarial valuation data for the active and retired members of the Traditional Plan, and the defined benefit component of the Combined and Member-Directed plans:

## Actuarial Valuation Data — Traditional Plan

| Valuation Year | Active Members | | | | Retired Lives | | |
|---|---|---|---|---|---|---|---|
| | Number | Annual Payroll ($ millions) | Average Pay | Percent Increase in Average Pay | Number* | Annual Allowance ($ millions) | Average Allowance |
| 2008 | 349,969 | $12,546 | $35,849 | 3.87% | 169,000 | $3,300 | $19,525 |
| 2007 | 357,743 | 12,347 | 34,514 | 2.76 | 163,505 | 3,063 | 18,731 |
| 2006 | 356,430 | 11,971 | 33,586 | 2.12 | 159,039 | 2,852 | 17,934 |
| 2005 | 353,708 | 11,633 | 32,890 | 2.00 | 153,935 | 2,645 | 17,186 |
| 2004 | 350,835 | 11,313 | 32,246 | 2.08 | 149,296 | 2,443 | 16,365 |
| 2003 | 350,022 | 11,056 | 31,589 | 3.00 | 145,263 | 2,265 | 15,592 |

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

## Actuarial Valuation Data — Combined Plan

| Valuation Year | Active Members | | | | Retired Lives | | |
|---|---|---|---|---|---|---|---|
| | Number | Annual Payroll ($ millions) | Average Pay | Percent Increase in Average Pay | Number* | Annual Allowance ($ millions) | Average Allowance |
| 2008 | 6,419 | $255 | $39,726 | 6.60% | 7 | $0 | $1,260 |
| 2007 | 6,333 | 236 | 37,265 | 4.12 | 2 | 0 | 1,693 |
| 2006 | 5,700 | 204 | 35,789 | 4.82 | 1 | 0 | 1,505 |
| 2005 | 5,096 | 174 | 34,144 | 7.99 | | | |
| 2004 | 4,452 | 141 | 31,618 | 3.68 | | | |
| 2003 | 3,562 | 109 | 30,497 | N/A | | | |

*Retired lives number represents an individual count of retirees receiving an age-and-service benefit.

Members of the Combined and Member-Directed plans may purchase a defined benefit annuity with the funds available in their defined contribution accounts. The following table displays the actuarial valuation data for these annuitized accounts:

## Actuarial Valuation Data — Purchased Annuities

| Valuation Year | Member-Directed Plan | | | Combined Plan | | |
|---|---|---|---|---|---|---|
| | Number* | Annual Payroll ($ millions) | Average Pay | Number* | Annual Allowance ($ millions) | Average Allowance |
| 2008 | 4 | $0 | $3,468 | 5 | $0 | $1,778 |
| 2007 | 2 | 0 | 1,932 | 2 | 0 | 1,702 |
| 2006 | | | | 1 | 0 | 2,007 |

*Number represents an individual count of retirees and beneficiaries.

# Schedule of Retirees and Beneficiaries Added to and Removed from Rolls

The tables below display the changes in the retiree population that occurred each year within the Traditional and Combined plans. The Annual Allowances in the Rolls at End of Year and the Average Annual Allowances represent the value of pension payments for the retiree population on the rolls at December 31, 2009.

## Schedule of Retirees and Beneficiaries Added to and Removed from Rolls — Traditional Plan

| Year Ended | Added to Rolls | | Removed from Rolls | | Rolls at End of Year | | Percentage Increase in Annual Allowances | Average Annual Allowances |
|---|---|---|---|---|---|---|---|---|
| | Number* | Annual Allowances | Number* | Annual Allowances | Number* | Annual Allowances | | |
| 2009 | 10,839 | $289,793,503 | 5,542 | $78,808,830 | 166,669 | $3,541,886,599 | 8.6% | $21,251 |
| 2008 | 9,240 | 225,548,983 | 4,124 | 56,416,940 | 161,372 | 3,261,996,219 | 7.4 | 20,214 |
| 2007 | 9,733 | 230,401,061 | 5,576 | 82,605,482 | 156,256 | 3,035,847,045 | 7.9 | 19,429 |
| 2006 | 8,969 | 204,875,766 | 3,973 | 55,836,612 | 152,099 | 2,813,495,205 | 7.3 | 18,498 |
| 2005 | 9,394 | 217,934,811 | 5,047 | 65,360,194 | 147,103 | 2,621,820,175 | 9.1 | 17,823 |
| 2004 | 8,289 | 181,295,319 | 3,992 | 50,013,593 | 142,756 | 2,402,846,883 | 7.7 | 16,832 |

*Represents a count of the retired members' accounts under which either the member or the member's beneficiaries are receiving benefits.

## Schedule of Retirees and Beneficiaries Added to and Removed from Rolls — Combined Plan—Defined Benefit

| Year Ended | Added to Rolls | | Removed from Rolls | | Rolls at End of Year | | Percentage Increase in Annual Allowances | Average Annual Allowances |
|---|---|---|---|---|---|---|---|---|
| | Number* | Annual Allowances | Number* | Annual Allowances | Number* | Annual Allowances | | |
| 2009 | 4 | $7,545 | 3 | $3,702 | 8 | $13,035 | 46.8% | $1,629 |
| 2008 | 5 | 5,492 | 0 | | 7 | 8,879 | 162.2 | 1,268 |
| 2007 | 1 | 1,881 | 0 | | 2 | 3,386 | 125.0 | 1,693 |
| 2006 | 1 | 1,505 | 0 | | 1 | 1,505 | 100.0 | 1,505 |

*Represents a count of the retired members' accounts under which either the member or the member's beneficiaries are receiving benefits.

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

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

In a plan that has been following the discipline of level percent of payroll financing, the liabilities for member contributions on deposit (1) and the liabilities for future benefits payable to present retired lives (2) will be fully covered by existing assets (except in rare circumstances). In addition, the liabilities for service already rendered by active/inactive members (3) will be partially covered by the remaining value of actuarial assets at year end. Generally, if the plan has been using level cost financing, the funded portion of (3) will increase over time. It is rare for Column (3) to be fully funded.

The tables below display the results of the Short-Term Solvency Test for asset values in the Traditional and Combined defined benefit plans, based on the actuarial value of assets at year end.

### Accrued Pension Liabilities ($ in millions) — Traditional Plan

| Valuation Year | Aggregate Accrued Liabilities for (1) Member Contributions | (2) Retirees and Beneficiaries | (3) Active/Inactive Members (Employer-financed Portion) | Valuation Assets* | Portions of Accrued Liabilities Covered by Reported Assets (1) | (2) | (3) |
|---|---|---|---|---|---|---|---|
| 2008 | $11,546 | $35,485 | $26,315 | $55,230 | 100% | 100% | 31% |
| 2007 | 10,785 | 32,923 | 25,930 | 67,067 | 100 | 100 | 90 |
| 2006 | 10,374 | 30,636 | 25,078 | 61,235 | 100 | 100 | 81 |
| 2005*** | 9,810 | 28,373 | 24,264 | 54,433 | 100 | 100 | 67 |
| 2005** | 9,810 | 27,925 | 23,364 | 54,433 | 100 | 100 | 71 |
| 2004 | 9,340 | 25,697 | 22,536 | 50,430 | 100 | 100 | 68 |
| 2003 | 8,897 | 23,728 | 22,148 | 46,746 | 100 | 100 | 64 |

*Does not include assets set aside to pay post-employment health care benefits.
**Results from original valuation prior to restatement after completion of experience study.
***Revised from results reported in 2006 CAFR due to updating actuarial assumptions based on experience study.

### Accrued Pension Liabilities ($ in millions) — Combined Plan

| Valuation Year | Aggregate Accrued Liabilities for (1) Member Contributions | (2) Retirees and Beneficiaries | (3) Active/Inactive Members (Employer-financed Portion) | Valuation Assets* | Portions of Accrued Liabilities Covered by Reported Assets (1) | (2) | (3) |
|---|---|---|---|---|---|---|---|
| 2008 | $1 | $0 | $119 | $85 | 100% | 100% | 71% |
| 2007 | 0 | 0 | 95 | 84 | 100 | 100 | 89 |
| 2006 | N/A | 0 | 72 | 61 | N/A | 100 | 84 |
| 2005*** | N/A | N/A | 51 | 40 | N/A | N/A | 78 |
| 2005** | N/A | N/A | 47 | 40 | N/A | N/A | 85 |
| 2004 | N/A | N/A | 31 | 22 | N/A | N/A | 71 |
| 2003 | N/A | N/A | 18 | 9 | N/A | N/A | 50 |

*Does not include assets set aside to pay post-employment health care benefits. Includes the value of defined contribution assets used to purchase a defined benefit annuity.
**Results from original valuation prior to restatement after completion of experience study.
***Revised from results reported in 2006 CAFR due to updating actuarial assumptions based on experience study.

The following tables display the actual financial experience in relation to the actuarially assumed experience for each of the defined benefit plans. Actuarial gains and losses in accrued liabilities result from differences between the assumed experience and actual experience.

## Analysis of Financial Experience — Traditional Plan

| Type of Activity | Gain (or Loss) for Year ($ in millions) 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| **Age-and-Service Retirements**<br>If members retire at older ages than assumed, there is a gain. If younger ages, a loss. | $10.1 | ($30.6) | ($32.1) | ($26.7) |
| **Disability Retirements**<br>If disability claims are less than assumed, there is a gain. If more claims, a loss. | 39.1 | 36.7 | 3.0 | (25.6) |
| **Death-In-Service Annuities**<br>If survivor claims are less than assumed, there is a gain. If more claims, a loss. | 31.7 | 29.5 | 14.3 | 23.1 |
| **Other Separations**<br>If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss. | (27.9) | (129.0) | (134.4) | (112.1) |
| **Pay Increases**<br>If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss. | 220.2 | 202.4 | 373.3 | 302.3 |
| **Investment Return**<br>If there is greater investment return than assumed, there is a gain. If less return, a loss. | (15,813.5) | 1,979.3 | 3,332.2 | 705.9 |
| **Gain (or Loss) During Year from Financial Experience** | ($15,540.3) | $2,088.3 | $3,556.3 | $866.9 |

## Analysis of Financial Experience — Combined Plan

| Type of Activity | Gain (or Loss) for Year ($ in millions) 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| **Age-and-Service Retirements**<br>If members retire at older ages than assumed, there is a gain. If younger ages, a loss. | ($0.06) | ($0.03) | ($0.01) | ($0.01) |
| **Disability Retirements**<br>If disability claims are less than assumed, there is a gain. If more claims, a loss. | 1.94 | 1.12 | 0.89 | (0.12) |
| **Death-In-Service Annuities**<br>If survivor claims are less than assumed, there is a gain. If more claims, a loss. | 0.05 | 0.21 | 0.14 | (0.03) |
| **Other Separations**<br>If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss. | 1.98 | 1.08 | (3.15) | (1.30) |
| **Pay Increases**<br>If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss. | (0.21) | 0.22 | 0.15 | (0.66) |
| **Investment Return**<br>If there is greater investment return than assumed, there is a gain. If less return, a loss. | (23.83) | (0.10) | (0.09) | (0.05) |
| **Gain (or Loss) During Year from Financial Experience** | ($20.13) | $2.50 | ($2.07) | ($2.17) |

## Actual vs. Recommended Contribution Rates

The Board of Trustees adopted all contribution rates as recommended by the actuary.

# Statistical Section

Established in 1935, OPERS had 6,022 members; by 1938, that number rose to more than 42,000. When OPERS celebrated 50 years of service in 1985, membership had grown to 303,100.

The Statistical Section provides pertinent information to assist readers when viewing the Financial Statements, Notes to the Financial Statements and Required Supplementary Information to assist in understanding and assessing the System's overall financial condition. The information reported here is in compliance with GASB Statement 44: *Economic Condition Reporting: The Statistical Section.* This statement establishes standardized reporting requirements for the supplementary information provided in this section.

The schedules and graphs beginning on page 119 show financial trend information about the growth of OPERS' assets for the past 10 years. These schedules provide detailed information about the trends of key sources of additions and deductions to the System's assets and assist in providing a context framing how OPERS' financial position has changed over time. The financial trend schedules presented are:

- Net Assets by Plan,
- Statutory Fund Balances by Plan,
- Changes in Fiduciary Net Assets,
- Benefits by Type, and
- Refunds by Type.

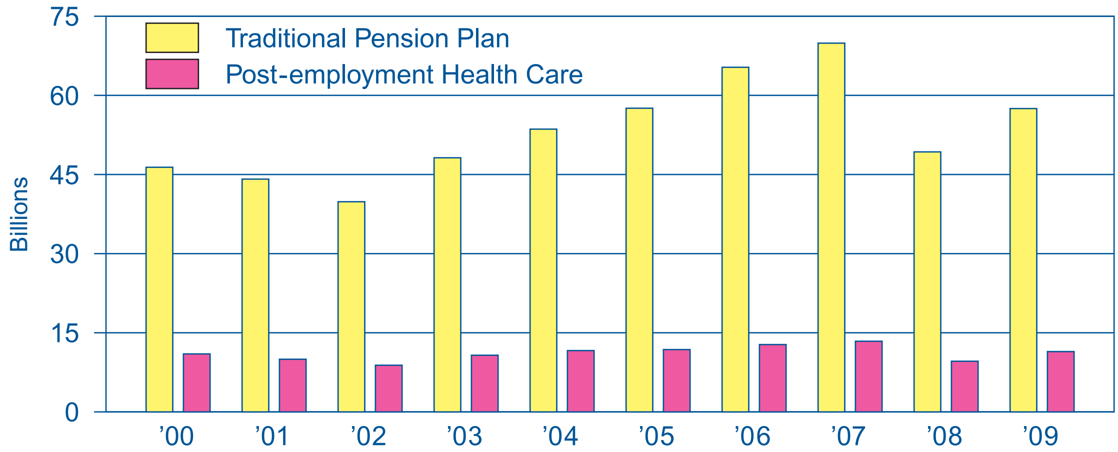
The schedules on page 132 compare the pension assets accumulated to cover the projected pension liabilities that are ultimately due at retirement for each of the defined benefit plans and the corresponding funded ratio. The schedule on page 133 displays similar information for OPERS' health care assets and projected liabilities. The Health Care Solvency schedule shows the estimated number of years for which assets are available to cover the projected liabilities. OPERS' target is to maintain a rolling 20-40 years of available solvency. Refer to Schedules of Pension and Health Care Assets vs. Liabilities.

The schedules beginning on page 130 show demographic and economic information, and operating information. The demographic and economic information is designed to assist in understanding the environment in which OPERS operates. The operating information is intended to provide contextual information about OPERS' operations to assist in assessing the System's economic condition. The demographic and economic information, and the operating information presented includes:

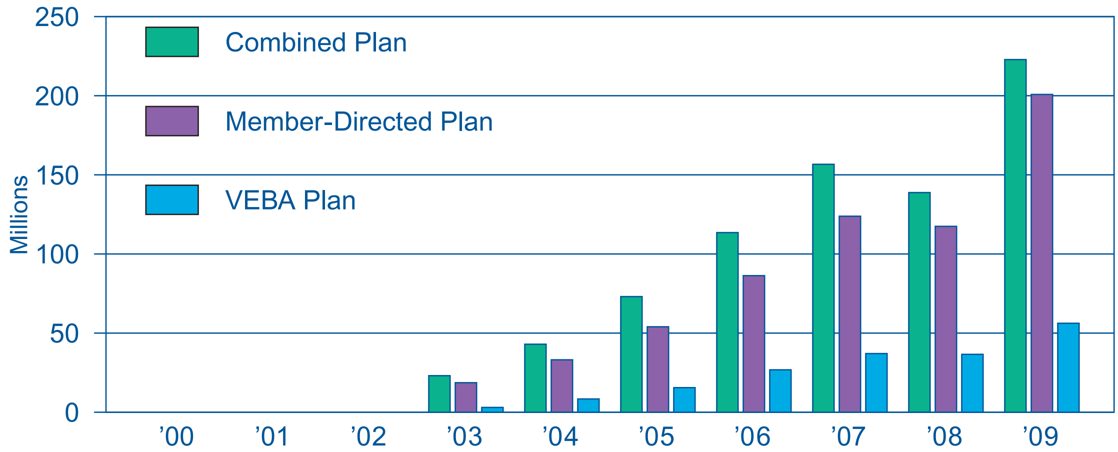
- Number of Refund Payments by Plan,
- Number of Benefit Recipients by Category,
- Number of Covered Lives by Category,
- Schedule of Benefit Recipients by Benefit Type and Amount,
- Number of New Pension Benefit Recipients,
- Schedule of Average Benefit Payments (Traditional and Combined Plans),
- Member Count by Plan,
- OPERS' Financial Impact by County,
- Distribution of Benefit Recipients by Location,
- Contribution Rates,
- Number of Employer Units, and
- Principal Participating Employers.

All non-accounting data is derived from OPERS' internal sources.

## Net Assets by Plan — Traditional, Post-employment Health Care




## Net Assets by Plan — Combined, Member-Directed, VEBA




## Net Assets by Plan (last ten fiscal years)

| Year | Traditional Plan | Post-employment Health Care | Combined Plan* | Member-Directed Plan* | VEBA Plan* | Total Net Assets |
|---|---|---|---|---|---|---|
| 2009 | $57,630,423,957 | $11,415,195,274 | $223,384,797 | $200,588,070 | $55,784,131 | $69,525,376,229 |
| 2008 | 49,312,811,154 | 9,596,082,077 | 138,950,485 | 117,342,021 | 36,333,066 | 59,201,518,803 |
| 2007 | 69,959,641,078 | 13,282,947,482 | 156,864,566 | 123,946,918 | 37,227,685 | 83,560,627,729 |
| 2006 | 65,297,352,893 | 12,838,059,079 | 113,999,034 | 86,524,882 | 25,331,889 | 78,361,267,777 |
| 2005 | 57,662,214,741 | 11,845,713,012 | 72,499,607 | 54,502,026 | 15,377,190 | 69,650,306,576 |
| 2004 | 53,554,315,210 | 11,609,113,358 | 43,463,455 | 33,579,873 | 7,978,960 | 65,248,450,856 |
| 2003 | 48,239,335,328 | 10,813,803,449 | 22,890,488 | 18,464,414 | 3,181,305 | 59,097,674,984 |
| 2002 | 39,100,014,979 | 8,886,282,086 | N/A | N/A | N/A | 47,986,297,065 |
| 2001 | 44,036,346,352 | 9,936,383,994 | N/A | N/A | N/A | 53,972,730,346 |
| 2000 | 46,261,950,182 | 10,965,429,369 | N/A | N/A | N/A | 57,227,379,551 |

*Plan commenced January 1, 2003.

## Statutory Fund Balance by Plan (last ten fiscal years)

| Year | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| **All Plans** | | | | |
| Employees' Savings Fund | $11,933,642,333 | $11,546,208,967 | $10,815,159,012 | $10,374,480,725 |
| Employers' Accumulation Fund— Pension/Health Care | 20,026,006,552 | 13,503,733,507 | 40,336,757,059 | 38,641,822,117 |
| Annuity and Pension Reserve Fund | 35,616,195,176 | 32,410,382,036 | 30,699,027,425 | 27,770,522,547 |
| Survivors' Benefit Fund | 1,472,264,995 | 1,418,388,692 | 1,373,512,884 | 1,313,109,826 |
| Defined Contribution Fund— Retirement/Health Care | 376,419,373 | 216,885,601 | 234,047,349 | 165,336,652 |
| Income Fund | 95,184,666 | 100,226,117 | 99,627,634 | 95,995,910 |
| Expense Fund | 5,663,134 | 5,693,883 | 2,496,366 | |
| **Total Fund Balance** | **$69,525,376,229** | **$59,201,518,803** | **$83,560,627,729** | **$78,361,267,777** |
| **Traditional Plan** | | | | |
| Employees' Savings Fund | $11,932,873,455 | $11,545,651,011 | $10,814,646,533 | $10,374,152,385 |
| Employers' Accumulation Fund—Pension | 8,508,596,858 | 3,832,714,973 | 26,970,418,583 | 25,743,571,669 |
| Annuity and Pension Reserve Fund | 35,615,840,849 | 32,410,136,478 | 30,698,939,078 | 27,770,523,103 |
| Survivors' Benefit Fund | 1,472,264,995 | 1,418,388,692 | 1,373,512,884 | 1,313,109,826 |
| Income Fund | 95,184,666 | 100,226,117 | 99,627,634 | 95,995,910 |
| Expense Fund | 5,663,134 | 5,693,883 | 2,496,366 | |
| **Total Fund Balance** | **$57,630,423,957** | **$49,312,811,154** | **$69,959,641,078** | **$65,297,352,893** |
| **Post-employment Health Care** | | | | |
| Employers' Accumulation Fund—Health Care | $11,415,195,274 | $9,596,082,077 | $13,282,947,482 | $12,838,059,079 |
| **Total Fund Balance** | **$11,415,195,274** | **$9,596,082,077** | **$13,282,947,482** | **$12,838,059,079** |
| **Combined Plan*** | | | | |
| Employees' Savings Fund | $768,977 | $557,956 | $512,479 | $328,340 |
| Employers' Accumulation Fund—Pension | 102,108,811 | 74,976,136 | 83,391,067 | 60,191,369 |
| Annuity and Pension Reserve Fund | 251,905 | 73,758 | 60,804 | (556) |
| Defined Contribution Fund—Retirement | 120,255,104 | 63,342,635 | 72,900,216 | 53,479,881 |
| **Total Fund Balance** | **$223,384,797** | **$138,950,485** | **$156,864,566** | **$113,999,034** |
| **Member-Directed Plan*** | | | | |
| Employees' Savings Fund | $(99) | | | |
| Employers' Accumulation Fund—Pension | 105,609 | $(39,679) | $(73) | |
| Annuity and Pension Reserve Fund | 102,422 | 171,800 | 27,543 | |
| Defined Contribution Fund—Retirement | 200,380,138 | 117,209,900 | 123,919,448 | $86,524,882 |
| **Total Fund Balance** | **$200,588,169** | **$117,342,021** | **$123,946,918** | **$86,524,882** |
| **VEBA Plan*** | | | | |
| Defined Contribution Fund—Health Care | $55,784,131 | $36,333,066 | $37,227,685 | $25,331,889 |
| **Total Fund Balance** | **$55,784,131** | **$36,333,066** | **$37,227,685** | **$25,331,889** |

*Plan commenced January 1, 2003.

## Statutory Fund Balance by Plan (continued)

| 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| $9,810,364,125 | $9,339,927,737 | $8,896,964,040 | $8,513,859,664 | $7,991,271,196 | $7,447,696,499 |
| 33,061,020,982 | 30,921,433,439 | 27,368,711,915 | 18,979,364,269 | 27,435,948,587 | 31,702,819,858 |
| 25,377,301,101 | 23,663,435,434 | 21,562,826,137 | 19,305,720,320 | 17,438,484,109 | 17,102,441,704 |
| 1,209,472,794 | 1,171,933,656 | 1,143,463,941 | 1,096,358,667 | 1,027,255,264 | 918,982,217 |
| 102,223,154 | 62,970,790 | 35,826,751 | | | |
| 87,484,700 | 84,749,285 | 89,838,868 | 86,024,578 | 77,946,292 | 54,086,167 |
| 2,439,720 | 4,000,515 | 43,332 | 4,969,567 | 1,824,898 | 1,353,106 |
| **$69,650,306,576** | **$65,248,450,856** | **$59,097,674,984** | **$47,986,297,065** | **$53,972,730,346** | **$57,227,379,551** |
| $9,810,182,770 | $9,339,889,114 | $8,896,961,910 | $8,513,859,664 | $7,991,271,196 | $7,447,696,499 |
| 21,175,333,656 | 19,290,307,206 | 16,546,201,140 | 10,093,082,183 | 17,499,564,593 | 20,737,390,489 |
| 25,377,301,101 | 23,663,435,434 | 21,562,826,137 | 19,305,720,320 | 17,438,484,109 | 17,102,441,704 |
| 1,209,472,794 | 1,171,933,656 | 1,143,463,941 | 1,096,358,667 | 1,027,255,264 | 918,982,217 |
| 87,484,700 | 84,749,285 | 89,838,868 | 86,024,578 | 77,946,292 | 54,086,167 |
| 2,439,720 | 4,000,515 | 43,332 | 4,969,567 | 1,824,898 | 1,353,106 |
| **$57,662,214,741** | **$53,554,315,210** | **$48,239,335,328** | **$39,100,014,979** | **$44,036,346,352** | **$46,261,950,182** |
| $11,845,713,012 | $11,609,113,358 | $10,813,803,449 | $8,886,282,086 | $9,936,383,994 | $10,965,429,369 |
| **$11,845,713,012** | **$11,609,113,358** | **$10,813,803,449** | **$8,886,282,086** | **$9,936,383,994** | **$10,965,429,369** |
| $181,355 | $38,623 | $2,130 | | | |
| 39,974,314 | 22,012,875 | 8,707,326 | | | |
| 32,343,938 | 21,411,957 | 14,181,032 | | | |
| **$72,499,607** | **$43,463,455** | **$22,890,488** | | | |
| $54,502,026 | $33,579,873 | $18,464,414 | | | |
| **$54,502,026** | **$33,579,873** | **$18,464,414** | | | |
| $15,377,190 | $7,978,960 | $3,181,305 | | | |
| **$15,377,190** | **$7,978,960** | **$3,181,305** | | | |

## Changes in Fiduciary Net Assets (last ten fiscal years)

| Year | 2009 | 2008 | 2007 | 2006* |
|---|---|---|---|---|
| **All Plans** | | | | |
| **Additions:** | | | | |
| Members' Contributions | $1,385,175,757 | $1,386,561,202 | $1,306,544,058 | $1,171,079,333 |
| Employers' Contributions | 1,822,891,697 | 1,840,585,266 | 1,798,305,461 | 1,673,479,701 |
| Contracts and Other Receipts | 218,930,417 | 180,763,502 | 151,494,844 | 216,390,457 |
| Medicare Part D Reimbursements | 69,132,772 | 63,310,194 | 59,075,120 | 58,987,181 |
| Net Income (Loss) from Investing Activity | 12,274,797,785 | (22,770,412,901) | 6,594,053,702 | 10,028,554,662 |
| Other Income, Net | 794,525 | 1,635,996 | 110,559 | 1,501,275 |
| Interplan Activity | 7,879,768 | 7,470,205 | 5,730,846 | 5,286,335 |
| Total Additions | 15,779,602,721 | (19,290,086,536) | 9,915,314,590 | 13,155,278,944 |
| **Deductions:** | | | | |
| Pension Benefits | 3,661,174,109 | 3,388,953,861 | 3,136,995,197 | 2,906,859,113 |
| Health Care Benefits | 1,488,266,219 | 1,377,274,519 | 1,282,829,856 | 1,231,882,888 |
| Refunds of Contributions | 222,580,254 | 221,300,825 | 221,092,748 | 235,136,633 |
| Administrative Expenses | 75,844,945 | 74,022,980 | 69,305,991 | 65,152,774 |
| Interplan Activity | 7,879,768 | 7,470,205 | 5,730,846 | 5,286,335 |
| Total Deductions | 5,455,745,295 | 5,069,022,390 | 4,715,954,638 | 4,444,317,743 |
| Net Increase (Decrease) | 10,323,857,426 | (24,359,108,926) | 5,199,359,952 | 8,710,961,201 |
| Net Assets Held in Trust, Beginning of Year | 59,201,518,803 | 83,560,627,729 | 78,361,267,777 | 69,650,306,576 |
| **Net Assets Held in Trust, End of Year** | **$69,525,376,229** | **$59,201,518,803** | **$83,560,627,729** | **$78,361,267,777** |
| **Traditional Plan** | | | | |
| **Additions:** | | | | |
| Members' Contributions | $1,236,966,262 | $1,253,053,822 | $1,183,959,051 | $1,065,862,778 |
| Employers' Contributions | 1,019,834,609 | 892,693,746 | 1,051,808,289 | 1,092,998,459 |
| Contracts and Other Receipts | 159,979,887 | 113,351,117 | 105,157,859 | 122,076,019 |
| Net Income (Loss) from Investing Activity | 9,822,978,753 | (19,258,540,437) | 5,717,111,026 | 8,529,935,923 |
| Other Income, Net | 140,494 | 1,021,007 | 40,061 | 194,492 |
| Interplan Activity | 7,839,790 | 7,289,779 | 4,969,740 | 4,520,387 |
| Total Additions | 12,247,739,795 | (16,991,130,966) | 8,063,046,026 | 10,815,588,058 |
| **Deductions:** | | | | |
| Pension Benefits | 3,661,076,709 | 3,388,862,796 | 3,136,978,910 | 2,906,857,436 |
| Refunds of Contributions | 212,209,227 | 212,802,651 | 213,007,451 | 228,034,617 |
| Administrative Expenses | 56,805,048 | 53,853,085 | 50,053,260 | 44,854,241 |
| Interplan Activity | 36,008 | 180,426 | 718,220 | 703,612 |
| Total Deductions | 3,930,126,992 | 3,655,698,958 | 3,400,757,841 | 3,180,449,906 |
| Net Increase (Decrease) | 8,317,612,803 | (20,646,829,924) | 4,662,288,185 | 7,635,138,152 |
| Net Assets Held in Trust, Beginning of Year | 49,312,811,154 | 69,959,641,078 | 65,297,352,893 | 57,662,214,741 |
| **Net Assets Held in Trust, End of Year** | **$57,630,423,957** | **$49,312,811,154** | **$69,959,641,078** | **$65,297,352,893** |
| **Post-employment Health Care** | | | | |
| **Additions:** | | | | |
| Members' Contributions | $94,370,543 | $82,695,255 | $79,198,959 | $71,718,182 |
| Employers' Contributions | 740,817,891 | 891,561,073 | 695,967,837 | 538,312,995 |
| Contracts and Other Receipts | 58,649,547 | 66,343,542 | 45,534,017 | 93,724,104 |
| Medicare Part D Reimbursements | 69,132,772 | 63,310,194 | 59,075,120 | 58,987,181 |
| Net Income (Loss) from Investing Activity | 2,356,554,863 | (3,400,647,342) | 858,614,433 | 1,471,059,831 |
| Other Income, Net | 654,031 | 614,989 | 70,498 | 1,306,783 |
| Total Additions | 3,320,179,647 | (2,296,122,289) | 1,738,460,864 | 2,235,109,076 |
| **Deductions:** | | | | |
| Health Care Benefits | 1,488,032,855 | 1,377,146,173 | 1,282,776,044 | 1,231,870,038 |
| Administrative Expenses | 13,033,595 | 13,596,943 | 10,796,417 | 10,892,971 |
| Total Deductions | 1,501,066,450 | 1,390,743,116 | 1,293,572,461 | 1,242,763,009 |
| Net Increase (Decrease) | 1,819,113,197 | (3,686,865,405) | 444,888,403 | 992,346,067 |
| Net Assets Held in Trust, Beginning of Year | 9,596,082,077 | 13,282,947,482 | 12,838,059,079 | 11,845,713,012 |
| **Net Assets Held in Trust, End of Year** | **$11,415,195,274** | **$9,596,082,077** | **$13,282,947,482** | **$12,838,059,079** |

*Additions restated in 2007 to delineate contracts and other receipts; years prior to 2004 are not restated.

## Changes in Fiduciary Net Assets (continued)

| 2005* | 2004* | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| $1,055,269,202 | $1,038,288,958 | $1,023,198,026 | $1,094,343,553 | $931,050,640 | $879,844,987 |
| 1,599,401,084 | 1,547,265,013 | 1,626,775,196 | 1,683,021,503 | 1,408,392,987 | 1,171,674,955 |
| 120,057,761 | 139,473,863 | 200,272 | | | |
| 5,740,076,574 | 7,192,406,571 | 11,868,086,473 | (5,684,965,700) | (2,717,806,094) | (443,108,186) |
| 980,539 | (107,798) | 411,093 | 623,421 | 664,919 | 884,651 |
| 2,457,816 | 3,510,475 | 29,392,751 | | | |
| 8,518,242,976 | 9,920,837,082 | 14,548,063,811 | (2,906,977,223) | (377,697,548) | 1,609,296,407 |
| 2,679,084,743 | 2,454,131,826 | 2,236,477,663 | 2,060,130,216 | 1,880,704,941 | 1,656,264,159 |
| 1,152,943,718 | 1,040,949,675 | 907,769,092 | 776,006,852 | 693,484,110 | 559,606,294 |
| 220,236,000 | 209,777,972 | 193,209,598 | 187,051,815 | 262,681,258 | 81,830,345 |
| 61,664,979 | 61,691,260 | 69,836,790 | 56,267,175 | 40,081,348 | 29,642,466 |
| 2,457,816 | 3,510,475 | 29,392,751 | | | |
| 4,116,387,256 | 3,770,061,208 | 3,436,685,894 | 3,079,456,058 | 2,876,951,657 | 2,327,343,264 |
| 4,401,855,720 | 6,150,775,874 | 11,111,377,917 | (5,986,433,281) | (3,254,649,205) | (718,046,857) |
| 65,248,450,856 | 59,097,674,982 | 47,986,297,065 | 53,972,730,346 | 57,227,379,551 | 57,945,426,408 |
| **$69,650,306,576** | **$65,248,450,856** | **$59,097,674,982** | **$47,986,297,065** | **$53,972,730,346** | **$57,227,379,551** |
| | | | | | |
| $965,977,835 | $958,095,802 | $1,006,863,812 | $1,094,343,553 | $931,050,640 | $879,844,987 |
| 1,106,755,953 | 1,057,429,880 | 1,026,594,837 | 1,109,983,205 | 977,289,237 | 718,807,713 |
| 112,227,300 | 118,205,826 | | | | |
| 4,860,636,257 | 5,886,688,477 | 9,603,775,739 | (4,841,899,792) | (1,954,230,267) | (353,942,104) |
| 432,175 | (107,798) | 411,093 | 623,421 | 664,919 | 884,651 |
| 1,593,458 | 3,510,475 | 8,754,777 | | | |
| 7,047,622,978 | 8,023,822,662 | 11,646,400,258 | (2,636,949,613) | (45,225,471) | 1,245,595,247 |
| 2,679,084,743 | 2,454,131,826 | 2,236,477,663 | 2,060,130,216 | 1,880,704,941 | 1,656,264,159 |
| 215,398,602 | 207,121,141 | 192,768,335 | 187,051,815 | 262,681,258 | 81,830,345 |
| 44,375,744 | 47,589,813 | 57,195,937 | 52,199,729 | 36,992,160 | 27,763,712 |
| 864,358 | | 20,637,974 | | | |
| 2,939,723,447 | 2,708,842,780 | 2,507,079,909 | 2,299,381,760 | 2,180,378,359 | 1,765,858,216 |
| 4,107,899,531 | 5,314,979,882 | 9,139,320,349 | (4,936,331,373) | (2,225,603,830) | (520,262,969) |
| 53,554,315,210 | 48,239,335,328 | 39,100,014,979 | 44,036,346,352 | 46,261,950,182 | 46,782,213,151 |
| **$57,662,214,741** | **$53,554,315,210** | **$48,239,335,328** | **$39,100,014,979** | **$44,036,346,352** | **$46,261,950,182** |
| | | | | | |
| $63,408,347 | $58,975,931 | | | | |
| 457,325,506 | 461,788,996 | $579,904,361 | $573,038,298 | $431,103,750 | $452,867,242 |
| 7,234,092 | 20,897,027 | | | | |
| 868,900,661 | 1,297,291,883 | 2,258,066,075 | (843,065,908) | (763,575,827) | (89,166,082) |
| 548,364 | | | | | |
| 1,397,416,970 | 1,838,953,837 | 2,837,970,436 | (270,027,610) | (332,472,077) | 363,701,160 |
| 1,152,941,961 | 1,040,949,675 | 907,769,092 | 776,006,852 | 693,484,110 | 559,606,294 |
| 7,875,355 | 2,694,253 | 2,679,981 | 4,067,446 | 3,089,188 | 1,878,754 |
| 1,160,817,316 | 1,043,643,928 | 910,449,073 | 780,074,298 | 696,573,298 | 561,485,048 |
| 236,599,654 | 795,309,909 | 1,927,521,363 | (1,050,101,908) | (1,029,045,375) | (197,783,888) |
| 11,609,113,358 | 10,813,803,449 | 8,886,282,086 | 9,936,383,994 | 10,965,429,369 | 11,163,213,257 |
| **$11,845,713,012** | **$11,609,113,358** | **$10,813,803,449** | **$8,886,282,086** | **$9,936,383,994** | **$10,965,429,369** |

## Changes in Fiduciary Net Assets (last seven fiscal years*)

| Year | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| **Combined Plan*** | | | | |
| **Additions:** | | | | |
| Members' Contributions | $26,096,068 | $25,123,220 | $21,907,704 | $17,367,629 |
| Employers' Contributions | 23,397,299 | 20,352,999 | 19,241,579 | 17,689,420 |
| Contracts and Other Receipts | 124,823 | 844,005 | 347,280 | 427,966 |
| Net Income (Loss) from Investing Activity | 44,034,607 | (53,571,566) | 9,866,238 | 14,041,870 |
| Interplan Activity | | 68,857 | 411,764 | 420,198 |
| Total Additions | 93,652,797 | (7,182,485) | 51,774,565 | 49,947,083 |
| **Deductions:** | | | | |
| Pension Benefits | 35,566 | 11,911 | 5,451 | 552 |
| Refunds of Contributions | 2,905,883 | 3,623,723 | 2,707,630 | 1,910,107 |
| Administrative Expenses | 2,638,279 | 2,990,092 | 3,890,828 | 4,510,803 |
| Interplan Activity | 3,638,757 | 4,105,870 | 2,305,124 | 2,026,194 |
| Total Deductions | 9,218,485 | 10,731,596 | 8,909,033 | 8,447,656 |
| Net Increase (Decrease) | 84,434,312 | (17,914,081) | 42,865,532 | 41,499,427 |
| Net Assets Held in Trust, Beginning of Year | 138,950,485 | 156,864,566 | 113,999,034 | 72,499,607 |
| **Net Assets Held in Trust, End of Year** | **$223,384,797** | **$138,950,485** | **$156,864,566** | **$113,999,034** |
| **Member-Directed Plan*** | | | | |
| **Additions:** | | | | |
| Members' Contributions | $27,742,884 | $25,688,905 | $21,478,344 | $16,130,744 |
| Employers' Contributions | 26,356,764 | 24,411,834 | 21,048,014 | 16,363,129 |
| Contracts and Other Receipts | 173,832 | 223,485 | 453,716 | 161,894 |
| Net Income (Loss) from Investing Activity | 42,835,328 | (46,084,400) | 5,860,816 | 10,529,166 |
| Interplan Activity | | 55,277 | 278,478 | 345,750 |
| Total Additions | 97,108,808 | 4,295,101 | 49,119,368 | 43,530,683 |
| **Deductions:** | | | | |
| Pension Benefits | 61,834 | 79,154 | 10,836 | 1,125 |
| Refunds of Contributions | 7,465,144 | 4,874,451 | 5,377,667 | 5,191,909 |
| Administrative Expenses | 2,514,665 | 2,762,484 | 3,601,327 | 3,882,917 |
| Interplan Activity | 3,821,116 | 3,183,909 | 2,707,502 | 2,431,876 |
| Total Deductions | 13,862,759 | 10,899,998 | 11,697,332 | 11,507,827 |
| Net Increase (Decrease) | 83,246,049 | (6,604,897) | 37,422,036 | 32,022,856 |
| Net Assets Held in Trust, Beginning of Year | 117,342,021 | 123,946,918 | 86,524,882 | 54,502,026 |
| **Net Assets Held in Trust, End of Year** | **$200,588,070** | **$117,342,021** | **$123,946,918** | **$86,524,882** |
| **VEBA Plan*** | | | | |
| **Additions:** | | | | |
| Employers' Contributions | $12,485,134 | $11,565,614 | $10,239,742 | $8,115,698 |
| Contracts and Other Receipts | 2,328 | 1,353 | 1,972 | 474 |
| Net Income (Loss) from Investing Activity | 8,394,234 | (11,569,156) | 2,601,189 | 2,987,872 |
| Interplan Activity | 39,978 | 56,292 | 70,864 | |
| Total Additions | 20,921,674 | 54,103 | 12,913,767 | 11,104,044 |
| **Deductions:** | | | | |
| Health Care Benefits | 233,364 | 128,346 | 53,812 | 12,850 |
| Administrative Expenses | 853,358 | 820,376 | 964,159 | 1,011,842 |
| Interplan Activity | 383,887 | | | 124,653 |
| Total Deductions | 1,470,609 | 948,722 | 1,017,971 | 1,149,345 |
| Net Increase (Decrease) | 19,451,065 | (894,619) | 11,895,796 | 9,954,699 |
| Net Assets Held in Trust, Beginning of Year | 36,333,066 | 37,227,685 | 25,331,889 | 15,377,190 |
| **Net Assets Held in Trust, End of Year** | **$55,784,131** | **$36,333,066** | **$37,227,685** | **$25,331,889** |

*Plan commenced January 1, 2003.

## Changes in Fiduciary Net Assets (continued)

| 2005 | 2004 | 2003 |
|---|---|---|
| $13,720,773 | $11,104,158 | $8,658,022 |
| 15,632,184 | 12,164,161 | 8,451,197 |
| 263,142 | 310,255 | 150,574 |
| 5,420,080 | 4,282,641 | 3,077,753 |
| 425,831 | | 10,300,381 |
| 35,462,010 | 27,861,215 | 30,637,927 |
| 1,390,162 | 601,042 | 49,490 |
| 4,432,803 | 5,032,027 | 4,480,051 |
| 602,893 | 1,655,177 | 3,217,900 |
| 6,425,858 | 7,288,246 | 7,747,441 |
| 29,036,152 | 20,572,969 | 22,890,486 |
| 43,463,455 | 22,890,486 | |
| **$72,499,607** | **$43,463,455** | **$22,890,486** |
| $12,162,247 | $10,113,067 | $7,676,192 |
| 12,435,161 | 10,026,114 | 7,462,827 |
| 332,927 | 60,434 | 49,551 |
| 4,078,183 | 3,423,731 | 2,753,472 |
| 355,531 | | 10,337,593 |
| 29,364,049 | 23,623,346 | 28,279,635 |
| 3,447,236 | 2,055,789 | 391,773 |
| 4,128,233 | 4,898,872 | 5,098,717 |
| 866,427 | 1,553,226 | 4,324,731 |
| 8,441,896 | 8,507,887 | 9,815,221 |
| 20,922,153 | 15,115,459 | 18,464,414 |
| 33,579,873 | 18,464,414 | |
| **$54,502,026** | **$33,579,873** | **$18,464,414** |
| $7,252,280 | $5,855,862 | $4,361,974 |
| 300 | 321 | 147 |
| 1,041,393 | 719,839 | 413,434 |
| 82,996 | | |
| 8,376,969 | 6,576,022 | 4,775,555 |
| 1,757 | | |
| 852,844 | 1,476,295 | 382,104 |
| 124,138 | 302,072 | 1,212,146 |
| 978,739 | 1,778,367 | 1,594,250 |
| 7,398,230 | 4,797,655 | 3,181,305 |
| 7,978,960 | 3,181,305 | |
| **$15,377,190** | **$7,978,960** | **$3,181,305** |

## Benefits by Type (last ten fiscal years)

| Year | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| **All Plans** | | | | |
| **Pension Benefits:** | | | | |
| Annuities | $2,955,939,060 | $2,704,884,589 | $2,471,644,840 | $2,295,238,967 |
| Disabilities | 529,948,352 | 509,082,328 | 500,045,797 | 454,254,591 |
| Other Systems/Death/QEBA | 20,803,990 | 25,216,043 | 21,293,226 | 18,413,480 |
| Survivors | 154,482,707 | 149,770,901 | 144,011,334 | 138,952,075 |
| **Total Pension Benefits** | **$3,661,174,109** | **$3,388,953,861** | **$3,136,995,197** | **$2,906,859,113** |
| **Health Care Benefits:** | | | | |
| Medicare Part B (statutorily required) | $105,854,803 | $103,934,337 | $99,175,973 | $92,268,184 |
| Medical | 878,094,392 | 827,264,256 | 749,227,963 | 711,474,474 |
| Prescription drug | 494,674,419 | 441,059,097 | 431,405,495 | 428,140,230 |
| Allowance Payment to RMA** | 9,642,605 | 5,016,829 | 3,020,425 | |
| **Total Health Care Benefits** | **$1,488,266,219** | **$1,377,274,519** | **$1,282,829,856** | **$1,231,882,888** |
| **Total Pension and Health Care Benefits** | **$5,149,440,328** | **$4,766,228,380** | **$4,419,825,053** | **$4,138,742,001** |
| **Traditional Plan** | | | | |
| **Pension Benefits:** | | | | |
| Annuities | $2,955,841,660 | $2,704,793,524 | $2,471,628,553 | $2,295,237,290 |
| Disabilities | 529,948,352 | 509,082,328 | 500,045,797 | 454,254,591 |
| Other Systems | 13,014,368 | 17,565,698 | 13,929,119 | 11,090,453 |
| Survivors | 154,482,707 | 149,770,901 | 144,011,334 | 138,952,075 |
| Death | 7,124,887 | 6,998,605 | 6,891,186 | 7,033,516 |
| QEBA*** | 664,735 | 651,740 | 472,921 | 289,511 |
| **Total Pension Benefits** | **$3,661,076,709** | **$3,388,862,796** | **$3,136,978,910** | **$2,906,857,436** |
| **Post-employment Health Care** | | | | |
| **Health Care Benefits:** | | | | |
| Medicare Part B (statutorily required) | $105,854,803 | $103,934,337 | $99,175,973 | $92,268,184 |
| Medical | 877,861,028 | 827,135,910 | 749,174,151 | 711,461,624 |
| Prescription drug | 494,674,419 | 441,059,097 | 431,405,495 | 428,140,230 |
| Allowance Payment to RMA** | 9,642,605 | 5,016,829 | 3,020,425 | |
| **Total Health Care Benefits** | **$1,488,032,855** | **$1,377,146,173** | **$1,282,776,044** | **$1,231,870,038** |
| **Combined Plan*** | | | | |
| **Pension Benefits:** | | | | |
| Annuities and installment payments | $35,566 | $11,911 | $5,451 | $552 |
| **Total Pension Benefits** | **$35,566** | **$11,911** | **$5,451** | **$552** |
| **Member-Directed Plan*** | | | | |
| **Pension Benefits:** | | | | |
| Annuities and installment payments | $61,834 | $79,154 | $10,836 | $1,125 |
| **Total Pension Benefits** | **$61,834** | **$79,154** | **$10,836** | **$1,125** |
| **VEBA Plan*** | | | | |
| **Health Care Benefits:** | | | | |
| Medical and Prescription Drug | $233,364 | $128,346 | $53,812 | $12,850 |
| **Total Health Care Benefits** | **$233,364** | **$128,346** | **$53,812** | **$12,850** |

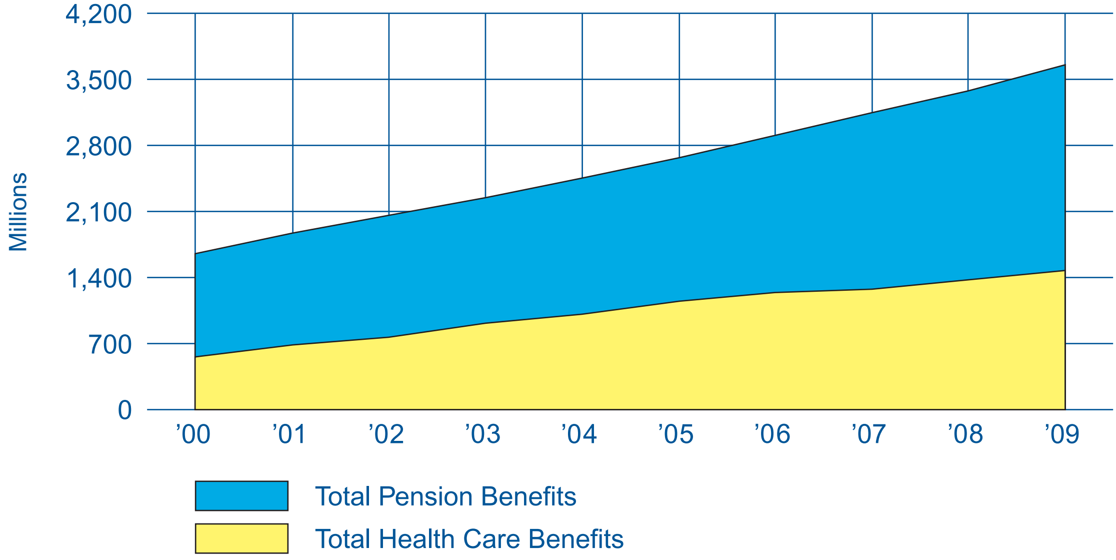
* Plan commenced January 1, 2003.
** Retiree Medical Account (RMA) commenced January 1, 2007.
*** QEBA commenced in 2000 with retroactive payments made in 2004.

## Benefits by Type (continued)

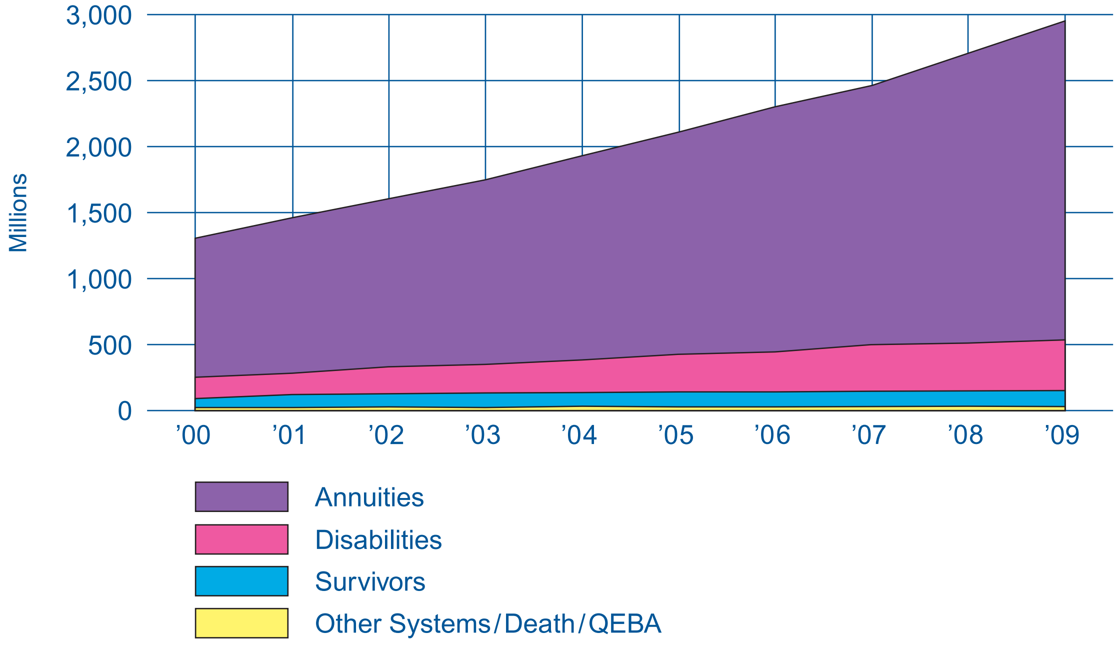
| 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| $2,107,916,570 | $1,921,376,875 | $1,746,038,446 | $1,603,187,593 | $1,464,902,740 | $1,300,982,670 |
| 418,066,051 | 384,376,167 | 352,768,476 | 319,946,811 | 287,759,349 | 251,751,580 |
| 18,826,529 | 20,452,688 | 14,485,111 | 18,241,094 | 13,944,000 | 14,232,058 |
| 134,275,593 | 127,926,096 | 123,185,630 | 118,754,718 | 114,098,852 | 89,297,851 |
| **$2,679,084,743** | **$2,454,131,826** | **$2,236,477,663** | **$2,060,130,216** | **$1,880,704,941** | **$1,656,264,159** |
| $80,094,041 | $67,295,184 | $58,704,582 | $53,572,102 | $49,192,479 | $44,470,799 |
| 669,665,389 | 578,796,744 | 489,843,513 | 408,221,504 | 377,912,277 | 308,735,099 |
| 403,184,288 | 394,857,747 | 359,220,997 | 314,213,246 | 266,379,354 | 206,400,396 |
| **$1,152,943,718** | **$1,040,949,675** | **$907,769,092** | **$776,006,852** | **$693,484,110** | **$559,606,294** |
| **$3,832,028,461** | **$3,495,081,501** | **$3,144,246,755** | **$2,836,137,068** | **$2,574,189,051** | **$2,215,870,453** |
| $2,107,916,570 | $1,921,376,875 | $1,746,038,446 | $1,603,187,593 | $1,464,902,740 | $1,300,982,670 |
| 418,066,051 | 384,376,167 | 352,768,476 | 319,946,811 | 287,759,349 | 251,751,580 |
| 11,331,852 | 13,431,599 | 7,812,726 | 11,242,369 | 6,984,942 | 7,767,254 |
| 134,275,593 | 127,926,096 | 123,185,630 | 118,754,718 | 114,098,852 | 89,297,851 |
| 7,237,063 | 6,831,559 | 6,672,385 | 6,998,725 | 6,959,058 | 6,464,804 |
| 257,614 | 189,530 | | | | |
| **$2,679,084,743** | **$2,454,131,826** | **$2,236,477,663** | **$2,060,130,216** | **$1,880,704,941** | **$1,656,264,159** |
| $80,094,041 | $67,295,184 | $58,704,582 | $53,572,102 | $49,192,479 | $44,470,799 |
| 669,663,632 | 578,796,744 | 489,843,513 | 408,221,504 | 377,912,277 | 308,735,099 |
| 403,184,288 | 394,857,747 | 359,220,997 | 314,213,246 | 266,379,354 | 206,400,396 |
| **$1,152,941,961** | **$1,040,949,675** | **$907,769,092** | **$776,006,852** | **$693,484,110** | **$559,606,294** |
| $0 | $0 | $0 | | | |
| **$0** | **$0** | **$0** | | | |
| $0 | $0 | $0 | | | |
| **$0** | **$0** | **$0** | | | |
| $1,757 | $0 | $0 | | | |
| **$1,757** | **$0** | **$0** | | | |

These are graphic representations of the Benefits by Type data detailed on page 126.

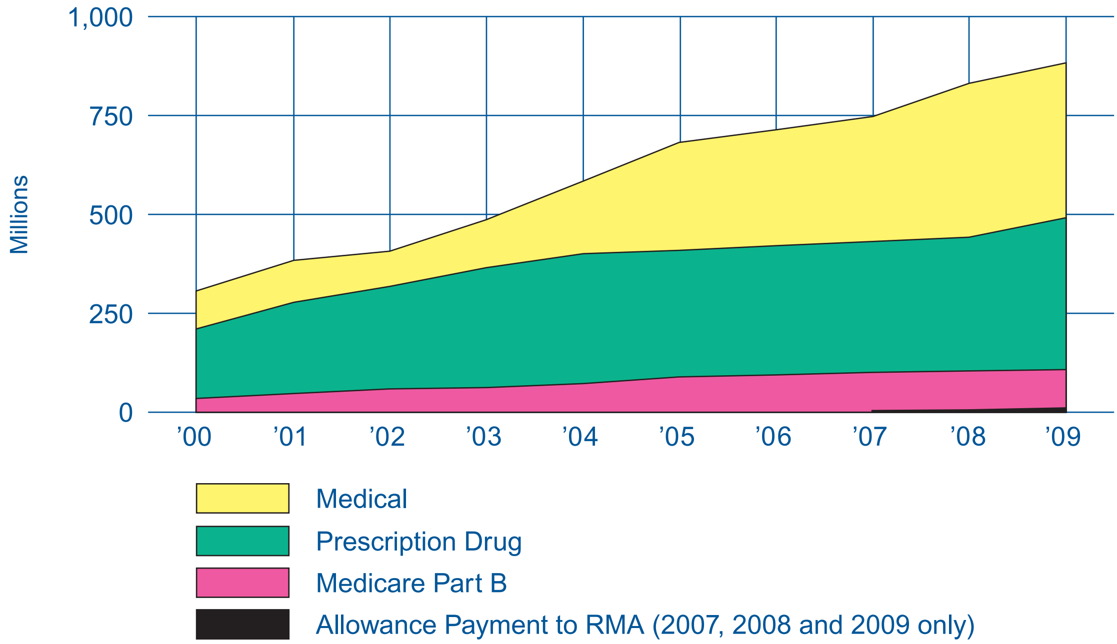
## Benefits by Type




## Pension Benefits by Type



## Health Care Benefits by Type



## Refunds by Type (last ten fiscal years)

| Year | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| **All Plans** | | | | |
| **Refunds:** | | | | |
| Separation | $192,467,640 | $192,910,095 | $196,668,493 | $207,231,584 |
| Beneficiaries | 21,549,473 | 19,118,230 | 18,590,739 | 18,466,920 |
| Other | 8,563,141 | 9,272,500 | 5,833,515 | 9,465,306 |
| **Total Refunds** | **$222,580,254** | **$221,300,825** | **$221,092,747** | **$235,163,810** |
| **Traditional Plan** | | | | |
| **Refunds:** | | | | |
| Separation | $182,274,674 | $184,463,536 | $188,635,768 | $200,138,152 |
| Beneficiaries | 21,371,412 | 19,066,615 | 18,538,167 | 18,458,336 |
| Other | 8,563,141 | 9,272,500 | 5,833,515 | 9,465,306 |
| **Total Refunds** | **$212,209,227** | **$212,802,651** | **$213,007,450** | **$228,061,794** |
| **Combined Plan*** | | | | |
| **Refunds:** | | | | |
| Separation | $2,824,743 | $3,596,259 | $2,665,357 | $1,910,107 |
| Beneficiaries | 81,140 | 27,464 | 42,273 | |
| Other | | | | |
| **Total Refunds** | **$2,905,883** | **$3,623,723** | **$2,707,630** | **$1,910,107** |
| **Member-Directed Plan*** | | | | |
| **Refunds:** | | | | |
| Separation | $7,368,223 | $4,850,300 | $5,367,368 | $5,183,325 |
| Beneficiaries | 96,921 | 24,151 | 10,299 | 8,584 |
| Other | | | | |
| **Total Refunds** | **$7,465,144** | **$4,874,451** | **$5,377,667** | **$5,191,909** |

*Plan commenced January 1, 2003.

## Number of Refund Payments by Plan (last ten fiscal years)

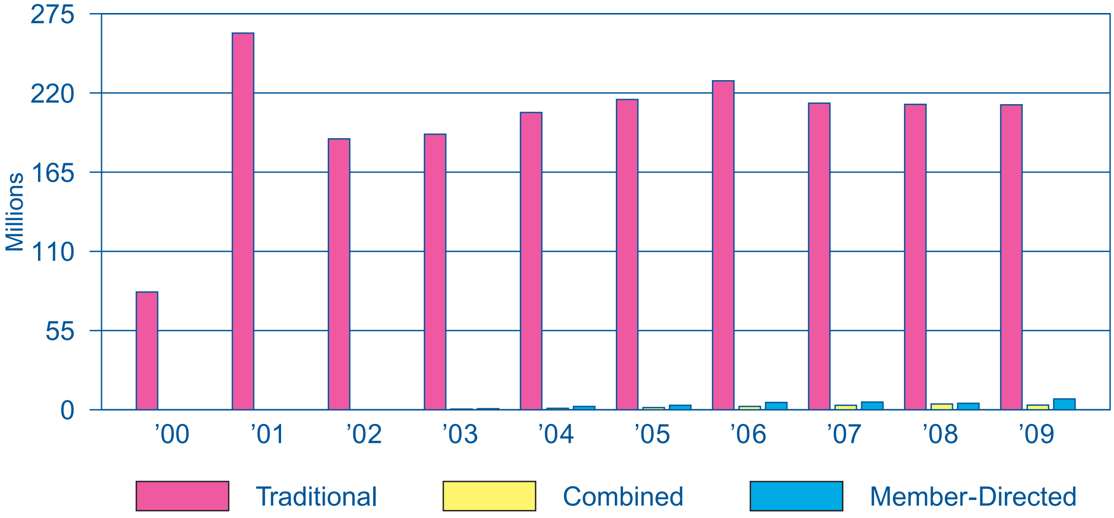
| Year | Traditional Plan | Combined Plan* | Member-Directed Plan* | Total |
|---|---|---|---|---|
| 2009 | 21,413 | 389 | 822 | 22,624 |
| 2008 | 23,173 | 451 | 799 | 24,423 |
| 2007 | 23,679 | 378 | 739 | 24,796 |
| 2006 | 26,276 | 383 | 937 | 27,596 |
| 2005 | 28,013 | 253 | 580 | 28,846 |
| 2004 | 37,728 | 151 | 436 | 38,315 |
| 2003 | 37,022 | 21 | 79 | 37,122 |
| 2002 | 32,186 | N/A | N/A | 32,186 |
| 2001 | 40,615 | N/A | N/A | 40,615 |
| 2000 | 31,157 | N/A | N/A | 31,157 |

*Plan commenced January 1, 2003.

## Refunds by Type (continued)

| 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| $193,717,806 | $179,851,347 | $151,283,802 | $159,348,529 | $231,665,029 | $69,381,933 |
| 18,638,613 | 19,885,182 | 28,263,206 | 15,180,435 | 22,378,095 | 2,374,820 |
| 7,879,581 | 10,041,443 | 13,662,590 | 12,522,851 | 8,638,134 | 10,073,592 |
| **$220,236,000** | **$209,777,972** | **$193,209,598** | **$187,051,815** | **$262,681,258** | **$81,830,345** |
| $189,019,842 | $177,227,660 | $150,846,499 | $159,348,529 | $231,665,029 | $69,381,933 |
| 18,510,705 | 19,872,224 | 28,263,206 | 15,180,435 | 22,378,095 | 2,374,820 |
| 7,868,055 | 10,021,257 | 13,658,630 | 12,522,851 | 8,638,134 | 10,073,592 |
| **$215,398,602** | **$207,121,141** | **$192,768,335** | **$187,051,815** | **$262,681,258** | **$81,830,345** |
| $1,346,396 | $595,651 | $47,738 | | | |
| 39,498 | 2,642 | | | | |
| 4,268 | 2,749 | 1,752 | | | |
| **$1,390,162** | **$601,042** | **$49,490** | | | |
| $3,351,568 | $2,028,036 | $389,565 | | | |
| 88,410 | 10,316 | | | | |
| 7,258 | 17,437 | 2,208 | | | |
| **$3,447,236** | **$2,055,789** | **$391,773** | | | |

## Refunds by Plan



## Pension Assets vs. Pension Liabilities* (last ten fiscal years, $ in millions) — All Plans

| Year | 2008 | 2007 | 2006 | 2005# | 2005** | 2004 | 2003 | 2002 | 2001< | 2000< | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Pension Assets | $55,315 | $67,151 | $61,296 | $54,473 | $54,473 | $50,452 | $46,746 | $43,706 | $48,748 | $46,844 | $43,060 |
| Accrued Liabilities | 73,466 | 69,734 | 66,161 | 62,498 | 61,146 | 57,604 | 54,774 | 50,872 | 47,492 | 46,347 | 43,070 |
| Unfunded Liabilities | (18,151) | (2,583) | (4,865) | (8,025) | (6,673) | (7,152) | (8,028) | (7,166) | 1,256 | 497 | (10) |
| Funded Ratio | 75.29% | 96.30% | 92.65% | 87.16% | 89.09% | 87.58% | 85.34% | 85.91% | 102.64% | 101.07% | 99.98% |

*The Combined and Member-Directed Plans commenced January 1, 2003.
**Information prior to completion of experience study.
#Information after completion of experience study.
<Pension assets exceeded accrued liabilities.

## Pension Assets vs. Pension Liabilities (last ten fiscal years, $ in millions) — Traditional Plan

| Year | 2008 | 2007 | 2006 | 2005# | 2005** | 2004 | 2003 | 2002 | 2001< | 2000< | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Pension Assets | $55,230 | $67,067 | $61,235 | $54,433 | $54,433 | $50,430 | $46,737 | $43,706 | $48,748 | $46,844 | $43,060 |
| Accrued Liabilities | 73,346 | 69,639 | 66,089 | 62,447 | 61,099 | 57,573 | 54,756 | 50,872 | 47,492 | 46,347 | 43,070 |
| Unfunded Liabilities | (18,116) | (2,572) | (4,854) | (8,014) | (6,666) | (7,143) | (8,019) | (7,166) | 1,256 | 497 | (10) |
| Funded Ratio | 75.30% | 96.31% | 92.66% | 87.17% | 89.09% | 87.59% | 85.36% | 85.91% | 102.64% | 101.07% | 99.98% |

**Information prior to completion of experience study.
#Information after completion of experience study.
<Pension assets exceeded accrued liabilities.

## Pension Assets vs. Pension Liabilities* (last six fiscal years, $ in millions) — Combined Plan

| Year | 2008 | 2007 | 2006 | 2005# | 2005** | 2004 | 2003 |
|---|---|---|---|---|---|---|---|
| Pension Assets | $85 | $84 | $61 | $40 | $40 | $22 | $9 |
| Accrued Liabilities | 120 | 95 | 72 | 51 | 47 | 31 | 18 |
| Unfunded Liabilities | (35) | (11) | (11) | (11) | (7) | (9) | (9) |
| Funded Ratio | 70.83% | 88.42% | 84.72% | 78.43% | 85.11% | 70.97% | 50.00% |

*The Combined Plan commenced January 1, 2003.
**Information prior to completion of experience study.
#Information after completion of experience study.

## Pension Assets vs. Pension Liabilities* ($ in millions) — Member-Directed Annuities

| Year | 2008 |
|---|---|
| Pension Assets | $0.148 |
| Accrued Liabilities | 0.166 |
| Unfunded Liabilities | (0.018) |
| Funded Ratio | 88.95% |

*The Member-Directed Plan commenced January 1, 2003. Actuarial data for retirement annuities not available prior to 2008.

## Health Care Assets vs. Liabilities (last five fiscal years)($ in millions)

## Post-employment Health Care

| Year | 2008 | 2007 | 2006 | 2005# | 2005* | 2004 |
|---|---|---|---|---|---|---|
| Health Care Assets | $10,748 | $12,801 | $12,025 | $11,070 | $11,070 | $10,816 |
| Accrued Liabilities | 29,623 | 29,825 | 30,748 | 31,796 | 31,307 | 29,479 |
| Unfunded Liabilities | (18,875) | (17,024) | (18,723) | (20,726) | (20,237) | (18,663) |
| Funded Ratio | 36.28% | 42.92% | 39.11% | 34.82% | 35.36% | 36.69% |

*Information prior to completion of experience study.

#Information after completion of experience study.

## Health Care Solvency Period

| Year | Estimated Years of Solvency |
|---|---|
| 2008 | 11 |
| 2007 | 31 |
| 2006 | 27 |
| 2005 | 18 |
| 2004 | 17 |
| 2003 | 18 |
| 2002 | 14 |
| 2001* | 21 |

*Data not available prior to 2001.

## Self-funding Rate*

| Year | Self-funding Rate |
|---|---|
| 2008 | 7.7% |
| 2007 | 7.4 |
| 2006 | 8.1 |
| 2005** | 9.0 |

*The self-funding rate is the percentage of contribution required to fund health care indefinitely without regard to repayment of the liability within 30 years.

**Data not available prior to 2005.

## Contribution Rate

| Year | Annual Required Contribution Rate |
|---|---|
| 2009 | 13.26% |
| 2008 | 14.57 |
| 2007 | 16.35 |
| 2006* | 16.64 |

*Data not available prior to 2006.

## % of Contribution Rate

| Year | % of Contribution Rate Funding Health Care |
|---|---|
| 2009** | 5.88% |
| 2008 | 7.00% |
| 2007* | 5.50 |
| 2006 | 4.50 |
| 2005 | 4.00 |
| 2004 | 4.00 |
| 2003 | 5.00 |
| 2002 | 5.00 |
| 2001 | 4.30 |
| 2000 | 4.30 |

*The portion of the employer contribution rate allocated to fund health care was 5% for the period January 1, 2007 through June 30, 2007 and increased to 6% for the period July 1, 2007 through December 31, 2007. The overall effective rate for the year was 5.5%.

**The portion of the employer contribution rate allocated to fund health care was 7% for the period January 1, 2009 through March 31, 2009 and decreased to 5.5% for the period April 1, 2009 through December 31, 2009. The overall effective rate for the year was 5.88%.

## Number of Benefit Recipients by Category

Note: The values included in the following tables represent the number of individuals receiving benefit payments. One retiree account may be issued to multiple recipients or beneficiaries. See the Schedule of Retirees and Beneficiaries Added to and Removed from Rolls on page 114 for the number of retiree accounts distributed as monthly benefits as of December 31, 2009.

### Traditional Plan

| Year End | Annuities | Disabilities | Survivors | Total |
|---|---|---|---|---|
| 2009 | 135,918 | 22,651 | 13,358 | 171,927 |
| 2008 | 130,734 | 22,515 | 13,250 | 166,499 |
| 2007 | 126,002 | 22,108 | 13,232 | 161,342 |
| 2006 | 122,021 | 21,563 | 13,161 | 156,745 |
| 2005 | 118,099 | 20,732 | 12,927 | 151,758 |
| 2004 | 114,698 | 19,758 | 12,510 | 146,966 |
| 2003 | 112,247 | 18,859 | 12,537 | 143,643 |
| 2002 | 109,565 | 17,809 | 12,291 | 139,665 |
| 2001 | 105,876 | 16,727 | 12,166 | 134,769 |
| 2000 | 103,680 | 15,811 | 11,937 | 131,428 |

### Combined Plan*

| Year End | Defined Benefit Pension Annuities |
|---|---|
| 2009 | 9 |
| 2008 | 7 |
| 2007 | 2 |
| 2006 | 1 |

*Plan commenced January 1, 2003.

### Member-Directed Plan*

| Year End | Annuities | Installment Payments | Total |
|---|---|---|---|
| 2009 | 9 | 10 | 19 |
| 2008 | 5 | 5 | 10 |
| 2007 | 2 | 2 | 4 |
| 2006 | 1 | 1 | 2 |

*Plan commenced January 1, 2003.

## Number of Covered Lives by Category

Note: The values included in the following tables represent the number of lives covered by OPERS' health care coverage and the number of Member-Directed Plan members eligible to draw on their VEBA accounts.

### Post-employment Health Care

| Year End | Total Covered Lives |
|---|---|
| 2009 | 213,220 |
| 2008 | 208,857 |
| 2007 | 204,514 |
| 2006 | 200,494 |
| 2005 | 194,773 |
| 2004 | 189,227 |
| 2003 | 179,182 |
| 2002 | 170,945 |
| 2001* | 161,664 |

*Data not available prior to 2001.

### VEBA Plan*

| Year End | Total Covered Lives |
|---|---|
| 2009 | 1,260 |
| 2008 | 365 |
| 2007 | 176 |
| 2006 | 293 |
| 2005 | 185 |
| 2004 | 75 |
| 2003 | 9 |

*Plan commenced January 1, 2003.

## Schedule of Benefit Recipients by Benefit Type and Amount

Note: The values included in the following tables represent the number of individuals receiving benefit payments. One retiree account may be issued to multiple recipients or beneficiaries. See the Schedule of Retirees and Beneficiaries Added to and Removed from Rolls on page 114 for the number of retiree accounts distributed as monthly benefits as of December 31, 2009.

### Schedule of Benefit Recipients by Benefit Type and Amount (as of December 2009) Traditional Plan

| Amount of Monthly Benefit | Annuities | Disabilities | Survivors | Number of Recipients |
|---|---|---|---|---|
| $1-299 | 12,305 | 379 | 735 | 13,419 |
| 300-499 | 10,008 | 414 | 2,173 | 12,595 |
| 500-999 | 24,361 | 2,190 | 5,849 | 32,400 |
| 1,000-1,499 | 20,751 | 4,525 | 2,504 | 27,780 |
| 1,500-1,999 | 16,960 | 5,138 | 1,058 | 23,156 |
| 2,000 & Over | 51,533 | 10,005 | 1,039 | 62,577 |
| **Totals** | **135,918** | **22,651** | **13,358** | **171,927** |

### Combined Plan (as of December 2009)

| Amount of Monthly Benefit | Defined Benefit Pension Annuities |
|---|---|
| $1-299 | 9 |
| 300-499 | |
| 500-999 | |
| 1,000-1,499 | |
| 1,500-1,999 | |
| 2,000 & Over | |
| **Totals** | **9** |

### Member-Directed Plan (as of December 2009)

| Amount of Monthly Benefit | Annuities | Installment Payments | Total |
|---|---|---|---|
| $1-299 | 8 | | 8 |
| 300-499 | | | |
| 500-999 | 1 | | 1 |
| 1,000-1,499 | | | |
| 1,500-1,999 | | | |
| 2,000 & Over | | | |
| Various | | 10 | 10 |
| **Totals** | **9** | **10** | **19** |

Members in the Member-Directed and Combined plans have the option to annuitize all or a portion of their defined contribution account at OPERS for a defined benefit, or to draw on their defined contribution account under an installment payment plan.

Combined Plan members are also eligible for a defined (formula) benefit from their employer contributions. The Defined Benefit Pension Annuities column represents members receiving a formula benefit. Members may also receive distributions by annuitizing their defined contribution account, or via installment payments.

The Member-Directed Plan table displays the distribution of members electing either a defined benefit annuity or an installment payment option. The Annuities column represents the number of members that have liquidated their entire defined contribution account to purchase a defined benefit annuity. Members electing to purchase a defined benefit annuity with less than 100% of their defined contribution account are included in the Installment Payments column.

## Number of New Pension Benefit Recipients

Note: The values included in the following tables represent the number of individuals receiving benefit payments. One retiree account may be issued to multiple recipients or beneficiaries. See the Schedule of Retirees and Beneficiaries Added to and Removed from Rolls on page 114 for the number of retiree accounts distributed as monthly benefits as of December 31, 2009.

### Traditional Plan

| Year | Annuities | Disabilities | Survivors | Total |
|---|---|---|---|---|
| 2009 | 9,026 | 1,132 | 723 | 10,881 |
| 2008 | 8,689 | 1,351 | 695 | 10,735 |
| 2007 | 7,701 | 1,429 | 731 | 9,861 |
| 2006 | 7,457 | 1,644 | 707 | 9,808 |
| 2005 | 7,257 | 1,734 | 729 | 9,720 |
| 2004 | 7,222 | 1,664 | 565 | 9,451 |
| 2003 | 6,559 | 1,833 | 770 | 9,162 |
| 2002 | 7,600 | 1,799 | 700 | 10,099 |
| 2001 | 5,999 | 1,650 | 754 | 8,403 |
| 2000 | 6,065 | 1,739 | 655 | 8,459 |

### Combined Plan

| Year | Defined Benefit Pension Annuities |
|---|---|
| 2009 | 2 |
| 2008 | 5 |
| 2007 | 1 |
| 2006 | 1 |

### Member-Directed Plan

| Year | Annuities | Installment Payments | Total |
|---|---|---|---|
| 2009 | 6 | 5 | 11 |
| 2008 | 3 | 4 | 7 |
| 2007 | 2 | 1 | 3 |
| 2006 | 0 | 1 | 1 |

Members in the Member-Directed and Combined plans have the option to annuitize all or a portion of their defined contribution account at OPERS for a defined benefit, or to draw on their defined contribution account under an installment payment plan.

Combined Plan members are also eligible for a defined (formula) benefit from their employer contributions. The Defined Benefit Pension Annuities column represents members receiving a formula benefit. Members may also receive distributions by annuitizing their defined contribution account, or via installment payments.

The Member-Directed Plan table displays the distribution of members electing either a defined benefit annuity or an installment payment option. The Annuities column represents the number of members that have liquidated their entire defined contribution account to purchase a defined benefit annuity. Members electing to purchase a defined benefit annuity with less than 100% of their defined contribution account are included in the Installment Payments column.

## Schedule of Average Benefits*** (last ten fiscal years) — Traditional Plan

| Retirement Effective Dates | | Years Credited Service | | | | | |
|---|---|---|---|---|---|---|---|
| | | 5-9 | 10-14 | 15-19 | 20-24 | 25-30 | 30+ |
| 2009 | Average Monthly Benefit* | $670 | $901 | $1,217 | $1,608 | $2,195 | $3,263 |
| | Average Final Average Salary | $30,925 | $37,211 | $42,333 | $45,453 | $51,770 | $57,750 |
| | Number of Active Recipients | 801 | 1,435 | 1,111 | 1,205 | 1,389 | 4,898 |
| 2008 | Average Monthly Benefit* | $658 | $803 | $1,102 | $1,491 | $2,140 | $3,006 |
| | Average Final Average Salary | $28,690 | $34,193 | $39,625 | $43,193 | $49,965 | $55,247 |
| | Number of Active Recipients | 784 | 1,360 | 1,012 | 1,066 | 1,268 | 3,750 |
| 2007**** | Average Monthly Benefit* | $767 | $816 | $1,099 | $1,519 | $2,063 | $2,977 |
| | Average Final Average Salary | $31,477 | $34,991 | $40,020 | $44,015 | $48,653 | $54,941 |
| | Number of Active Recipients** | 852 | 1,558 | 1,165 | 1,131 | 1,240 | 3,787 |
| 2006**** | Average Monthly Benefit* | $732 | $688 | $1,015 | $1,406 | $1,994 | $2,871 |
| | Average Final Average Salary | $28,771 | $30,409 | $37,248 | $40,359 | $46,316 | $52,998 |
| | Number of Active Recipients** | 606 | 1,349 | 986 | 993 | 1,383 | 3,198 |
| 2005 | Average Monthly Benefit* | $766 | $723 | $1,013 | $1,407 | $1,987 | $2,891 |
| | Average Final Average Salary | $28,702 | $32,126 | $36,360 | $39,854 | $46,151 | $52,805 |
| | Number of Active Recipients** | 645 | 1,317 | 987 | 954 | 1,319 | 3,442 |
| 2004 | Average Monthly Benefit* | $784 | $618 | $985 | $1,377 | $1,889 | $2,788 |
| | Average Final Average Salary | $29,654 | $27,902 | $34,872 | $38,429 | $43,826 | $50,600 |
| | Number of Active Recipients** | 520 | 1,215 | 1,016 | 932 | 1,282 | 3,072 |
| 2003 | Average Monthly Benefit* | $736 | $658 | $1,040 | $1,386 | $1,944 | $2,885 |
| | Average Final Average Salary | $25,541 | $29,196 | $35,115 | $37,183 | $42,518 | $49,747 |
| | Number of Active Recipients** | 642 | 1,254 | 1,037 | 944 | 1,230 | 3,131 |
| 2002 | Average Monthly Benefit* | $703 | $611 | $965 | $1,290 | $1,855 | $2,667 |
| | Average Final Average Salary | $25,392 | $27,426 | $33,170 | $34,733 | $41,607 | $46,883 |
| | Number of Active Recipients** | 579 | 1,295 | 1,069 | 1,079 | 1,393 | 3,489 |
| 2001 | Average Monthly Benefit* | $635 | $621 | $953 | $1,286 | $1,777 | $2,554 |
| | Average Final Average Salary | $24,281 | $28,405 | $32,628 | $35,007 | $39,560 | $45,092 |
| | Number of Active Recipients | 470 | 1,079 | 890 | 929 | 1,098 | 2,561 |
| 2000 | Average Monthly Benefit* | $529 | $546 | $860 | $1,195 | $1,674 | $2,483 |
| | Average Final Average Salary | $22,833 | $25,995 | $29,947 | $32,448 | $37,508 | $44,155 |
| | Number of Active Recipients | 443 | 1,114 | 880 | 896 | 974 | 2,313 |

*Average Monthly Benefit includes post retirement and yearly 3% cost-of-living increases for new benefit recipients each year.
**Number of Active Recipients restated to include retirements initiated in prior years that are finalized in reported year.
***All years begin January 1 and end December 31.
****Values restated to remove Combined Plan formula benefit information.

## Schedule of Average Benefits*** (last four years) — Combined Plan

| Retirement Effective Dates | | Years Credited Service: 5-9 | Years Credited Service: 10-14 |
|---|---|---|---|
| 2009 | Average Monthly Benefit* | $212 | $232 |
| | Average Final Average Salary | $54,215 | $42,062 |
| | Number of Active Recipients | 1 | 1 |
| 2008 | Average Monthly Benefit* | $95 | $85 |
| | Average Final Average Salary | $25,665 | $21,305 |
| | Number of Active Recipients | 3 | 2 |
| 2007 | Average Monthly Benefit* | $152 | |
| | Average Final Average Salary | $37,369 | |
| | Number of Active Recipients | 1 | |
| 2006 | Average Monthly Benefit* | $118 | |
| | Average Final Average Salary | $50,116 | |
| | Number of Active Recipients | 1 | |

*Average Monthly Benefit includes post retirement and yearly 3% cost-of-living increases for new benefit recipients each year.
***All years begin January 1 and end December 31.

## Member Counts

Note: The values included in the previous and following tables represent the number of individuals receiving benefit payments. One retiree account may be issued to multiple recipients or beneficiaries. See the Schedule of Retirees and Beneficiaries Added to and Removed from Rolls on page 114 for the number of retiree accounts distributed as monthly benefits as of December 31, 2009.

### Member Count—Pension Plans — Total All Pension Plans*

| Year End | Active | Inactive | Benefit Recipients | Total |
|---|---|---|---|---|
| 2009 | 365,229 | 416,548 | 171,955 | 953,732 |
| 2008 | 374,002 | 395,445 | 166,516 | 935,963 |
| 2007 | 382,177 | 364,823 | 161,348 | 908,348 |
| 2006 | 381,464 | 346,697 | 156,747 | 884,908 |
| 2005 | 381,413 | 327,864 | 151,758 | 861,035 |
| 2004 | 375,076 | 313,248 | 146,966 | 835,290 |
| 2003 | 368,996 | 302,546 | 143,643 | 815,185 |
| 2002 | 402,041 | 255,528 | 139,665 | 797,234 |
| 2001 | 411,076 | 224,677 | 134,769 | 770,522 |
| 2000 | 399,919 | 220,189 | 131,428 | 751,536 |

*Prior to 2003, includes Traditional Plan only. Effective 2003, includes the Traditional Plan, the Combined Plan, and the Member-Directed Plan.

### Member Count—Pension Plans* — Traditional Plan

| Year End | Active | Inactive | Benefit Recipients | Total |
|---|---|---|---|---|
| 2009 | 351,166 | 413,461 | 171,927 | 936,554 |
| 2008 | 360,107 | 392,687 | 166,499 | 919,293 |
| 2007 | 368,780 | 362,742 | 161,342 | 892,864 |
| 2006 | 369,728 | 345,070 | 156,745 | 871,543 |
| 2005 | 371,148 | 326,528 | 151,758 | 849,434 |
| 2004 | 366,470 | 312,480 | 146,966 | 825,916 |
| 2003 | 361,704 | 302,221 | 143,643 | 807,568 |
| 2002 | 402,041 | 255,528 | 139,665 | 797,234 |
| 2001 | 411,076 | 224,677 | 134,769 | 770,522 |
| 2000 | 399,919 | 220,189 | 131,428 | 751,536 |

*Effective 2003, members actively contributing under more than one employer code are counted only once.

## Member Count—Pension Plans — Combined Plan*

| Year End | Active | Inactive | Benefit Recipients | Total |
|---|---|---|---|---|
| 2009 | 6,403 | 942 | 9 | 7,354 |
| 2008 | 6,376 | 846 | 7 | 7,229 |
| 2007 | 6,244 | 659 | 2 | 6,905 |
| 2006 | 5,609 | 519 | 1 | 6,129 |
| 2005 | 5,026 | 414 | 0 | 5,440 |
| 2004 | 4,223 | 232 | 0 | 4,455 |
| 2003 | 3,590 | 92 | 0 | 3,682 |

*Plan commenced January 1, 2003.

## Member Count—Pension Plans — Member-Directed Plan*

| Year End | Active | Inactive | Benefit Recipients | Total |
|---|---|---|---|---|
| 2009 | 7,660 | 2,145 | 19 | 9,824 |
| 2008 | 7,519 | 1,912 | 10 | 9,441 |
| 2007 | 7,153 | 1,422 | 4 | 8,579 |
| 2006 | 6,127 | 1,108 | 1 | 7,236 |
| 2005 | 5,239 | 922 | 0 | 6,161 |
| 2004 | 4,383 | 536 | 0 | 4,919 |
| 2003 | 3,702 | 233 | 0 | 3,935 |

*Plan commenced January 1, 2003.

## Member Count—Health Care Plans — Total All Health Care Plans*

| Year End | Active | Inactive | Benefit Recipients | Total |
|---|---|---|---|---|
| 2009 | 7,660 | 2,126 | 214,480 | 224,266 |
| 2008 | 7,520 | 1,886 | 209,222 | 218,628 |
| 2007 | 6,942 | 1,440 | 204,690 | 213,072 |
| 2006 | 5,742 | 1,122 | 200,787 | 207,651 |
| 2005 | 5,004 | 858 | 194,958 | 200,820 |
| 2004 | 4,282 | 506 | 189,302 | 194,090 |
| 2003 | 3,586 | 27 | 179,191 | 182,804 |
| 2002 | N/A | N/A | 170,945 | 170,945 |
| 2001 | N/A | N/A | 161,664 | 161,664 |

*Prior to 2003, includes the Post-employment Health Care Plan only. Effective 2003, includes the Post-employment Health Care Plan and the VEBA Plan.

## Member Count—Health Care Plans — Post-employment Health Care

| Year End | Active | Inactive | Benefit Recipients | Total |
|---|---|---|---|---|
| 2009 | N/A | N/A | 213,220 | 213,220 |
| 2008 | N/A | N/A | 208,857 | 208,857 |
| 2007 | N/A | N/A | 204,514 | 204,514 |
| 2006 | N/A | N/A | 200,494 | 200,494 |
| 2005 | N/A | N/A | 194,773 | 194,773 |
| 2004 | N/A | N/A | 189,227 | 189,227 |
| 2003 | N/A | N/A | 179,182 | 179,182 |
| 2002 | N/A | N/A | 170,945 | 170,945 |
| 2001* | N/A | N/A | 161,664 | 161,664 |

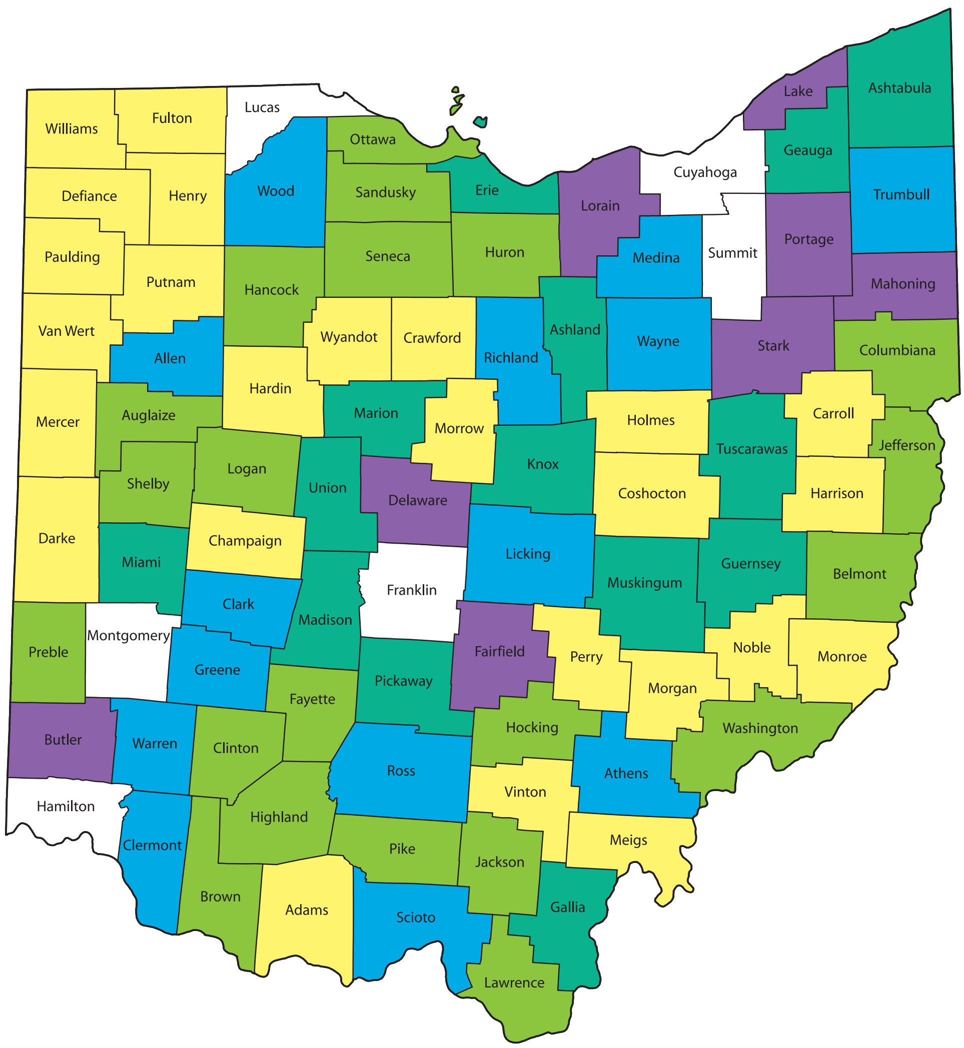
*Data not available prior to 2001. Benefit Recipients is defined as the number of covered lives.

## Member Count—Health Care Plans — VEBA Plan*

| Year End | Active | Inactive | Benefit Recipients | Total |
|---|---|---|---|---|
| 2009 | 7,660 | 2,126 | 1,260 | 11,046 |
| 2008 | 7,520 | 1,886 | 365 | 9,771 |
| 2007 | 6,942 | 1,440 | 176 | 8,558 |
| 2006 | 5,742 | 1,122 | 293 | 7,157 |
| 2005 | 5,004 | 858 | 185 | 6,047 |
| 2004 | 4,282 | 506 | 75 | 4,863 |
| 2003 | 3,586 | 27 | 9 | 3,622 |

*Plan commenced January 1, 2003.

## 2009 Ohio Benefits Paid by County

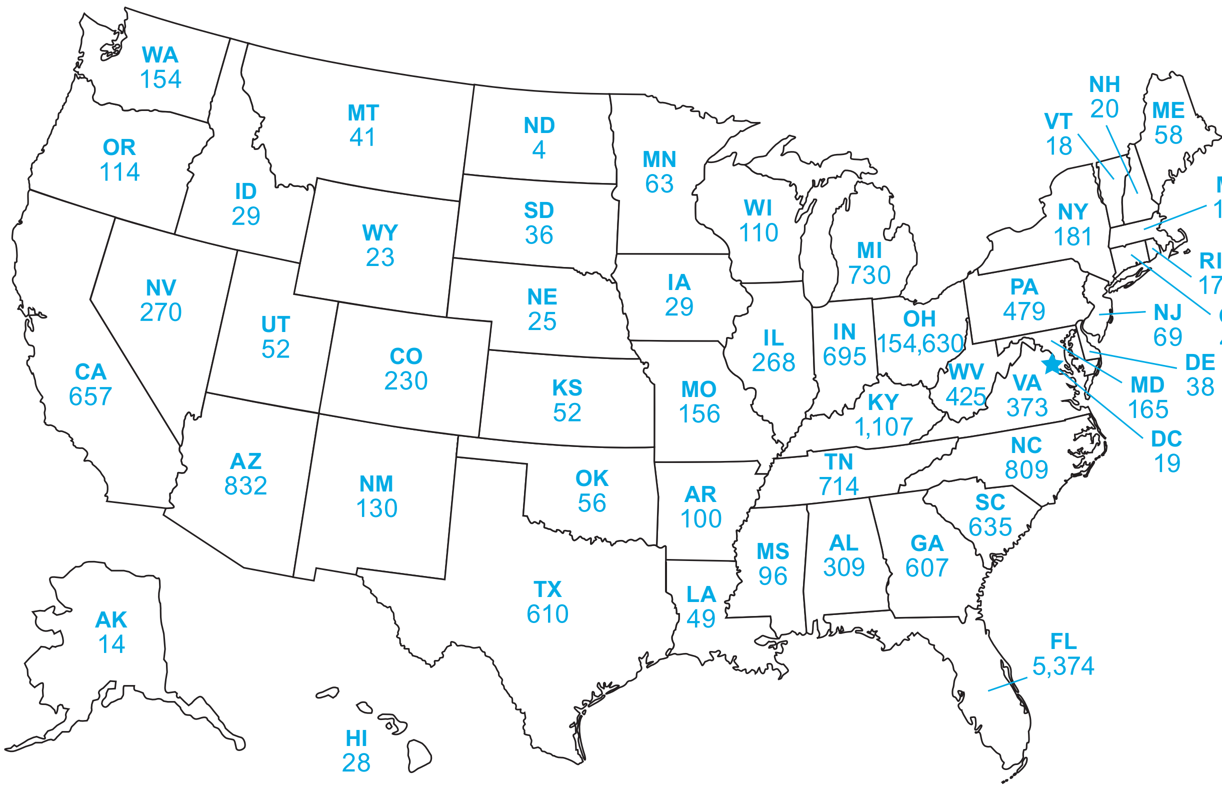



### Color Key

| | |
|---|---|
| $0-$10 million | yellow |
| $10-$15 million | light green |
| $15-$25 million | teal |
| $25-$50 million | blue |
| $50-$100 million | purple |
| $100 million + | white |

Of the 171,955 retirees and beneficiaries in OPERS, 154,630, or 89.92%, remain Ohio residents. Pension benefit payments approaching $3.1 billion this year are distributed throughout Ohio, representing OPERS' impact on the state's economy.

## Distribution of Benefit Recipients by Location




### Recipients Outside United States

| | | | | | |
|---|---|---|---|---|---|
| Australia | 4 | Hungary | 1 | Poland | 1 |
| Austria | 2 | Ireland | 1 | Puerto Rico | 10 |
| Brazil | 1 | Israel | 4 | Romania | 1 |
| Bulgaria | 2 | Italy | 6 | Scotland | 2 |
| Canada | 24 | Jordan | 1 | Serbia | 1 |
| China | 1 | Latvia | 1 | Singapore | 1 |
| Costa Rica | 2 | Lebanon | 3 | Slovak Republic | 1 |
| Croatia | 1 | Lithuania | 1 | South Korea | 1 |
| Czech Republic | 3 | Mexico | 4 | Spain | 4 |
| Egypt | 2 | New Zealand | 1 | Thailand | 2 |
| England | 4 | Nicaragua | 1 | United Kingdom | 1 |
| France | 3 | Norway | 1 | Virgin Islands | 5 |
| Germany | 3 | Pakistan | 1 | West Indies | 2 |
| Greece | 2 | Philippines | 2 | | |

## Contribution Rates — Traditional Plan

| | Year | Member Rates | Employer Rates: Normal Cost | Employer Rates: Unfunded Liability | Employer Rates: Health | Total Employer Rates | Total Aggregate Employer and Member Rates |
|---|---|---|---|---|---|---|---|
| State | 2009**** | 10.00% | 4.89% | 3.61% | 5.50% | 14.00% | 24.00% |
| | 2008 | 10.00 | 4.89 | 2.11 | 7.00 | 14.00 | 24.00 |
| | 2007*** | 9.50 | 4.21 | 3.56 | 6.00 | 13.77 | 23.27 |
| | 2006 | 9.00 | 5.67 | 3.37 | 4.50 | 13.54 | 22.54 |
| | 2005 | 8.50 | 5.70 | 3.61 | 4.00 | 13.31 | 21.81 |
| | 2004 | 8.50 | 5.95 | 3.36 | 4.00 | 13.31 | 21.81 |
| | 2003 | 8.50 | 6.17 | 2.14 | 5.00 | 13.31 | 21.81 |
| | 2002 | 8.50 | 6.99 | 1.32 | 5.00 | 13.31 | 21.81 |
| | 2001 | 8.50 | 7.68 | 1.33 | 4.30 | 13.31 | 21.81 |
| | 2000* | 8.50 | 5.41 | 0.94 | 4.30 | 10.65 | 19.15 |
| Local | 2009**** | 10.00% | 4.46% | 4.04% | 5.50% | 14.00% | 24.00% |
| | 2008 | 10.00 | 4.46 | 2.54 | 7.00 | 14.00 | 24.00 |
| | 2007*** | 9.50 | 4.10 | 3.75 | 6.00 | 13.85 | 23.35 |
| | 2006 | 9.00 | 5.57 | 3.63 | 4.50 | 13.70 | 22.70 |
| | 2005 | 8.50 | 5.66 | 3.89 | 4.00 | 13.55 | 22.05 |
| | 2004 | 8.50 | 5.92 | 3.63 | 4.00 | 13.55 | 22.05 |
| | 2003 | 8.50 | 6.14 | 2.41 | 5.00 | 13.55 | 22.05 |
| | 2002 | 8.50 | 6.98 | 1.57 | 5.00 | 13.55 | 22.05 |
| | 2001 | 8.50 | 7.68 | 1.57 | 4.30 | 13.55 | 22.05 |
| | 2000* | 8.50 | 5.43 | 1.11 | 4.30 | 10.84 | 19.34 |
| Law Enforcement | 2009**** | 10.10% | 9.65% | 2.48% | 5.50% | 17.63% | 27.73% |
| | 2008 | 10.10 | 9.65 | 0.75 | 7.00 | 17.40 | 27.50 |
| | 2007*** | 10.10 | 7.62 | 3.55 | 6.00 | 17.17 | 27.27 |
| | 2006 | 10.10 | 8.63 | 3.80 | 4.50 | 16.93 | 27.03 |
| | 2005 | 10.10 | 8.65 | 4.05 | 4.00 | 16.70 | 26.80 |
| | 2004 | 10.10 | 8.77 | 3.93 | 4.00 | 16.70 | 26.80 |
| | 2003 | 10.10 | 8.88 | 2.82 | 5.00 | 16.70 | 26.80 |
| | 2002 | 10.10 | 10.87 | 0.83 | 5.00 | 16.70 | 26.80 |
| | 2001 | 10.10 | 11.50 | 0.90 | 4.30 | 16.70 | 26.80 |
| | 2000* | 9.00 | 10.57 | 0.83 | 4.30 | 15.70 | 24.70 |
| Public Safety | 2009**** | 10.10% | 8.63% | 3.50% | 5.50% | 17.63% | 27.73% |
| | 2008 | 10.10 | 8.73 | 1.67 | 7.00 | 17.40 | 27.50 |
| | 2007*** | 9.75 | 7.16 | 4.01 | 6.00 | 17.17 | 26.92 |
| | 2006 | 9.00 | 9.04 | 3.39 | 4.50 | 16.93 | 25.93 |
| | 2005 | 9.00 | 8.65 | 4.05 | 4.00 | 16.70 | 25.70 |
| | 2004 | 9.00 | 8.77 | 3.93 | 4.00 | 16.70 | 25.70 |
| | 2003 | 9.00 | 8.88 | 2.82 | 5.00 | 16.70 | 25.70 |
| | 2002 | 9.00 | 10.99 | 0.71 | 5.00 | 16.70 | 25.70 |
| | 2001** | 9.00 | 11.79 | 0.61 | 4.30 | 16.70 | 25.70 |

* One-time employer contribution rate rollback.

** HB 416 separated the Law Enforcement program into two divisions effective January 1, 2001.

*** The health care contribution rate increased from 5% to 6% effective July 1, 2007.

**** The health care contribution rate decreased from 7.0% to 5.5% effective April 1, 2009.

## Contribution Rates — Combined Plan

| | Year | Member Rates | Employer Rates: Normal Cost | Employer Rates: Unfunded Liability** | Employer Rates: Mitigation Rate | Employer Rates: Health | Total Employer Rates | Total Aggregate Employer and Member Rates |
|---|---|---|---|---|---|---|---|---|
| State | 2009**** | 10.00% | 7.21% | 1.29% | 0.77% | 4.73% | 14.00% | 24.00% |
| | 2008 | 10.00 | 7.21 | 0.12 | 0.77 | 5.90 | 14.00 | 24.00 |
| | 2007*** | 9.50 | 7.23 | N/A | 0.54 | 6.00 | 13.77 | 23.27 |
| | 2006 | 9.00 | 8.50 | N/A | 0.54 | 4.50 | 13.54 | 22.54 |
| | 2005 | 8.50 | 9.31 | N/A | 0.00 | 4.00 | 13.31 | 21.81 |
| | 2004 | 8.50 | 9.31 | N/A | 0.00 | 4.00 | 13.31 | 21.81 |
| | 2003 | 8.50 | 8.31 | N/A | 0.00 | 5.00 | 13.31 | 21.81 |
| Local | 2009**** | 10.00% | 6.88% | 1.62% | 0.77% | 4.73% | 14.00% | 24.00% |
| | 2008 | 10.00 | 6.88 | 0.45 | 0.77 | 5.90 | 14.00 | 24.00 |
| | 2007*** | 9.50 | 7.15 | N/A | 0.70 | 6.00 | 13.85 | 23.35 |
| | 2006 | 9.00 | 8.50 | N/A | 0.70 | 4.50 | 13.70 | 22.70 |
| | 2005 | 8.50 | 9.55 | N/A | 0.00 | 4.00 | 13.55 | 22.05 |
| | 2004 | 8.50 | 9.55 | N/A | 0.00 | 4.00 | 13.55 | 22.05 |
| | 2003 | 8.50 | 8.55 | N/A | 0.00 | 5.00 | 13.55 | 22.05 |

** Unfunded Liability includes the impact of defined contribution account purchases of defined benefit annuities.

*** The health care contribution rate increased from 5% to 6% effective July 1, 2007.

**** The health care contribution rate decreased from 5.9% to 4.73% effective April 1, 2009.

## Contribution Rates — Member-Directed Plan

| | Year | Member Rates | Employer Rates: Normal Cost | Employer Rates: Unfunded Liability** | Employer Rates: Mitigation Rate | Employer Rates: VEBA | Total Employer Rates | Total Aggregate Employer and Member Rates |
|---|---|---|---|---|---|---|---|---|
| State | 2009 | 10.00% | 8.73% | N/A | 0.77% | 4.50% | 14.00% | 24.00% |
| | 2008 | 10.00 | 8.73 | N/A | 0.77 | 4.50 | 14.00 | 24.00 |
| | 2007 | 9.50 | 8.73 | N/A | 0.54 | 4.50 | 13.77 | 23.27 |
| | 2006 | 9.00 | 8.50 | N/A | 0.54 | 4.50 | 13.54 | 22.54 |
| | 2005 | 8.50 | 8.50 | N/A | 0.00 | 4.81 | 13.31 | 21.81 |
| | 2004 | 8.50 | 8.50 | N/A | 0.00 | 4.81 | 13.31 | 21.81 |
| | 2003 | 8.50 | 8.50 | N/A | 0.00 | 4.81 | 13.31 | 21.81 |
| Local | 2009 | 10.00% | 8.73% | N/A | 0.77% | 4.50% | 14.00% | 24.00% |
| | 2008 | 10.00 | 8.73 | N/A | 0.77 | 4.50 | 14.00 | 24.00 |
| | 2007 | 9.50 | 8.65 | N/A | 0.70 | 4.50 | 13.85 | 23.35 |
| | 2006 | 9.00 | 8.50 | N/A | 0.70 | 4.50 | 13.70 | 22.70 |
| | 2005 | 8.50 | 8.50 | N/A | 0.00 | 5.05 | 13.55 | 22.05 |
| | 2004 | 8.50 | 8.50 | N/A | 0.00 | 5.05 | 13.55 | 22.05 |
| | 2003 | 8.50 | 8.50 | N/A | 0.00 | 5.05 | 13.55 | 22.05 |

** Determination of Unfunded Liability due to the impact of defined contribution account purchases of defined benefit annuities is not yet known.

## Number of Employer Units — All Plans*

| Year | State | County | Law Enforcement | Municipalities | Villages | Miscellaneous | Libraries | Townships | Totals |
|---|---|---|---|---|---|---|---|---|---|
| 2009 | 270 | 238 | 237 | 248 | 671 | 489 | 253 | 1,308 | 3,714 |
| 2008 | 269 | 244 | 248 | 251 | 670 | 474 | 254 | 1,314 | 3,724 |
| 2007 | 273 | 241 | 245 | 251 | 671 | 465 | 254 | 1,314 | 3,714 |
| 2006 | 276 | 238 | 244 | 253 | 671 | 459 | 254 | 1,312 | 3,707 |
| 2005 | 277 | 239 | 247 | 255 | 671 | 454 | 257 | 1,312 | 3,712 |
| 2004 | 268 | 240 | 241 | 255 | 672 | 456 | 256 | 1,314 | 3,702 |
| 2003 | 268 | 239 | 247 | 255 | 673 | 450 | 257 | 1,313 | 3,702 |
| 2002 | 263 | 237 | 251 | 256 | 671 | 450 | 256 | 1,312 | 3,696 |
| 2001 | 266 | 239 | 255 | 258 | 665 | 442 | 256 | 1,309 | 3,690 |
| 2000 | 318 | 243 | 232 | 334 | 673 | 414 | 257 | 1,312 | 3,783 |

*The number of employer units exceeds the number of reporting employers as some employers report multiple divisions or agencies. The number of employers reporting at December 31, 2009 was 3,264.

## Principal Participating Employers

| Participating Government | 2009 | | | 2005* | | |
|---|---|---|---|---|---|---|
| | Covered Employees | Rank | Percentage of Total System | Covered Employees | Rank | Percentage of Total System |
| The Ohio State University | 27,544 | 1 | 7.54% | 23,696 | 1 | 6.21% |
| Cuyahoga County | 8,970 | 2 | 2.46 | 10,062 | 2 | 2.64 |
| Franklin County | 6,535 | 3 | 1.79 | 6,551 | 4 | 1.72 |
| City of Columbus | 6,056 | 4 | 1.66 | 5,864 | 8 | 1.54 |
| City of Cleveland | 5,992 | 5 | 1.64 | 6,569 | 3 | 1.73 |
| University of Cincinnati | 5,807 | 6 | 1.59 | 5,083 | 9 | 1.33 |
| Ohio Department of Transportation | 5,581 | 7 | 1.53 | 6,297 | 5 | 1.65 |
| Metrohealth Medical Center | 5,570 | 8 | 1.52 | 5,988 | 6 | 1.57 |
| Montgomery County | 4,719 | 9 | 1.29 | 4,896 | 10 | 1.28 |
| Hamilton County | 4,701 | 10 | 1.29 | 5,951 | 7 | 1.56 |
| All Other (see table below) | 283,754 | N/A | 77.69 | 300,456 | N/A | 78.77 |
| **Total** | **365,229** | **N/A** | **100.00%** | **381,413** | **N/A** | **100.00%** |

*Information not available prior to 2005.

## Principal Participating Employers — All Other Categories

| Participating Government | 2009 | | 2005 | |
|---|---|---|---|---|
| | Number | Employees | Number | Employees |
| State | 267 | 83,942 | 274 | 84,251 |
| County | 233 | 79,010 | 235 | 72,861 |
| Municipalities | 246 | 50,044 | 253 | 55,711 |
| Miscellaneous | 489 | 21,130 | 453 | 33,975 |
| Libraries | 253 | 13,611 | 257 | 15,405 |
| Townships | 1,308 | 14,491 | 1,312 | 15,108 |
| Villages | 671 | 14,115 | 671 | 15,222 |
| Law Enforcement/Public Safety | 237 | 7,411 | 247 | 7,923 |
| Total | 3,704 | 283,754 | 3,702 | 300,456 |

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# Plan Statement

With thoughtful planning and when fiscally prudent, OPERS worked to enhance benefits throughout our history. For example, in 1974, a health care plan was implemented. In 2003, additional pension plan options became available.

OPERS
1935 2010
Your Trusted Retirement Partner

The Ohio Public Employees Retirement System (OPERS) was created by the Ohio General Assembly to provide retirement, disability, and survivor benefit programs for the public employees of Ohio. This summary outlines the Ohio law that regulates OPERS; however, it cannot and does not change any of the provisions of the Ohio Revised Code (ORC).

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

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

OPERS provides special retirement coverage for certain law enforcement officers whose primary duties are to preserve the peace, to protect life and property, and to enforce the laws of Ohio. These individuals, who must have a Peace Officer's Training School Certificate, are covered if they were hired on or after the dates of the enabling legislation. If they were employed before the legislation was enacted, coverage was optional. If they did not elect law enforcement coverage, they remained under the regular OPERS schedule of benefits.

## Plan Types

For nearly 75 years OPERS has provided members with retirement benefits under a defined benefit plan, known as the Traditional Plan.

In 2000, legislation required OPERS to establish one or more defined contribution plans to be offered to members in addition to the existing Traditional Pension Plan. OPERS began offering three retirement plans to its members on January 1, 2003. The plans include the Traditional Pension Plan, the Member-Directed Plan, and the Combined Plan. A brief overview of each plan is provided below.

### The Traditional Plan

The Traditional Plan is a defined benefit plan under which a member's retirement benefit is based on a formula. The formula is determined by the years of contributing service and the average of the three highest years of earnable salary (or final average salary). The OPERS investment professionals manage the investment of employee and employer contributions to ensure that funds are available to pay the formula benefit.

### The Member-Directed Plan

The Member-Directed Plan is a defined contribution plan under which employee and employer contributions are deposited into a member's individual OPERS account and the member directs the investment by selecting from 16 professionally managed OPERS investment options. The member's retirement distribution is based on employee and vested employer contributions, and the gains and losses on those contributions.

### The Combined Plan

The Combined Plan is a retirement plan with both a defined benefit and a defined contribution component. Under the defined benefit portion of the Combined Plan, the member's retirement benefit is determined by a reduced formula (similar to the Traditional Plan). OPERS investment professionals manage the investment of the employer contributions to ensure that funds are available to pay the reduced-formula benefit. Under the defined contribution portion of the Combined Plan, employee contributions are deposited into the member's individual account and the member directs the investment by selecting from 16 professionally managed OPERS investment options. The defined contribution portion of the member's retirement distribution is based on employee contributions, and the gains and losses on those contributions.

## Contributions

Employers are required to make contributions to the System on the basis of a percentage of reportable payroll and at a rate based upon the recommendations of OPERS' actuary. Penalties and interest are added for late payments. The contribution rate for state and local employers in 2009 is 14.0%. Employers in the law enforcement and public safety divisions contribute 17.63%.

The 2009 employee contribution rate for state and local members is 10.0% of earnable salary. Members in the public safety and law enforcement divisions contribute 10.1% of earnable salary. Individual accounts for each member of OPERS are maintained and funds contributed by members of the Traditional Plan are fully refundable at service termination or death. The refund value of contributions made by members of the Combined Plan and the Member-Directed Plan are subject to changes (gains or losses) that occur as a result of the member's selected investment options. Each year, by the end of April, members of the Traditional Plan and the Combined Plan are sent a statement of their individual account and an estimate of their projected future retirement benefit, as of the previous December 31. Members in the Member-Directed Plan and the Combined Plan receive quarterly statements showing the value of contributions in their defined contribution account and the investment gains and losses on those contributions. A report disclosing the financial status of the System and describing major developments during the year at OPERS is sent along with the statement of account.

## Additional Voluntary Contributions

### The Traditional Plan

A member or a re-employed retiree who is contributing to a money purchase annuity may deposit additional money or rollover funds into the Additional Annuity Program. Voluntary after-tax additional annuity deposits are limited by federal tax law to 100% of a member's annual income from all public employers contributing to OPERS, or to the current annual IRS limitation, whichever is less. Additional Annuity deposits are invested in the OPERS Stable Value Fund where they are subject to daily gains and losses. Earnings are tax-deferred until the time of distribution.

Upon termination of employment or retirement, the member may either elect to receive a refund of the account value or an annuity. The annuity program offers three of the same payment options as offered for age-and-service retirement options under the Traditional Plan.

### The Member-Directed and Combined Plans

A member participating in the Member-Directed or Combined Plan may deposit additional money or rollover funds into their individual defined contribution account. Voluntary after-tax deposits are limited by federal tax law to 100% of a member's annual income from all public employers contributing to OPERS, or to the current annual IRS limitation, whichever is less. The additional contributions are invested in the same investment options the member selected for their individual defined contribution account, and are subject to investment gains and losses.

Upon termination of employment or retirement, the member may either elect to receive a lump-sum refund of the account value or any of the distribution options available to defined contribution accounts.

## Benefits under the Traditional Plan or the Combined Plan

### Age-and-Service Retirement

Retirement eligibility varies by division, however, all members are eligible to retire at age 60 with at least five years of total service credit, and may retire at any age with 30 years of total service credit with no reduction in benefits. Benefit payments vary in amount depending on length of public service, final average salary (FAS), age, and plan of payment selection. FAS is determined by taking the average of the three highest years of earnable salary. The age-and-service formula benefit cannot exceed 100% of the FAS (law enforcement is 90%) or the limits under Internal Revenue Code Section 415.

The benefit formula for state and local members applies a factor of 2.2% to the member's FAS and years of service. These members may retire with a reduced benefit as early as age 55 with 25 years of service.

The benefit factor for public safety and law enforcement members is 2.5% applied to the member's FAS and years of service. Public safety members may retire at the age of 52 with 25 years of service, while law enforcement members may retire at the age of 48 with 25 years of service. Both public safety and law enforcement members may retire at age 62 with 15 years of service at a reduced benefit.

Service credit allowed under Chapter 145 of the ORC includes:

1. Service for the state of Ohio or an Ohio political subdivision for which contributions have been paid;
2. Certain military service which interrupted contributing public service;
3. Any out-of-public service period of three years or less during which the member was receiving an award under Workers' Compensation;
4. Previously unreported service in Ohio;
5. Service purchased by the member for:
   a. Other military service that is not being used for other retirement programs, except Social Security;
   b. Prisoner-of-war service;
   c. An authorized leave of absence which did not exceed one year;
   d. Comparable public service that is not being used for other retirement programs, except Social Security, performed outside Ohio or with the federal government or for which contributions were made to an Ohio municipal retirement system;
   e. Restoration of previously refunded service;
   f. Restoration of previously refunded service from the Ohio Police and Fire, Ohio State Highway Patrol, or City of Cincinnati Retirement System, not being used for any other retirement benefit;
   g. Service which was previously covered by a valid exemption under OPERS;
   h. The amount of 35% additional credit on completed terms of full-time contributing elective service, or board, commission, or other public body service by members who are appointed by the governor with the advice and consent of the Senate;
6. Service purchased by an employer under a retirement incentive plan.

A choice of several benefit payment plans is available. The choices include benefits payable throughout the member's lifetime (Single Life Benefit) or in a lesser amount during the individual's life but continuing after the member's death to a joint survivor. The joint survivor selections include: Life with 50% to Surviving Spouse, Life with Selected Percent to Survivor, Life with 100% to Survivor, or Life with Multiple Survivors.

A benefit payable under Life with 50% to Surviving Spouse, Life with Selected Percent to Survivor, Life with 100% to Survivor, or Life with Multiple Survivors is the actuarial equivalent of the Single Life Benefit, but the payment to the member is reduced because it is based on the combined life expectancies of the member and the beneficiaries. A sixth payment plan, Life with Fixed Period is also the actuarial equivalent of the Single Life Benefit, but the payment is calculated to provide for the fixed period of payment.

Life with Multiple Survivors is an option available to members whose retirement is effective on or after November 1, 2006. The payment plan is a multiple joint survivorship annuity providing benefits to the member throughout their lifetime, with payments continuing to the member's surviving beneficiaries after the member's death. The member may designate from two to four beneficiaries, with each receiving at least 10% of the benefit (exceptions are court ordered spousal benefits). Total allocations to all beneficiaries may not exceed 100% of the benefit.

Effective January 1, 2004, OPERS established a Partial Lump-Sum Option Payment (PLOP) for certain retirees and benefit recipients. The PLOP is an option at retirement and allows a recipient to receive a lump-sum benefit payment along with a reduced monthly retirement allowance. The PLOP cannot be less than six times or more than 36 times the monthly amount that would be payable to the member under the plan of payment selected, and cannot result in a monthly allowance that is less than 50% of that monthly amount. The total amount paid as a lump sum and a monthly benefit is the actuarial equivalent of the amount that would have been paid had the lump sum not been selected.

## Disability Benefits

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

A member who has at least five years of contributing service credit and who becomes permanently disabled due to a mentally or physically disabling condition for the performance of duty may apply to OPERS for monthly disability benefits. Members in the law enforcement division do not need five years of service credit to apply for disability if the disabling condition was the result of an on-duty illness or injury.

Application must be made within two years from the date the member's contributing service ended, unless the OPERS Board of Trustees (Board) determines that the member was physically or mentally incapacitated for duty and unable to make an application. The member must not be receiving an age-and-service retirement benefit or have received a refund of their accumulated contributions. If the Board approves the disability application and the member is otherwise eligible, the benefit is effective the first day of the month following the member's service termination. A disability benefit recipient may be required to undergo a medical examination at least once a year. A disability benefit terminates under either plan if the member is no longer disabled, returns to public service, chooses to begin receiving an age-and-service benefit, dies, or requests termination of benefit.

Members covered under the original plan must apply for disability benefits prior to turning age 60. Under the original plan, the amount of the disability allowance is based on the member's final average salary (FAS) and total service credit, plus the length of time between the effective date of disability and age 60. The disability benefit cannot exceed 75%, nor be less than 30% of the member's FAS. The disability benefit continues for the member's lifetime as long as the qualifying disability persists. The benefit is funded by the employee's accumulated contributions and reserves accumulated from employer contributions. The benefit is fully taxable until age 60, and then a specified dollar amount each month, representing the return of previously taxed contributions is tax-free. For a law enforcement member disabled due to an on-duty injury or illness, 30% of the benefit payment is excludable from taxable income.

Under the revised plan, the benefit is based on the member's FAS and years of service with OPERS with no early retirement reductions, and cannot be less than 45% or exceed 60% of FAS. The benefit is funded by reserves accumulated from employer contributions, and is fully taxable as long as it is received. For a law enforcement member disabled due to an on-duty injury or illness, 45% of the benefit payment is excludable from taxable income.

Benefits under the revised plan are payable until age 65 or for a definite period, whichever comes first. When the disability benefit ends, the member may apply for a service retirement benefit or a refund of their employee contribution account. The service retirement benefit amount is the greater of: a) 2.2% of FAS multiplied by the years of service (contributing and disability) not to exceed 45% of FAS; or b) the regular or law enforcement benefit calculation using only the member's years of contributing service.

## Survivor Benefits

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

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

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

1. The member had 18 months of Ohio service credit with three of those months within the two and one-half years immediately before death, or
2. The member was receiving a disability benefit from OPERS, or
3. The member was eligible for retirement but did not retire and continued to work.

At the member's death, if none of these qualifications were met a refund of the member's OPERS account value as defined by the Ohio Revised Code, may be made. The member's beneficiary may choose a refund of the member's account only if there are no children eligible for monthly benefits. If the member dies while receiving a disability benefit under the original plan and eligible survivors select a cash refund of the account, the amount is reduced by the amount of disability benefits that had already been paid. There is no reduction in amount if the member dies while receiving a benefit under the revised disability plan or while still working.

Qualified surviving spouses (with no children eligible for monthly benefits) may receive a benefit representing the greater of $250 a month or an annual benefit equal to 25% of the decedent's FAS. If the decedent had 20 or more years of service, the percent of FAS increases with each year of service over 20 up to a maximum of 60%. Benefits begin when a qualified surviving spouse reaches age 62, or at any age if the decedent had 10 or more years of Ohio service credit, qualifying children or the spouse is adjudged physically or mentally incompetent. Benefits to a qualified survivor terminate when the survivor ceases to meet eligibility requirements.

If a deceased member was eligible for a service retirement benefit at time of death, a surviving spouse or other sole dependent beneficiary may elect to receive a monthly benefit calculated as though the member had retired and elected the Life with 100% to Survivor payment plan. This joint survivor option provides a monthly allowance that continues through the beneficiary's lifetime. The beneficiary also has the option of electing a PLOP.

A child of a deceased member may qualify for monthly benefits if the child has never been married and is under age 18, or 22 if a qualified student attending an accredited school. A child who is adjudged physically or mentally incompetent at the time of the member's death is eligible for benefits regardless of age. Benefits terminate upon the child's first marriage, adoption by someone other than a step-parent, abandonment, death, or during active military service.

A dependent parent is one who received at least one-half support from the member during the 12 months preceding the member's death. A dependent parent may receive survivor benefits if age 65 or older, or at any age if adjudged physically or mentally incompetent at the time of the member's death. Parent survivor benefit payments terminate upon the parent's death or remarriage.

## Additional Benefits

- ***Health Care Coverage***—With two exceptions, OPERS-provided health care benefits are neither a guaranteed nor statutorily required benefit. Medicare Part B reimbursements (see below) and Medicare Part A equivalent coverage for non-Medicare eligible retirees and their eligible dependents are provided by statute. Currently, members applying for age-and-service retirement who have 10 or more years of Ohio service credit have access to OPERS provided health care coverage on a subsidized basis. These 10 years may not include out-of-state and/or military service purchased after January 29, 1981, service granted under an early retirement incentive plan, or credit purchased after May 4, 1992 for exempt service. Access to health care coverage is also available for disability recipients and primary survivor recipients. Dependents of eligible recipients as defined by the health care plan may be covered through additional premiums. Qualified benefit recipients may also have access to alternative health care plans offered by OPERS.

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

  Effective January 1, 2007, OPERS implemented the Health Care Preservation Plan (HCPP) to improve the long-term solvency of the health care fund. The plan features three coverage levels, and provides monthly allowances for health care coverage for retirees and their dependents based on the retiree's years of service. The allowance is determined at date of retirement, and is adjusted for inflation annually thereafter based on Board-approved caps. Members who were eligible to retire on January 1, 2007 with at least 10 years of service (Group 1) receive an allowance equal to 100% of the cost of health care coverage under the enhanced plan. Members hired prior to January 1, 2003 but eligible to retire after January 1, 2007 (Group 2), receive allowances ranging from 50% to 100% of the cost of health care coverage under the enhanced plan. Members hired after January 1, 2003 (Group 3) receive allowances ranging from 25% to 100%. The allowances for Groups 2 and 3 increase with each year of service up to the maximum of 100% with 30 years of service. Coverage for the retiree's dependents is similarly phased.

The monthly allowances must be used for the purchase of medical and pharmacy coverage. The plan features a choice of three levels of coverage (the enhanced, intermediate and basic plans) with varying costs, co-pays, deductibles, and out-of-pocket maximums. If the cost of the coverage level selected exceeds the retiree's monthly allowance, the difference is charged to the retiree. Monthly allowances that exceed the cost of coverage are deposited to a Retiree Medical Account (RMA). The retiree may use the funds in the RMA to pay for health care expenses not covered by the plan. Recipients with household income below 150% of the poverty level may apply for a 30% reduction in the cost of medical and pharmacy premiums.

Recipients also have access to dental, vision, and long-term care coverage. These are fully insured products with the retiree paying the total cost of coverage.

- ***Medicare Part B***—Recipients and their covered dependents who are enrolled in the OPERS health care plan must enroll in Medicare Part B (medical) when they become eligible, even if they are covered by health care through their current employer. If the retiree and/or their dependents are eligible for Medicare Part B and do not enroll in the plan or terminate their Medicare Part B coverage, the OPERS plan will estimate the amount Medicare Part B would have paid and deduct this amount from the OPERS-covered payment.
- ***Medicare Part B Reimbursement***—Proof of enrollment in Medicare Part B and confirmation that the retiree is not receiving reimbursement or payment from another source must be submitted. OPERS will then reimburse the recipient for the actual amount paid up to the basic premium cost of the Medicare Part B premium for as long as the recipient is enrolled in Medicare Part B. The premium reimbursement is added to the monthly benefit. (OPERS does not provide this reimbursement benefit to spouses.)
- ***Cost-of-Living Adjustment***—When a benefit recipient has received benefits for 12 months, an annual 3% cost-of-living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement.
- ***Death Benefit***—Upon the death of an age-and-service or disability benefit recipient, a lump-sum death benefit is paid to the qualified beneficiary. The benefit ranges from $500 to $2,500 based on the recipient's years of service credit.
- ***Qualified Excess Benefit Arrangement (QEBA)***—Total benefit payments to an individual are subject to the limitations identified in Section 415(b) of the Internal Revenue Code. In 2003, OPERS implemented a Qualified Excess Benefit Arrangement that allows OPERS recipients to receive the amount of their calculated benefit that exceeds the IRS limits.

## Refunds

A refund may be issued after three months have elapsed since the member terminated OPERS-covered service. For members of the Traditional Plan, the refund value is equal to their accumulated contributions plus interest. Members of the Combined Plan and the Member-Directed Plan may refund their defined contribution account balances equal to their accumulated contributions net of investment gains or losses. Members of the Traditional Plan and the Combined Plan may also qualify for an additional payment calculated on their eligible contributions. If the member has at least five but less than 10 years of service credit in the plan, the additional amount is 33% of the member's eligible contributions. Members with at least 10 years of service credit in the plan may receive an additional amount equal to 67% of eligible contributions.

Under the Traditional Plan, full recovery of all employee contributions to OPERS is guaranteed. If the Traditional Plan member is also a member of the State Teachers Retirement System of Ohio Defined Benefit Plan or the School Employees Retirement System of Ohio, an application for refund must be filed with all system(s) in order to receive a refund from OPERS. If the employee is eligible for a monthly retirement benefit and is legally married at the time the refund is filed, spousal consent is required.

Refunded service credit may be restored if the member returns to OPERS-covered employment for at least 18 months. The amount refunded, plus interest and additional payment (if applicable), must be repaid for service credit to be restored.

## Benefits under the Member-Directed Plan

### Retirement

Members participating in the Member-Directed Plan are eligible to retire after they reach age 55. At the time these members file their applications for retirement, they may select one of several distribution options for payment of the vested balance of their individual OPERS accounts. Options include the purchase of a monthly annuity from OPERS (which includes joint and survivor options) partial lump-sum payments (subject to limitations), payments for a fixed period, payments of a specific monthly amount, or a combination of these options. Members also may defer payment of their individual OPERS account.

### Disability and Survivor Benefits

Participants in the Member-Directed Plan are not eligible for disability or survivor benefits. In the event of disability or death, the vested portion of the participant's accounts is available for refund to the member or qualified beneficiaries.

### Additional Benefits

- ***Health Care Coverage***—Members participating in the Member-Directed Plan do not have access to the same health care coverage that is available to members of the Traditional and Combined pension plans. Instead, a portion of the employer contribution is credited to a Voluntary Employees' Beneficiary Association (VEBA) account in the member's name. Members become fully vested in this account after five years of participation in the Member-Directed Plan. Vesting occurs at a rate of 20% for each year of participation until the member is fully vested after five years. Upon refund or retirement, vested contributions in the VEBA may be used for the payment of qualified health, dental, and vision care expenses.

### Refunds

Members participating in the Member-Directed Plan may receive employee contributions net of investment gains or losses earned on those contributions. Depending on length of participation in the Member-Directed Plan, a member may also receive a portion of the employer contributions, plus any investment earnings, based on the following schedule:

| Years of Participation | Percent Vested |
|---|---|
| 1 year | 20% |
| 2 years | 40% |
| 3 years | 60% |
| 4 years | 80% |
| 5 or more years | 100% |

## Coverage and Benefits for Re-employed Retirees

After a member retires, re-employment in an OPERS-covered job, including service in an elected position, is permitted but may affect continuing receipt of an age-and-service retirement benefit. Contributions must begin from the first day of re-employment; however, members who are re-employed anytime within the first two months after their effective retirement benefit date will forfeit their retirement allowance during this two-month period. This prohibition applies even if salary is waived for the two-month forfeiture period. Forfeiture of the retirement allowance will interrupt the retiree's health care coverage. Contributions remitted during the two-month forfeiture period will also not be included in the calculation of a Money Purchase Plan annuity benefit.

An OPERS retiree or a retiree from another Ohio retirement system who returns to OPERS-covered employment as an elected official is treated as a re-employed retiree. However, if a member covered for non-elected official service is also an elected official contributing to Social Security for the elected position, the elected service has no effect on the OPERS retirement. Subsequent elected service will not be considered re-employment for OPERS purposes.

A retiree cannot continue to receive benefits and work as an independent contractor under a contract for any period of time for the employer from which they retired. This prohibition is applicable regardless of the number of hours or days actually worked. A retiree may be compensated under a contract for services as an independent contractor for another public employer. If this occurs within the first two months of retirement, he or she will forfeit their pension benefits for the entire period of service as an independent contractor.

Upon termination of re-employment, retirees under age 65 may receive a refund of their employee contributions made during the period of re-employment, plus interest. Retirees age 65 and older may receive an annuity benefit that is based on the amount of their employee contributions during the period of re-employment plus interest, and an equal amount from the employer's contribution. Payment options are the same as those described under the Age-and-Service Retirement Section above.