The Comprehensive

Annual Financial Report

For the years ended December 31, 2008 and 2007

2008

The Road Ahead

OPERS

Ohio Public Employees Retirement System

The Comprehensive

Annual Financial Report

For the years ended December 31, 2008 and 2007

2008

The Road Ahead

Prepared by OPERS' Finance Division staff

OPERS

Ohio Public Employees Retirement System

Table of Contents

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 2008;

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

The road ahead will take us
from good to great.

OPERS

Board of Trustees members, as of January 2009

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*

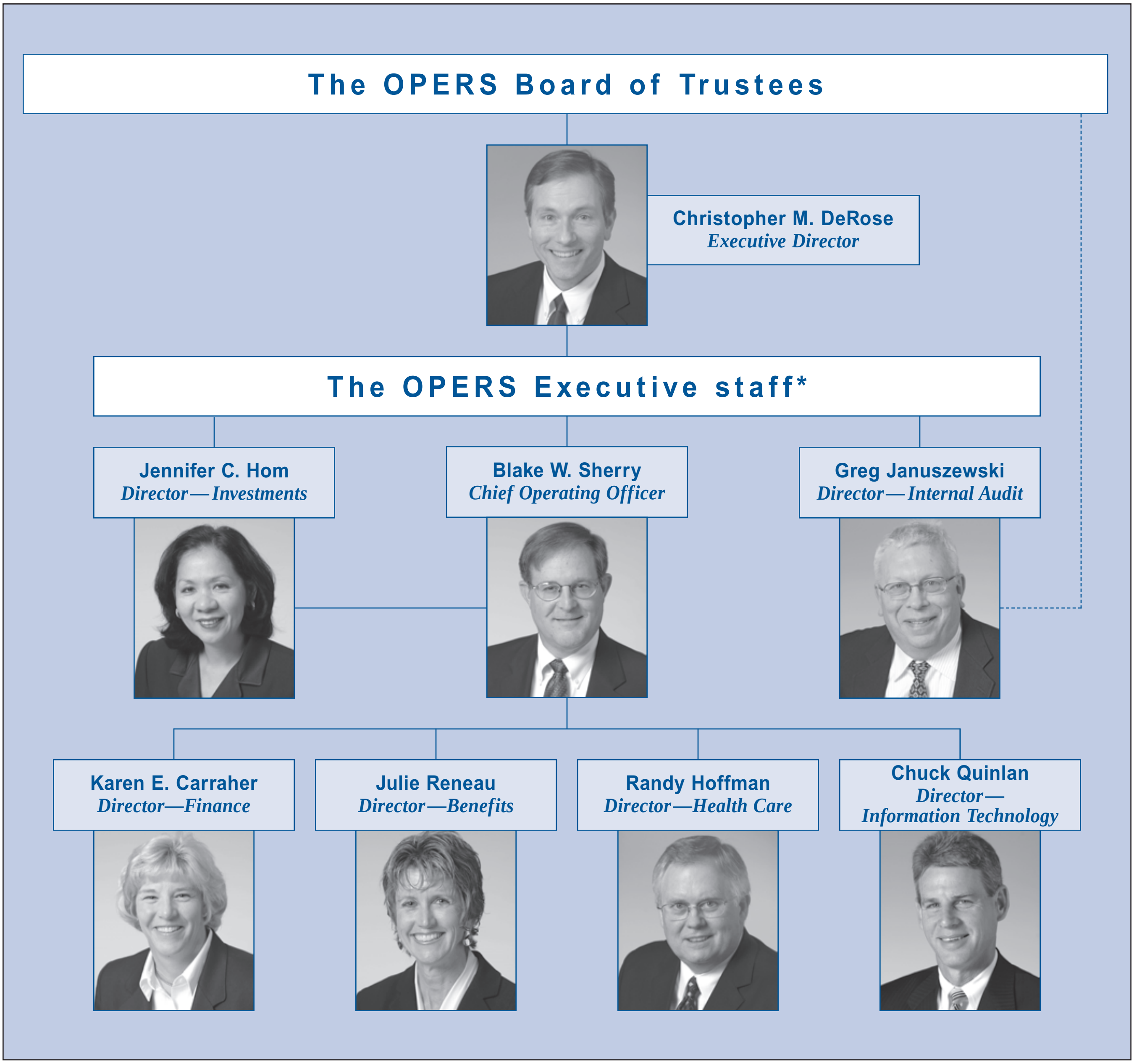
Standing, second row: *Lennie Wyatt, Governor's appointee; Sharon Downs, representing retirees; Charlie Adkins, Treasurer's appointee; Helen Youngblood, representing county employees; Kimberly Russell, representing college/university employees; James Tilling, General Assembly appointee; Eddie Parks,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

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

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.

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

April 30, 2009

Dear Chairman and Members of the Board of Trustees:

It is our privilege to submit to you the *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, 2008 and 2007. Although the economic environment throughout 2008 was difficult, it is a pleasure to report to you the initiatives OPERS undertook throughout the year that will help ensure we are well-positioned for the future.

Regarding the economy, we know the market can be extremely volatile in any given year. The tumultuous market conditions of 2008 have shaken the confidence of many non-institutional investors. For institutional investors, the 2008 market has taken a toll on the funding levels of pensions, both private and public. However, because OPERS focuses on a long-term investment horizon, which is often considered to be 30 years or more, we also know the System can weather the periodic volatile fluctuations of the market. OPERS remains a long-term institutional investor with strategic asset allocation policies designed to meet the long-term plan objectives. Thus, while the shorter-term one-, three- and five-year returns have been negatively impacted by the dismal investment market performance in 2008, the long-term, 30-year returns continue to reflect a consistently solid performance.

OPERS has a 73-year tradition of delivering on our promises, largely due to our proactive stance on anticipated challenges. We recognize this market is unsettling, but we also recognize the importance of continuing to evolve as an organization. OPERS continues to be well positioned—even in this economy—due to our consistent approach to proactively addressing issues. OPERS will continue to make incremental, timely changes that will allow us to avoid dramatic changes in reaction to swings in the market. OPERS is a strong, well-run organization that is agile enough to move forward so that we are able to deliver benefits and services to our stakeholders today and tomorrow.

In 2008, OPERS was recognized by several outside entities as being a well-run pension system. It is a pleasure to discuss the activities that led to those accolades and to discuss our plans that will help ensure our progress toward the goal of being one of the best-run companies, and to ensure we remain grounded in the fundamentals of diligent funding, fiscal responsibility and careful planning for the future. As we focus on the road ahead, we invite you to take a detailed look at our journey's progress.

Paving the way for the road ahead

OPERS is the largest retirement system in Ohio, and one of the largest public retirement systems in the U.S. With an asset base of more than $59 billion, OPERS is fiscally sound and will remain so. However, like almost every sector, the 2008 economy had a negative impact on OPERS. OPERS suffered its largest investment loss in recent history. OPERS' investment return in 2008 was a -26.92%; this return contributed to a decline in total net assets of $24.3 billion. However, despite this decline in total net assets, OPERS anticipates coming out of the market downturn as one of the stronger public pension systems. This belief results from our adherence to the fundamental tenets of our organization— tenets by which we conduct our business and against which we are measured. Specifically, these tenets are: 1) an adherence to a diligent funding schedule, 2) a proactive approach to addressing issues, and 3) a conservative fiscal approach that is fully disclosed to our members and all stakeholders.

Adherence to diligent funding

Heading into 2008, OPERS was one of the better-funded pension systems with a funded ratio of 96.3%, meaning that for every dollar's worth of future pension liability, OPERS had accumulated $0.96 to fund that obligation. OPERS achieved this funded status by diligently adhering to a funding schedule in both good financial times and in bad. OPERS has been fortunate with favorable market returns since the last market downturn from 2000 to 2002. Over the five-year period since that time, OPERS has earned a cumulative market return of 71%. Notably, the highest year return of 25.4% was in 2003, the year immediately following the -10.7% market return of 2002. Adhering to the diligent funding directive, OPERS used the five years of positive returns to improve funding for both pension and health care, resulting in improved net assets from a level of $48 billion at year-end 2002 to a high of $83.6 billion at year-end 2007.

Similarly, regarding the health care benefit, OPERS is one of the only public pension systems to consistently fund this benefit. OPERS began funding the health care benefit at the inception of the benefit in 1974. After more than 30 years of proactively funding the health care benefit, new accounting standards were introduced. OPERS' attentiveness to diligent funding provided a strong outcome. The standards required disclosure of the funding status of other benefits such as health care and OPERS was one of the only public pension systems that had accumulated assets in advance to pay for future benefits.

Proactively addressing issues

With respect to OPERS' proactive approach for addressing issues, OPERS has a long history of proposing and adopting incremental, strategic changes designed to address anticipated challenges. Since these changes are contemplated early, OPERS is able to find the optimal balance with the appropriate level of change. We know that delays in creating plans to address anticipated challenges may create a need for more drastic changes—changes that could cause undue hardship on the members. By anticipating challenges and strategizing a timely approach to changes, we are able to develop a smooth implementation schedule that allows us to avoid undue hardship. Thus, even when OPERS was 96.3% funded, the OPERS Board was considering plan design changes that address potential issues and position OPERS favorably for the future.

Conservative fiscal approach

OPERS uses a conservative fiscal approach to its financial arrangements and consistently provides information designed to stress transparency for all stakeholders and garner trust from our members. As noted above with health care, OPERS focuses on ensuring the benefits offered have an appropriate funding source. In addition, our conservative fiscal approach is reflected in the study, review and adoption of System-wide policies and procedures that are aimed at enhancing our funded status. This conservative fiscal approach allows us to weather market downturns, because such downturns are anticipated and planned for.

Leaving good and driving toward great

When the market recovers, OPERS will be positioned to take advantage of it. Throughout 2008, we worked to be an organization driving toward the goal of becoming an efficient, value-based organization that is known to be responsive to all stakeholders while offering products and services that are fiscally prudent. In short, we are on a journey as an organization to move from Good-to-Great. We believe this annual report accurately reflects not only our destination, but our journey to get there.

The beginning

OPERS was established and exists solely for the purpose of providing retirement, disability and survivor benefits to Ohio's public employees. Recognizing the importance of health care to our retirees, OPERS is committed to providing access to and financial assistance for affordable, meaningful health care—although neither mandated nor guaranteed. 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.

The journey began with state employees

On January 1, 1935, OPERS began providing retirement benefits for employees of the state of Ohio. From 1935 to the present, the System has grown. Over the years, the System expanded to include employees of many public employers. To ensure all stakeholders are represented within the System, each division has a representative on the Board of Trustees. Through thoughtful planning and foresight, OPERS has been able to enhance benefits throughout its history, all the while providing outstanding service to the growing number of members and retirees. In 2003, additional pension plan options were made available for members. In 2007, the Health Care Preservation Plan, designed to extend the solvency of the Health Care Fund, was implemented.

The journey continues

OPERS is a top-tier retirement system with a strong tradition of providing quality retirement, disability, survivor, and health care benefits and services. OPERS is the prudent steward of the funds 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 the member’s death. Additional information on available benefits can be found in the Plan Statement, starting on page 150.

Currently, OPERS serves more than 769,000 members, and provides more than 166,000 retirees and surviving beneficiaries with monthly benefits. In addition, the System works with more than 3,200 public employers. As of December 31, 2008, OPERS managed an asset base in excess of $59 billion. As noted previously, economic conditions in 2008 resulted in a diminishment of the asset base, but it's important to note this is not an unexpected turn in the road. Market returns will always vary by year and by asset class. However, it's important to remember that OPERS is an institutional investor with a diversified portfolio and a long-term time horizon. Down economies are expected and planned for, meaning our journey will continue as planned. Our values and approach keep us focused on proactively responding to these events in a manner that keeps us strong.

The road from Good-to-Great—2008 accomplishments and initiatives

OPERS, like all pension systems, is facing significant challenges. In 2008, OPERS worked to evolve into an organization better able to meet the anticipated challenges in the road ahead. To prepare for the journey, guiding elements were established.

The guiding elements of our journey were:

- To ensure that OPERS continually improves its funded status for both pension and health care benefits,
- To work to offer enhanced products and services that meet member needs,
- To articulate to all stakeholders the value of benefits provided,
- To strive to be one of the best-run companies in the country, and
- To prepare for the retirement of the babyboom generation.

Throughout 2008, the guiding elements provided the roadmap as teams worked to establish short- and long-term initiatives for the organization to accomplish, initiatives that formulated the new strategic plan that would enable the organization to evolve.

Recognizing the enormity of the project, four teams were created to work together throughout 2008 to develop strategies that would enable OPERS to attain the guiding elements, or goals. The teams and their mandates were:

- ***Organizational readiness team***—Charged with strengthening the organization's ability to execute the mission, vision, values and strategy of operational excellence through building leaders, ensuring delivery of adequate resources and improving the culture.
- ***End-to-end process performance team***—Charged with driving efficiency through process improvement.
- ***Service excellence through quality, reliability and responsiveness***—Charged with defining excellence in the delivery of products and services.
- ***Value-driven product team***—Charged with ensuring a stable and sustainable benefit value for current and future members through plan design and product feature review.

This was a significant undertaking, one that required coordinated effort for most of the year—and we were successful. OPERS now has a new strategic plan that delineates a specific list of short- and long-term initiatives to accomplish, each designed to help us achieve our defined goals.

The new strategic plan provides all OPERS employees—management and staff—with a specific roadmap and the necessary tools so that the identified challenges of the coming years—and they are significant—can be met.

Progress on ongoing initiatives

As we evolve, one element of our journey remains constant: Our efforts to strengthen OPERS' funded status. The ability to deliver the promised benefits requires the System's funded status be preserved and strengthened. For a pension system, funded status measures progress of accumulating the funds necessary to meet future obligations.

- ***Funded status:*** Since the majority of funding for a mature pension system is based on investment returns, it is expected that any pension system's funded status fluctuates, reflecting market conditions. While OPERS' most current valuation (December 31, 2007), shows a funded status of 96.3%, we anticipate this to decrease significantly when the 2008 actuarial valuation is completed. While we will not know the exact funded status until the 2008 valuation has been completed, early estimates indicate the 2008 funded status could be in the range of 75%-80%.

  It is typical for any pension system's funded status to fluctuate; OPERS is no exception. However, OPERS has adopted more conservative policies regarding investment fluctuations than many other pension systems. OPERS will recognize most of the loss in the 2008 valuation, rather than deferring a substantial portion of the loss to future years as other pension systems will do. OPERS' funded status in 2003 was 85%, but had recovered to 96.3% in 2007. Historically, periods of diminished funded status were made up as market conditions improved.

  Based on the last actuarial valuation dated December 31, 2007, OPERS' unfunded accrued actuarial liability of $2.6 billion is within the required 30-year amortization window, based on current accounting assumptions. The Management's Discussion and Analysis, starting on page 20, has a more in-depth discussion of OPERS' funded status.

- ***Investments:*** OPERS' funded status is enhanced by generating investment income. Historically, 67% of all pension payments come from investment income. In 2008, OPERS' ability to reap a strong return on investments was diminished by a volatile market and a generally unstable global economy. The total investment return was -26.92%—obviously disappointing, but certainly commensurate with the returns experienced by other large pension systems. While the 2008 investment returns failed to meet the goal of achieving a return of 8% for the year, as noted previously, OPERS' long-term investment return is in excess of the 8% goal.

  OPERS' portfolio is made up of two main underlying portfolios. The Defined Benefit Fund had a -27.15% return. The Health Care Fund had a return of -25.77%. 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.

- ***Retirement contributions:*** Employer contributions, employee contributions and income from investments provide the reserves needed to finance retirement benefits. OPERS completed the year 2008 with total net assets of $59.2 billion, a $24.4 billion decrease from the 2007 asset base of $83.6 billion.

- ***Expenses:*** Expenses for fiscal year 2008 totaled $5.1 billion, an increase of $353.1 million over 2007. The increase is primarily due to an increase in the number of benefit recipients. In addition, as is the national trend, retiree health care expenses increased to $1.4 billion in 2008, an increase of 7.4%.

  OPERS' 2008 administrative expenses, including investment expenses, totaling $95.4 million, reflect an increase of 3.8%, when compared to fiscal year 2007 expenses. 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 20.

- ***Health care:*** Recognizing the importance of access to health care to the overall financial stability of OPERS retirees, OPERS continues to work to be in the position of providing health care benefits. Mirroring the nation-wide focus on health care, the stability of the Health Care Fund continued to be a major initiative in 2008—an initiative that will continue into the foreseeable future.

  OPERS measures health care funding progress by solvency period. The solvency period measures how long the current health care funds will last given the expected level of expenditures. Based on the latest measurement date (December 31, 2007), OPERS has about 31 years worth of funding for this discretionary benefit. OPERS has achieved this strong financial position with health care because of the combination of continued plan design changes, expenditures control, and dedication to funding. While the high level of pension funding for the last three years has afforded OPERS the opportunity to increase health care funding, as more of the funding shifts back to pension, the health care solvency is expected to decline. As a proactive strategy, OPERS will continue to modify the health care plan design in an effort to extend solvency.

- ***Providing benefits:*** In 2008, OPERS paid $4.8 billion in pension benefits and health care coverage to more than 166,000 retired Ohioans and their beneficiaries, providing important economic stability throughout an unstable year.

- ***Educating stakeholders:*** Articulating the benefits of OPERS to all stakeholders has long been a priority for OPERS. Throughout 2008, proactive outreach for members, retirees, employers, employees, legislators, constituency groups, and the media was conducted in a consistent, practical, and plain-speaking manner. This communication program was designed to increase the understanding of the economic stability a strong pension system provides. This initiative will continue into the future.

- ***Improving technology:*** Anticipating the dramatic increase of retirees as the baby-boomer generation retires, OPERS must constantly upgrade technology so that large numbers of public employees can smoothly transition to retiree status and receive quality service from OPERS without a significant increase in staff. As noted above, the OPERS strategic plan includes initiatives to re-evaluate processes to maximize efficiency. This process design will be completed prior to technology enhancements. OPERS has been diligently investing in our infrastructure to avoid significant staff growth to service the growing retiree population.

- ***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.

Mapping the future

The impact of the investment loss in 2008 is significant. Recognizing this, the OPERS Board and staff will continue to take steps to strengthen the System, providing the System with positive traction as markets recover. As outlined in the Strategic Plan, these steps include changes to the benefit design, changes to OPERS processes and systems, continued investment in our staff skills and continued communication with and feedback from our members. Again, adherence to the principles that have served OPERS well throughout history is especially important in challenging economic times.

Internal controls, accounting system and reports

The management of OPERS is responsible for internal accounting controls. These controls are designed to assure the safeguarding of assets and the reliability of financial records. We believe that the internal accounting controls currently in place are adequate to meet the purpose for which they were intended. We also believe the financial statements, supporting schedules and statistical tables to be fairly presented in all material respects.

The accrual basis of accounting is used in recording financial transactions. Expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Interest earned is accrued on a monthly basis. Accounts receivable at year-end, in addition to accrued interest receivable, 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, Hamilton Lane, and The Townsend Group.

The never-ending road

We are confident OPERS will attain its goal of becoming one of the best-run companies in the country. We are unwavering in our determination to complete our journey from Good-to-Great. As we embark anew on this journey, it's important to remember our destination has not changed. We will continue to provide the financial stability of a secure retirement to Ohio's public employees. However, how we get there and the road upon which we traverse has evolved and will continue to do so.

As with any organization, the accomplishments OPERS reports are possible only through the dedicated effort of management and staff and at the Board of Trustee's direction.

Awards

Our vision and commitment to our members can only be accomplished by vigilant adherence to the highest possible fiscal standards. In 2008, OPERS was honored to have been recognized for its achievements:

- ***2007 Certificate of Achievement***—For 25 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 2007 CAFR.
- ***2008 Distinguished Budget Presentation Award***—OPERS was again recognized by GFOA's Distinguished Budget Presentation Award in 2008.
- ***2008 Budget Award for Special Performance Measures***—Given to OPERS for the first time in 2008, this award is given by the GFOA and recognizes OPERS' budget process as a leader in aligning strategic planning with performance measures and financial results.
- ***Making your Tax Dollars Count Award***—Given to OPERS for the first time in 2008, the award is given by the Auditor of State for excellence in financial reporting. OPERS was cited as a trustworthy guardian of taxpayer dollars.
- ***2008 Public Pension Standards Award***—Given to OPERS recognizing the professional standards attained for plan funding and administration.

Acknowledgments

The preparation of this report reflects 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. We sincerely hope we have accomplished those goals.

Respectfully submitted,

Christopher M. DeRose	Karen E. Carraher, CPA	Blake W. Sherry
Executive Director	*Director—Finance*	*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

Certificate of Achievement for Excellence in Financial Reporting

Distinguished Budget Presentation Award

The State of Ohio Making Your Tax Dollars Count Award

Financial Section

All you need is the plan, the road map, and the courage to press on to your destination.

Earl Nightingale

OPERS

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, 2008 and 2007, 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, 2008 and 2007 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 April 30, 2009, 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 68 through 69 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 2 through 16, the investment section on pages 72 through 104, 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
April 30, 2009

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, 2008 and 2007. 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 on pages 36-39.

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) 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. Contributions and interest vest over a 10-year period and may only be used for eligible health care expenses.

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

Combining Statement of Fiduciary Net Assets

The Combining Statement 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, 2008 and 2007 on pages 36-37 of this report.)

Combining Statement of Changes in Fiduciary Net Assets

The Combining Statement 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, 2008 and 2007 on pages 38-39 of this report.)

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, 2008 and 2007 on pages 40-61 of this report.)

OPERS implemented GASB Statements 43 and 45 in 2006 and GASB Statement 50 in 2007. These statements expand the note disclosures to include information regarding the funding status of the defined benefit pension plans and post-employment health care plan, and the actuarial methods and assumptions used.

OPERS implemented GASB Statement 51 in 2008. This statement provides authoritative guidance related to the accounting and financial reporting of intangible assets, including internally generated software.

The financial statements described above are prepared in compliance with Governmental Accounting Standard Board (GASB) pronouncements.

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 14 years as of the most recent valuation, dated December 31, 2007. (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—Health Care (page 65) presents information regarding the value of total annual contributions required to fund the health care benefit and the total portion of the employers' contributions applied toward this funding. This schedule is a new requirement in accordance with GASB 43, which OPERS implemented in 2006. Accordingly, historical information prior to 2006 is not available.

Notes to Required Supplementary Information

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:

Schedule of 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 services. 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 -26.9% for the year ended December 31, 2008, as compared to a positive return of 8.5% in 2007.
- Plan net assets decreased by $24.4 billion in 2008, or 29.2 %, compared to 2007 values, primarily due to the volatility of the investment market. Plan net assets for the year ended December 31, 2007 had increased by $5.2 billion, or 6.6%, over 2006 due to favorable investment returns.
- The year ended December 31, 2007 marked the end of a consecutive five-year period in which investment returns exceeded the actuarial assumed return of 8%. As of December 31, 2007, the date of the most recent actuarial valuation, OPERS' actuarial accrued liabilities for its two defined benefit pension plans exceeded its actuarial value of assets for an unfunded actuarial liability of $2.6 billion. This represented a reduction of nearly $2.3 billion from the unfunded actuarial liability of $4.9 billion at December 31, 2006.

  However, the investment losses experienced in 2008 have returned the System to its 2003 net asset levels. As of the date of this report, the actuarial valuation for the year ended December 31, 2008 is not yet complete, but it is expected that the unfunded actuarial liability will grow to approximately $18 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, 2007, the date of the latest actuarial valuation, OPERS' funded ratio was 96.3%. In general, this means that for each dollar's worth of future pension liability, OPERS had accumulated over $0.96 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 14 years. This progress represented a substantial improvement in the funding status of the pension liability over that of the preceding year. As of December 31, 2006, the actuarial valuation indicated an OPERS' funded ratio of 92.6%, with a funding year requirement of 26 years.

  Though the actuarial valuation for the year ended December 31, 2008 is not complete as of the date of this report, it is expected that the funding ratio will decline to approximately 75-80%. This decline is due to the aggregate impact of the loss in current net asset values and the inability to achieve the actuarial assumed 8% rate of return in 2008 needed to meet the long-term funding requirements. Additionally, due to OPERS' 12% market corridor assumption, OPERS is recognizing approximately 75% of the actuarial loss in 2008, rather than deferring the loss to future years. (See detailed explanation on page 33.) The actuarial funding years are expected to remain within 30 years. Refer to Table 1 for a comparative history of OPERS' actuarial liabilities and funding years for pension benefits.

Schedule of Funding Progress* ($ in millions) — Table 1—Traditional and Combined Plans

Valuation Year	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Funding Years
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
2002	50,872	43,706	7,166	85.9	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 2007.

Revised actuarial assumptions based on experience study.

- Fiscal year 2006 marked the first year of reporting for OPERS' long-term health care obligation and the corresponding assets set aside to pay that obligation in accordance with the new accounting standard, GASB 43. As of December 31, 2007, the date of the latest actuarial valuation, OPERS' liability for health care benefits was $29.8 billion and the System had accumulated assets for that obligation of $12.8 billion. Although OPERS had an unfunded actuarial liability of $17.0 billion, this represented a reduction of $1.7 billion from the valuation as of December 31, 2006, and an improvement in the funding ratio from 39% to 43%. OPERS is one of only a handful of retirement systems around the country that pre-funds any portion of health care, as 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 are expected to reduce the solvency years of the health care fund from 31 years as of December 31, 2007, to approximately 10-15 years as of December 31, 2008. Refer to Table 2 for a comparative history of OPERS' actuarial liabilities and solvency years for health care benefits.

Schedule of Funding Progress* ($ in millions) **Table 2—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**
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 2007.
Revised actuarial assumptions based on experience study.

- Revenues (additions to plan net assets) for the year 2008 were -$19.3 billion, which consists of member and employer contributions of $3.2 billion, net losses from investment activities of $22.8 billion, and other income totaling nearly $253.2 million. Other income is comprised of purchased service agreements, employer interest and penalty charges, vendor performance guarantees and rebates, Medicare Part D reimbursements, litigation 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 2007 totaled $9.9 billion, comprised of $3.1 billion in contribution revenues, $6.6 billion in net income from investment activities, and $216.4 million in other income.
- Expenses (deductions from plan net assets) increased from $4.7 billion during 2007 to nearly $5.1 billion in 2008, or 7.5%. The increase relates primarily to pension benefits and health care payments which comprise $4.8 billion of the 2008 expenditures. Refunds of member contributions, including interest and additional payments on withdrawal where required by statute, remained at levels comparable to the prior year, increasing by only $0.2 million, or 0.1 %, from 2007 to 2008. Administrative expenses increased by 6.8% over the prior year, but represent less than 1.5% 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 3 for relevant membership statistics.)

Membership (as of December 31, 2008, 2007 and 2006) **Table 3**

Member Counts	2008	2007	2006	Increase/ (Decrease) from 2007 to 2008
Active Contributing	374,002	382,177	381,464	(8,175)
Inactive	395,445	364,823	346,697	30,622
Retired Members	161,389	156,258	152,100	5,131
Dependents and Beneficiaries Receiving Benefits	5,127	5,090	4,647	37
Total Membership	**935,963**	**908,348**	**884,908**	**27,615**

Additions to Fiduciary Net Assets (Revenues) (Refer to Table 4)

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, 2008, represented a net loss of $19.3 billion, of which $22.8 billion resulted from net losses on investments. For 2007, net investment income in the amount of $6.6 billion accounted for 66.5% of the $9.9 billion in total revenues. The 2007 investment returns represented a decline from the 2006 net investment income of $10.0 billion, but still exceeded both the investment policy benchmark and the actuarial funding requirement of 8%. Net investment income in 2006 comprised 76.2% of the $13.2 billion in total revenues.

Total revenues for 2008 decreased by $29.2 billion compared to the prior year, due to a volatile market and an unstable global economy. It's important, however, to put this decrease in the proper perspective. In the preceeding five years (2003-2007) OPERS achieved investment earnings of over $41.4 billion, representing an average annual return of nearly 13.9%. These earnings represented 73.9% of the $56.0 billion in total revenues for the five-year period. The losses experienced in 2008 have returned the System to its 2003 net asset levels, following the market declines of 2000-2002.

Member and employer contributions for 2008 increased by over $122 million compared to 2007, or 3.9%. Member contributions include amounts paid by members for future retirement benefits, and amounts paid by retirees toward the cost of OPERS provided health care. Retirement contributions from members and employers comprise $118.8 million of the increase, compared to $252.8 million in 2007. The 2008 increase reflects 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 majority of the increase in member and employer retirement contributions is due to an increase in contribution rates. 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 and 2007, with the final increase of 0.5% in 2008 up to the statutory maximum of 10%. Employer contribution rates for state and local employees also increased incrementally over the two-year period 2006-2007, 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 represent 2.7% of the increase in revenues in 2008, and 2.8% of the increase in 2007.

Unemployment rates in Ohio for 2008 averaged 6.5%, contributing to a 2.1% decline in the active member population as a weakened Ohio economy contributed to layoffs and downsizing by employer units. The decline in contributing members is offset by annual wage increases. The salary trend for wages in the Midwest averaged a 2.3% growth from the December 2007 levels, compared to a 2.9% growth in 2007, and a 2.8% growth in 2006 over 2005 levels.

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 2008, these contributions totaled $82.7 million, compared to $79.2 million in 2007, or a 4.4% increase. This increase reflects both the rising cost of health care benefits and an increase in the retiree population. The number of retirees increased 3.3% over 2007, with a corresponding increase in the number of recipients eligible for health care coverage. By comparison, the number of benefit recipients in 2007 increased by 2.9% over 2006 levels.

Contracts and other receipts totaled $180.8 million in 2008, reflecting a 19.3% increase over the $151.5 million earned in 2007. The majority of this increase ($28.1 million) represents 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 2008, these contribution transfers from other systems totalled $24.8 million, compared to $14.6 million in 2007 and $21.8 million in 2006. 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. In 2008, OPERS recorded accrued revenues for historical amounts due from other systems not yet received as of December 31, 2008. Revenues for health care waivers from other systems totaled nearly $18.8 million in 2008 compared to $0.9 million in 2007 and $2.1 million in 2006.

Fiscal year 2006 marked the first year the new 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 $63 million in revenue for OPERS in 2008, compared to $59 million in both 2007 and 2006.

Other income results from the gain or loss on disposal of OPERS' fixed assets, gifts and bequests, the cancellation of prior year's warrants, and litigation settlements. This activity typically represents less than one-tenth of 1% of the System's total revenue, totaling $1.6 million in 2008 compared to $0.1 million in 2007 and $1.5 million in 2006.

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 2008 resulted in a net inflow of $7.5 million, compared to $5.7 million in 2007 and $5.3 million in 2006. 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 below.)

Additions to Fiduciary Net Assets (Revenues) (for the years ended December 31, 2008, 2007 and 2006) Table 4

	2008	2007	2006	Amount Increase/ (Decrease) from 2007 to 2008	Percent Increase/ (Decrease) from 2007 to 2008
Member Contributions	$1,386,561,202	$1,306,554,058	$1,171,079,333	$80,007,144	6.1%
Employer Contributions	1,840,585,266	1,798,305,461	1,673,479,701	42,279,805	2.4
Contract and Other Receipts	180,763,502	151,494,844	216,390,457	29,268,658	19.3
Medicare Part D Reimbursements	63,310,194	59,075,120	58,987,181	4,235,074	7.2
Other Miscellaneous Income	1,635,996	110,559	1,501,275	1,525,437	1,379.7
Interplan Activity	7,470,205	5,730,846	5,286,335	1,739,359	30.4
Net Income /(Loss) from Investing Activities	(22,770,412,901)	6,594,053,702	10,028,554,662	(29,364,466,603)	(445.3)
Total Additions	**$(19,290,086,536)**	**$9,915,324,590**	**$13,155,278,944**	**$(29,205,411,126)**	**(294.5)%**

Deductions from Fiduciary Net Assets (Expenses) (Refer to Table 5)

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, 2008 totaled $5.1 billion, an increase of 7.5% over 2007. Expenses for 2007 also increased by 6.1% when compared to 2006, from $4.4 billion in 2006 to $4.7 billion in 2007. Pension and post-employment health care benefits paid on behalf of current retirees and their beneficiaries comprise approximately 93-94% of the expenses reported in each of these years.

Pension benefits increased by $252.0 million over the 2007 level, or 8.0%. This increase reflects the combination of a net growth of 3.2% 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). The final average of salaries for new retirees in 2008 is comparable to those who retired in 2007, representing a less than 1% increase. However, 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 2007 reflect similar increases, rising $230.1 million, or 7.9%, over 2006 levels.

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 2006 also reflect the impacts of the combination of significant plan design changes, cost-sharing changes and extensive cost containment efforts. As mentioned previously, 2008 represents the second 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). The plan 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. Based on the relatively low growth in the health care expenses in 2007 and 2008, the plan has been successful. Health care expenses have risen at a consistent rate from $1.2 billion in 2006 to $1.3 billion in 2007 and to $1.4 billion in 2008.

These expenses are comprised of medical and prescription drug costs, as well as reimbursements to retirees for Medicare Part B premiums. The majority of the $94.4 million increase in total health care expense for 2008 occurred primarily in medical expenses, which increased $78.0 million, or 10.4%. Increases in prescription drug expenses accounted for $9.6 million of the total increase, with statutorily required Medicare Part B reimbursements and deposits to retiree medical accounts comprising the balance of $6.8 million. The overall breakdown of health care expenses for 2007 and 2006 reflects similar distributions, with medical expenses averaging approximately 59% of the total, followed by prescription drugs (33%) and Medicare Part B reimbursements (7%).

Refunds of member accounts are at the discretion of the member, and vary from year to year. In 2008, member elected refunds totaled $221 million, comparable to 2007 and 2005 levels. Refunds issued in 2006 totaled $235 million representing a 6.8% increase over the 2005 level of $220 million. The 2006 increase in refunds was primarily due to staff efforts to locate inactive members and encourage refunds of small account balances not eligible for retirement benefits.

OPERS has consistently managed its Administrative Expense budget with no material variances between planned and actual expenditures in either 2008 or 2007. Administrative expenses for 2008 totaled $95.4 million, up approximately 3.8% from 2007 expenditures of $91.9 million.

Deductions in Fiduciary Net Assets (Expenses) (for the years ended December 31, 2008, 2007 and 2006) Table 5

	2008	2007	2006	Amount Increase/ (Decrease) from 2007 to 2008	Percent Increase/ (Decrease) from 2007 to 2008
Benefits—Pension	$3,388,953,861	$3,136,995,197	$2,906,859,113	$251,958,664	8.0%
Benefits—Health Care	1,377,274,519	1,282,829,856	1,231,882,888	94,444,663	7.4
Refunds	221,300,825	221,092,748	235,136,633	208,077	0.1
Administrative Expenses	74,022,980	69,305,991	65,152,774	4,716,989	6.8
Interplan Activity	7,470,205	5,730,846	5,286,335	1,739,359	30.4
Total Deductions	**$5,069,022,390**	**$4,715,954,638**	**$4,444,317,743**	**$353,067,752**	**7.5%**

Reserves (Refer to Tables 6 and 7)

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 6 displays the statutory funds that OPERS maintains.

Reserves (as of December 31, 2008, 2007 and 2006) Table 6

	2008	2007	2006
Employees' Savings Fund	$11,546,208,967	$10,815,159,012	$10,374,480,725
Employers' Accumulation Fund—Pension/Health Care	13,503,733,507	40,336,757,059	38,641,822,117
Annuity and Pension Reserve Fund	32,410,382,036	30,699,027,425	27,770,522,547
Survivors' Benefit Fund	1,418,388,692	1,373,512,884	1,313,109,826
Defined Contribution Fund—Retirement/Health Care	216,885,601	234,047,349	165,336,652
Income Fund	100,226,117	99,627,634	95,995,910
Expense Fund	5,693,883	2,496,366	-
Total Fund Balance	**$59,201,518,803**	**$83,560,627,729**	**$78,361,267,777**

These statutory funds are further subdivided to accumulate reserves by benefit plan. Table 7 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 2008 and 2007. 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. 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, 2007, the date of the latest actuarial valuation, OPERS had not only accumulated sufficient assets to fund 100% of the benefits for retirees and their beneficiaries, but had also provided nearly 93% of the reserves necessary to fund pensions for active members, based on service credit earned through year-end 2007. As of year-end 2006 OPERS had accumulated 86% of the reserves needed to fund pensions for active 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.

Reserves by Plan (as of December 31, 2007 and 2006) Table 7

	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**

	Traditional Plan	Post-employment Health Care	Combined Plan	Member-Directed Plan	Voluntary Employees' Beneficiary Association	2006 Total
Employees' Savings Fund	$10,374,152,385		$328,340			$10,374,480,725
Employers' Accumulation Fund—Pension/Health Care	25,743,571,669	$12,838,059,079	60,191,369			38,641,822,117
Annuity and Pension Reserve Fund	27,770,523,103		(556)			27,770,522,547
Survivors' Benefit Fund	1,313,109,826					1,313,109,826
Defined Contribution Fund—Retirement/Health Care			53,479,881	$86,524,882	$25,331,889	165,336,652
Income Fund	95,995,910					95,995,910
Expense Fund						
Total Fund Balance	**$65,297,352,893**	**$12,838,059,079**	**$113,999,034**	**$86,524,882**	**$25,331,889**	**$78,361,267,777**

Funding Status

As previously noted, OPERS' net investment income for the year ended December 31, 2008 represented a loss of $22.8 billion, ending a five-year period in which investment income exceeded the actuarial funding requirement of 8.0%. Net investment losses for the defined benefit plans comprised $19.3 billion of this total, with a return of negative 27.2%. Investment losses for the health care plan comprised $3.4 billion of the total, with the defined contribution plans comprising the balance ($74.1 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 gain-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 was the case with 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.

At December 31, 2007, 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 $67.2 billion. The fair value of these defined benefit assets at December 31, 2007, included in the pension plans on the financial statements of OPERS was $70.0 billion. Therefore, when viewing actuarial funding status, the market value of assets would provide a superior funding position to the actuarial value of assets as of December 31, 2007. This was also true in 2006. However, as a point of comparison, at the end of 2002 the actuarial value of pension assets exceeded the market value of pension assets, making OPERS appear better funded than actual market values would have indicated.

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 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. The unfunded actuarial accrued liability (the amount by which the actuarial value of liabilities exceeds the actuarial value of assets) at year-end 2007 makes the System appear less well funded than it actually is.

It is 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, 2007, the System's actuarial value of liabilities for defined pension benefits exceeded its actuarial value of assets by $2.6 billion. Actuarial projections indicate that, assuming the underlying assumptions are achieved, the $2.6 billion in unfunded liabilities would be amortized and funded over a 14-year period, which is within generally acceptable funding guidelines. However, based on the actuarial smoothing techniques, OPERS has a $2.9 billion unrealized gain yet to recognize over the next two years. By comparison, the 2006 actuarial valuation reflected an unfunded actuarial liability of $4.9 billion and a 26-year funding period.

As noted in the Financial Highlights, the investment losses of 2008 will have a dramatic effect on the unfunded actuarial liability and funding years in the actuarial valuation for the year ended December 31, 2008 (valuation pending).

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, 2007, the date of the latest actuarial valuation, OPERS has an estimated liability for future health care of $29.8 billion. OPERS is one of a relatively few retirement systems that has systematically set aside assets to fund health care. As of December 31, 2007, OPERS has $12.8 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 $17.0 billion. Simply put, OPERS has accumulated 43% of the assets necessary to pay these benefits. Similar to pensions, the market value of the health care assets is $13.3 billion and exceeds the actuarial, or funding value, of assets of $12.8 billion. By comparison, the health care liability as of December 31, 2006 was $30.7 billion compared to the actuarial value of assets of $12.0 billion, leaving an unfunded liability of $18.7 billion and a funded ratio of 39%.

OPERS continues to make changes to the plan design of the health care benefits in addition to increasing the funding to the health care plan. The combination of these changes has increased the period of time that the accumulated assets will be able to provide benefits, known as the solvency period, to 31 years as of December 31, 2007. However as noted in the Financial Highlights, the investment losses of 2008 will have a dramatic effect on the unfunded actuarial liability and the solvency years in the actuarial valuation for the year ended December 31, 2008 (valuation pending). 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

Net assets may serve over time as a useful indication of OPERS' financial position (Please refer to Table 8 on the next page). At the close of calendar years 2008 and 2007, the net assets of OPERS totaled $59.2 billion and $83.6 billion, respectively. 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, 2008, 2007 and 2006) **Table 8**

	2008	2007	2006	Amount Increase/ (Decrease) from 2007 to 2008	Percent Increase/ (Decrease) from 2007 to 2008
Current and Other Assets	$1,016,437,950	$1,029,607,934	$1,427,899,707	$(13,169,984)	(1.3)%
Cash and Investments at Fair Value	66,384,749,035	96,191,475,646	90,592,897,799	(29,806,726,611)	(31.0)
Capital Assets	117,521,350	120,859,724	120,156,097	(3,338,374)	(2.8)
Total Assets	67,518,708,335	97,341,943,304	92,140,953,603	(29,823,234,969)	(30.6)
Total Liabilities	8,317,189,532	13,781,315,575	13,779,685,826	(5,464,126,043)	(39.6)
Net Assets, End of Year	**$59,201,518,803**	**$83,560,627,729**	**$78,361,267,777**	**$(24,359,108,926)**	**(29.2)%**
Net Assets, Beginning of Year	83,560,627,729	78,361,267,777	69,650,306,576	5,199,359,952	6.6
Net Increase /(Decrease) in Net Assets	$(24,359,108,926)	$5,199,359,952	$8,710,961,201	$(29,558,468,878)	(568.5)%

The market turnaround that began in 2003 and continued through 2007 greatly boosted OPERS' funding position. However, in spite of the investment gains recorded during this period, the market declines of 2008 have returned the System to its 2003 net asset levels. Rising pension and health care costs will continue to impact OPERS' ability to fund retirement health care in a volatile market. The distribution of contribution revenues will shift away from health care to meet the priority funding needs of pensions, and will continue to increase to the maximum levels allowed under state law over the next several years. The passage of Senate Bill 267 in late December 2008 further expands 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. If favorable investment returns resume, these contribution rate increases may permit the percentage of employer contributions used to fund post-employment health care benefits to be increased. However, OPERS' first priority remains to be in the position of adequately funding pension benefits.

Capital Assets

As of December 31, 2008, OPERS' investment in capital assets totaled $117.5 million (net of accumulated depreciation and amortization). This investment in capital assets includes equipment, furniture, and the home office complex.

OPERS invested $8.5 million in capital assets during 2008, compared to an investment of $11.7 million in 2007. 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 ($1.9 million), expansion of the health care preservation plan project ($1.6 million), and a service purchase software system ($0.9 million).

As previously noted, OPERS implemented GASB Statement 51 in 2008. This statement provides 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. The net capital asset value at December 31, 2008 reflects the write-off of $1.6 million in previously capitalized assets (cost net of accumulated depreciation).

Combining Statements of Fiduciary Net Assets (as of December 31, 2008 and 2007)

2008

	Traditional Plan	Post-employment Health Care	Combined Plan	Member-Directed Plan	Voluntary Employees' Beneficiary Association
Assets:					
Cash and Short-Term Investments	$1,208,848,813	$214,267,049	$2,982,361	$2,194,785	$1,339,485
Receivables:					
Members' and Employers'	206,639,231	99,321,334	4,349,742	4,802,580	1,333,537
Retirement Incentive Plan	4,588,839	344,045			
Vendor and Other	475,637	57,775,901			
Investment Sales Proceeds	247,429,155	57,319,401	1,046,783	1,091,566	225,768
Accrued Interest and Dividends	220,468,520	46,426,349	392,336	101,831	201,168
Due From Other Plans	61,819,381				
Total Receivables	741,420,763	261,187,030	5,788,861	5,995,977	1,760,473
Investments, at fair value:					
Global Bonds	13,982,135,842	4,363,406,922	43,862,509	35,874,773	12,756,338
Domestic Equities	18,340,502,082	2,731,493,461	64,575,389	59,936,148	16,734,915
Real Estate	4,299,826,067		6,426,525	11,605	3,923,405
Private Equities	2,263,251,876	5,150,008	3,382,659	6,109	2,065,120
International Equities	8,763,939,843	2,201,764,403	38,779,938	41,407,353	7,996,716
Total Investments	47,649,655,710	9,301,814,794	157,027,020	137,235,988	43,476,494
Collateral on Loaned Securities	5,357,710,312	2,297,927,070	7,044,675	9,177	3,215,302
Capital Assets:					
Land	3,069,419	665,394			
Building and Building Improvements	92,008,802	19,663,497			
Furniture and Equipment	49,500,042	17,141,828	1,155,609	1,470,136	1,663,632
Total Capital Assets	144,578,263	37,470,719	1,155,609	1,470,136	1,663,632
Accumulated Depreciation	(53,364,763)	(11,267,149)	(1,155,491)	(1,469,999)	(1,559,607)
Net Capital Assets	91,213,500	26,203,570	118	137	104,025
Prepaid Expenses and Other Assets	284,846				
TOTAL ASSETS	**55,049,133,944**	**12,101,399,513**	**172,843,035**	**145,436,064**	**49,895,779**
Liabilities:					
Undistributed Deposits	1,454,665	52,974			
Benefits Payable	130,259	131,776,992			15,228
Investment Commitments Payable	364,423,724	69,811,443	1,527,796	1,585,226	332,521
Accounts Payable and Other Liabilities	12,603,830				
Accounts Payable RMA Claims		5,748,957			
Due To Other Plans			25,320,079	26,499,640	9,999,662
Obligations Under Securities Lending	5,357,710,312	2,297,927,070	7,044,675	9,177	3,215,302
TOTAL LIABILITIES	**5,736,322,790**	**2,505,317,436**	**33,892,550**	**28,094,043**	**13,562,713**
Net Assets Held in Trust for Pension and Post-employment Health Care Benefits	**$49,312,811,154**	**$9,596,082,077**	**$138,950,485**	**$117,342,021**	**$36,333,066**

See Notes to Combining Financial Statements, beginning on page 40. An unaudited Schedule of Funding Progress is presented on pages 62-63.

Combining Statements of Fiduciary Net Assets (continued)

	2007					
2008 Total All Plans	Traditional Plan	Post-employment Health Care	Combined Plan	Member-Directed Plan	Voluntary Employees' Beneficiary Association	2007 Total All Plans
$1,429,632,493	$858,481,646	$166,407,166	$2,725,143	$3,064,085	$265,568	$1,030,943,608
316,446,424	244,628,880	107,187,056	4,494,759	5,066,218	1,533,363	362,910,276
4,932,884	7,559,025	676,337				8,235,362
58,251,538		36,025,605				36,025,605
307,112,673	236,936,107	33,489,810	406,904	201,824	121,598	271,156,243
267,590,204	239,404,887	64,843,050	362,870	129,772	122,865	304,863,444
61,819,381	46,029,835					46,029,835
1,016,153,104	774,558,734	242,221,858	5,264,533	5,397,814	1,777,826	1,029,220,765
18,438,036,384	16,719,056,140	6,581,396,111	46,409,890	40,205,777	8,579,391	23,395,647,309
21,213,241,995	29,420,200,491	4,186,123,350	84,152,612	76,716,346	15,098,700	33,782,291,499
4,310,187,602	4,687,879,196		5,452,452	1,851	2,405,860	4,695,739,359
2,273,855,772	2,342,443,916		2,724,486	925	1,202,162	2,346,371,489
11,053,888,253	15,433,224,552	2,282,909,655	33,354,772	23,669,171	7,920,464	17,781,078,614
57,289,210,006	68,602,804,295	13,050,429,116	172,094,212	140,594,070	35,206,577	82,001,128,270
7,665,906,536	11,069,869,796	2,072,493,713	11,788,022	171,375	5,080,862	13,159,403,768
3,734,813	3,069,419	665,394				3,734,813
111,672,299	91,908,623	19,852,388				111,761,011
70,931,247	46,594,095	14,941,722	2,067,943	1,652,648	685,811	65,942,219
186,338,359	141,572,137	35,459,504	2,067,943	1,652,648	685,811	181,438,043
(68,817,009)	(47,603,036)	(8,853,297)	(1,998,968)	(1,597,524)	(525,494)	(60,578,319)
117,521,350	93,969,101	26,606,207	68,975	55,124	160,317	120,859,724
284,846	387,169					387,169
67,518,708,335	**81,400,070,741**	**15,558,158,060**	**191,940,885**	**149,282,468**	**42,491,150**	**97,341,943,304**
1,507,639	1,006,808	8,385				1,015,193
131,922,479		142,701,327				142,701,327
437,680,710	355,806,425	57,017,727	1,205,858	1,216,779	182,603	415,429,392
12,603,830	13,746,634	569,998				14,316,632
5,748,957		2,419,428				2,419,428
61,819,381			22,082,439	23,947,396		46,029,835
7,665,906,536	11,069,869,796	2,072,493,713	11,788,022	171,375	5,080,862	13,159,403,768
8,317,189,532	**11,440,429,663**	**2,275,210,578**	**35,076,319**	**25,335,550**	**5,263,465**	**13,781,315,575**
$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**

Combining Statements of Changes in Fiduciary Net Assets (for the years ended December 31, 2008 and 2007)

2008

	Traditional Plan	Post-employment Health Care	Combined Plan	Member-Directed Plan	Voluntary Employees' Beneficiary Association
Additions:					
Members' Contributions	$1,253,053,822	$82,695,255	$25,123,220	$25,688,905	
Employers' Contributions	892,693,746	891,561,073	20,352,999	24,411,834	$11,565,614
Contract and Other Receipts	113,351,117	66,343,542	844,005	223,485	1,353
Medicare Part D Reimbursements		63,310,194			
Other Income, Net	1,021,007	614,989			
Interplan Activity	7,289,779		68,857	55,277	56,292
Total Non-investment Income	**2,267,409,471**	**1,104,525,053**	**46,389,081**	**50,379,501**	**11,623,259**
Income/(Loss) from Investing Activities:					
Net Appreciation/(Depreciation) in Fair Value	(19,897,254,038)	(3,734,049,668)	(55,610,780)	(48,078,210)	(11,940,931)
Bond Interest	974,197,413	182,944,355	2,296,938	1,659,232	584,645
Dividends	740,717,057	139,099,121	1,368,024	644,199	444,526
Real Estate Operating Income/(Loss), net	(634,567,228)		(834,367)	(1,085)	(380,822)
International Income	2,944,258	552,901	3,871	5	1,767
Other Investment Income/(Loss)	(373,698,236)	147,998	(491,361)	(639)	(224,268)
External Asset Management Fees	(107,174,711)	(8,674,498)	(259,384)	(192,983)	(64,319)
Net Investment Income/(Loss)	(19,294,835,485)	(3,419,979,791)	(53,527,059)	(45,969,481)	(11,579,402)
From Securities Lending Activity:					
Security Lending Income	240,158,577	103,004,243	315,777	412	144,125
Security Lending Expenses	(186,448,193)	(79,967,808)	(245,155)	(320)	(111,892)
Net Securities Lending Income	53,710,384	23,036,435	70,622	92	32,233
Investment Administrative Expenses	(17,415,336)	(3,703,986)	(115,129)	(115,011)	(21,987)
Net Income/(Loss) from Investing Activity	**(19,258,540,437)**	**(3,400,647,342)**	**(53,571,566)**	**(46,084,400)**	**(11,569,156)**
TOTAL ADDITIONS	**(16,991,130,966)**	**(2,296,122,289)**	**(7,182,485)**	**4,295,101**	**54,103**
Deductions:					
Benefits	3,288,862,796	1,377,146,173	11,911	79,154	128,346
Refunds of Contributions	212,802,651		3,623,723	4,874,451	
Administrative Expenses	53,853,085	13,596,943	2,990,092	2,762,484	820,376
Interplan Activity	180,426		4,105,870	3,183,909	
TOTAL DEDUCTIONS	**3,655,698,958**	**1,390,743,116**	**10,731,596**	**10,899,998**	**948,722**
Net Increase (Decrease)	(20,646,829,924)	(3,686,865,405)	(17,914,081)	(6,604,897)	(894,619)
Net Assets Held in Trust for Pension and Post-employment Health Care Benefits					
Balance, beginning of year	69,959,641,078	13,282,947,482	156,864,566	123,946,918	37,227,685
Balance, end of year	**$49,312,811,154**	**$9,596,082,077**	**$138,950,485**	**$117,342,021**	**$36,333,066**

See Notes to Combining Financial Statements, beginning on page 40. An unaudited Schedule of Funding Progress is presented on pages 62-63.

Combining Statements of Changes in Fiduciary Net Assets (continued)

	2007					
2008 Total All Plans	Traditional Plan	Post-employment Health Care	Combined Plan	Member-Directed Plan	Voluntary Employees' Beneficiary Association	2007 Total All Plans
$1,386,561,202	$1,183,959,051	$79,198,959	$21,907,704	$21,478,344		$1,306,544,058
1,840,585,266	1,051,808,289	695,967,837	19,241,579	21,048,014	$10,239,742	1,798,305,461
180,763,502	105,157,859	45,534,017	347,280	453,716	1,972	151,494,844
63,310,194		59,075,120				59,075,120
1,635,996	40,061	70,498				110,559
7,470,205	4,969,740		411,764	278,478	70,864	5,730,846
3,480,326,365	**2,345,935,000**	**879,846,431**	**41,908,327**	**43,258,552**	**10,312,578**	**3,321,260,888**
(23,746,933,627)	2,978,595,633	479,748,239	5,106,084	3,011,755	1,356,363	3,467,818,074
1,161,682,583	1,129,992,693	211,556,481	2,068,604	1,327,507	518,632	1,345,463,917
882,272,927	858,434,727	160,715,579	2,115,341	1,831,840	393,995	1,023,491,482
(635,783,502)	323,118,149		340,815	66	148,301	323,607,331
3,502,802	53,310	9,981	56		24	63,371
(374,266,506)	514,290,677	13,229,442	547,149	7,206	236,044	528,310,518
(116,365,895)	(109,715,953)	(10,491,258)	(255,534)	(219,648)	(50,357)	(120,732,750)
(22,825,891,218)	5,694,769,236	854,768,464	9,922,515	5,958,726	2,603,002	6,568,021,943
343,623,134	641,598,796	120,699,574	654,204	173,204	230,115	763,355,893
(266,773,368)	(600,710,408)	(113,044,477)	(610,663)	(172,571)	(211,348)	(714,749,467)
76,849,766	40,888,388	7,655,097	43,541	633	18,767	48,606,426
(21,371,449)	(18,546,598)	(3,809,128)	(99,818)	(98,543)	(20,580)	(22,574,667)
(22,770,412,901)	**5,717,111,026**	**858,614,433**	**9,866,238**	**5,860,816**	**2,601,189**	**6,594,053,702**
(19,290,086,536)	**8,063,046,026**	**1,738,460,864**	**51,774,565**	**49,119,368**	**12,913,767**	**9,915,314,590**
4,766,228,380	3,136,978,910	1,282,776,044	5,451	10,836	53,812	4,419,825,053
221,300,825	213,007,451		2,707,630	5,377,667		221,092,748
74,022,980	50,053,260	10,796,417	3,890,828	3,601,327	964,159	69,305,991
7,470,205	718,220		2,305,124	2,707,502		5,730,846
5,069,022,390	**3,400,757,841**	**1,293,572,461**	**8,909,033**	**11,697,332**	**1,017,971**	**4,715,954,638**
(24,359,108,926)	4,662,288,185	444,888,403	42,865,532	37,422,036	11,895,796	5,199,359,952
83,560,627,729	65,297,352,893	12,838,059,079	113,999,034	86,524,882	25,331,889	78,361,267,777
$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**

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 is 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,* which subsequently amended portions of Statement 14. These statements require that financial statements of the reporting entity include all of the organizations, activities, functions and component units for which the reporting entity is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board 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, 2008 and 2007 follows:

Employer, Employee and Retiree Data (as of December 31, 2008 and 2007)

Year	2008	2007
Employer units		
State division	269	273
Local government division	3,207	3,196
Law enforcement and public safety division	248	245
Employees, members and retirees—pension		
Traditional Plan retirees and beneficiaries currently receiving benefits	166,499	161,342
Combined and Member-Directed plans retirees and beneficiaries currently receiving benefits	17	6
Traditional and Combined plans terminated employees not yet receiving benefits	122,057	110,896
Employees, members and retirees—post-employment health care		
Retirees and beneficiaries currently receiving benefits—OPEB (Traditional and Combined plans)	208,857	204,514
Retirees and beneficiaries currently receiving benefits—VEBA (Member-Directed Plan)	365	176
Traditional and Combined plans terminated employees not yet receiving benefits	13,487	12,904
Active employees (all plans)		
State division	118,584	124,460
Local government division	247,099	249,304
Law enforcement division	8,191	8,293
Public safety division	128	120

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. Members of 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 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 utilizing 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 gains 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, 2008. Within the Traditional Plan, 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 2008 and 2007 were $892,693,746 and $1,051,808,289, respectively. Employer contributions for the Combined Plan for 2008 and 2007 were $20,352,999 and $19,241,579, respectively. Employers satisfied 100% of the contributions requirements.

The following table displays the employee and employer contribution rates as a percent of covered payroll for each division for 2008, 2007, and 2006. 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-retirement health care benefits. The portion of Traditional and Combined Plan employer contributions allocated to health care was 7% for 2008 as compared to 5% from January 1 through June 30, 2007, and 6.0% from July 1 through December 31, 2007. The employer contribution as a percent of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for both 2008 and 2007 was 4.5%.

Board of Trustees-Approved Contribution Rates—All Plans

	Employee Rate			Employer Rate		
	2008	2007	2006	2008	2007	2006
State division	10.00%	9.50%	9.00%	14.00%	13.77%	13.54%
Local government division	10.00	9.50	9.00	14.00	13.85	13.70
Law enforcement division	10.10	10.10	10.10	17.40	17.17	16.93
Public safety division	10.10	9.75	9.00	17.40	17.17	16.93

The Ohio Revised Code authorized maximum rates are 14.0% for state and local employers and 18.1% for public safety and law enforcement employers. The employee authorized maximum contribution rates are 10.0% for employees in the state and local divisions and 10.1% for members in the law division. The employee public safety rate is established by the Board and has no maximum rate established by the Ohio Revised Code.

ORC Chapter 145 assigns authority to the Board of Trustees to amend the funding policy. As of December 31, 2008, the Board of Trustees adopted the contribution rates that were recommended by the actuary.

As of December 31, 2007, the date of the last actuarial study, the funding period was 14 years. The funding period for the actuarial study performed for the year ended December 31, 2006, was 26 years.

d. **Commitments and Contingencies**—OPERS has committed to fund various private equity investments totaling approximately $2.0 billion and $1.7 billion at December 31, 2008, and December 31, 2007, respectively. The expected funding dates for these commitments extend through 2018. 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 of its 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, 2008 and 2007 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 calculation and projection formulas that take into account daily investment return, 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 50 was early implemented for the year ended December 31, 2007.

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.

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 2008 and 2007 were $30,289,376 and $27,825,427, 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. The provisions of this Statement are generally required to be applied retroactively, resulting in the write-off of previously capitalized assets. The cost and accumulated depreciation related to the assets that were written off in accordance with the provisions of GASB 51 are reflected in the Capital Asset table on the following page.

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, 2007, and changes to those account balances during the year ended December 31, 2008.

Capital Asset Account Balances

	Land	Building and Building Improvements	Furniture, Fixtures and Equipment	Total Capital Assets
Cost:				
Balances, December 31, 2007	$3,734,813	$111,761,011	$65,942,219	$181,438,043
Additions		139,543	8,505,079	8,644,622
Write-offs		(228,255)	(881,167)	(1,109,422)
GASB 51 Write-off			(2,634,884)	(2,634,884)
Balances, December 31, 2008	3,734,813	111,672,299	70,931,247	186,338,359
Accumulated Depreciation:				
Balances, December 31, 2007		13,400,966	47,177,353	60,578,319
Depreciation Expense		2,329,727	7,864,024	10,193,751
Write-offs		(26,497)	(872,660)	(899,157)
GASB 51 Write-off			(1,055,904)	(1,055,904)
Balances, December 31, 2008		15,704,196	53,112,813	68,817,009
Net Capital Assets, December 31, 2008	$3,734,813	$95,968,103	$17,818,434	$117,521,350

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, 2007, and accordingly, there are sufficient assets 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 with relation to vested pension benefits as of December 31, 2007.
- ***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 10-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, 2007.
- ***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, 2008, 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, 2008 and 2007 are as follows:

Statutory and IRC Fund Balances (as of December 31, 2008 and 2007)

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**

For Year Ended December 31, 2007	Traditional Plan	Post-employment Health Care	Combined Plan	Member-Directed Plan	VEBA	Total
Employees' Savings Fund	$10,814,646,533		$512,479			$10,815,159,012
Employers' Accumulation Fund	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			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	**$69,959,641,078**	**$13,282,947,482**	**$156,864,566**	**$123,946,918**	**$37,227,685**	**$83,560,627,729**

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 2008 and 2007 were related to the employee health care coverage (see Note 7).

3. Cash and Investments

A summary of cash and short-term securities and investments held at December 31, 2008 and 2007 is as follows:

Summary of Cash and Short-term Securities and Investments (held at December 31, 2008 and 2007)

	2008 Fair Value	2007 Fair Value
Cash and Short-Term Investments:		
Cash	$73,288,487	$101,162,570
Short-term Securities:		
Commercial Paper	172,632,458	86,562,931
U.S. Treasury Obligations	88,587,414	35,656,916
Agency Discount Notes	856,879	669,506
Repurchase Agreements	460,994,550	508,137,000
Corporate Bonds	1,290,824	0
Short-Term Investment Funds (STIF)	631,981,881	298,754,685
Total Short-Term Securities	$1,356,344,006	$929,781,038
Total Cash and Short-Term Investments	**$1,429,632,493**	**$1,030,943,608**
Investments:		
Global Bonds:		
U.S. Corporate Bonds	$5,329,750,656	$7,459,132,854
Non-U.S. Notes/Bonds	1,556,255,062	1,785,223,748
U.S. Government and Agencies	7,427,099,632	7,463,435,091
U.S. Mortgage Backed	4,124,931,034	6,687,855,616
Total Global Bonds	$18,438,036,384	$23,395,647,309
Domestic Equities	$21,213,241,995	$33,782,291,499
Real Estate	4,310,187,602	4,695,739,359
Private Equities	2,273,855,772	2,346,371,489
International Equities	11,053,888,253	17,781,078,614
Total Investments Before Collateral	**$57,289,210,006**	**$82,001,128,270**
Collateral on Loaned Securities:		
Cash	$7,665,906,536	$13,159,403,768
Total Collateral on Loaned Securities	**$7,665,906,536**	**$13,159,403,768**
Total Investments	**$64,955,116,542**	**$95,160,532,038**

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. All non-investment related bank balances at year end were insured or collateralized with securities held by OPERS' pledging financial institution. 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, 2008, deposits totaling $60,448,587 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**—The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (for example, broker-dealer) to a transaction, OPERS will not be able to recover the value of its investment or collateral securities that are in the possession of another party. 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 is measured by the assignment of a rating by a nationally recognized statistical rating organization.

OPERS' risk management policy over credit risk includes limiting non-investment grade securities to 15% of total global bond assets. Limitations on the holding of non-investment grade securities are included in portfolio guidelines to ensure compliance with this constraint.

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 *Interest Rate Risk Policy* states the average effective duration of all Defined Benefit assets must be within 20% of the average effective duration of the benchmark (60% Barclays Universal Index; 40% Barclays Long Government/Credit Index).

The following table presents the credit quality ratings and effective durations of OPERS' global bond assets, including short-term investments as of December 31, 2008.

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	$172,632,458	0.9%	0.00	$95,104,030	$77,528,428
Repurchase Agreements	460,994,550	2.3	0.00	460,994,550	
Money Market/STIF	631,981,881	3.2	0.00	631,981,881	
Corporate Bonds	4,417,911,372	22.4	6.84	313,066,341	334,329,322
Municipal Bonds	23,775,860	0.1	2.32	445,422	23,330,438
Asset Backed Securities	806,931,787	4.1	1.81	542,702,813	151,455,554
Collateralized Mortgage Obligations	941,577,947	4.8	2.23	847,135,356	35,125,551
Mortgages	563,931,845	2.8	8.82	399,631,539	15,356,561
Non-U.S. Corporate Bonds	1,117,471,089	5.6	7.28	174,218,619	91,425,701
Non-U.S. Mortgage	38,057,011	0.2	3.35	25,619,341	
Non-U.S. Asset Backed Securities	23,676,440	0.1	1.40	11,771,487	
Non-U.S. Government	377,050,522	1.9	6.87		
Commingled Long-Term Global Bonds	181,168,083	0.9	0.00		
Agency Mortgages	2,520,675,620	12.7	2.04	2,520,675,620	
Agency Bonds	1,008,005,238	5.1	7.95	956,140,445	
Total Non-Government Guaranteed	**$13,285,841,703**	**67.1%**		**$6,979,487,444**	**$728,551,555**
U.S. Treasury Notes/Bonds	$4,241,756,541	21.4%	9.19	$4,241,756,541	
U.S. Strips	253,422,222	1.3	12.57	253,422,222	
U.S. Treasury Inflation Protected	1,923,915,631	9.7	7.68	1,923,915,631	
U.S. Treasury and Agency Discount Notes	89,444,293	0.5	0.55	89,444,293	
Total Global Bonds and Short-Term Securities	**$19,794,380,390**	**100.0%**	**6.05**	**$13,488,026,131**	**$728,551,555**

e. Concentration of Credit Risk—Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. OPERS' portfolio has no single issuer exposure that comprises 5% or more of the overall portfolio and, 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 fair value of an investment. OPERS' currency risk exposures, or exchange rate risk, primarily reside within OPERS' international equity investment holdings. OPERS' implementation policy is to allow OPERS' external managers to decide what action to take 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
$1,639,166,113	$1,784,323,256	$144,036,809	$146,129,093	$50,674,163	$378,700	$1,911,300	$1,917,775	$1,978,500
58,927,772	25,495,786	14,959,895	7,930,337	2,311,421	2,892,666	44,392	211,151	
27,504,092	18,149,744	6,428,004		7,235,200				
8,191,707	25,414,686	4,120,392	80,828,778	19,472,205		8,315,881	2,600,096	
294,974,255	481,271,891	38,462,530	17,448,705	6,241,331	2,338,500	91,375	605,675	10,392,507
62,693	5,124,977							7,250,000
	943,126		5,401,368	5,485,796				74,663
25,565,992	211,964,470	115,963,972	11,954,021	3,925,443			4,403,624	3,273,000
								181,168,083
51,864,793								
$2,106,257,417	**$2,552,687,936**	**$323,971,602**	**$269,692,302**	**$95,345,559**	**$5,609,866**	**$10,362,948**	**$9,738,321**	**$204,136,753**
$2,106,257,417	**$2,552,687,936**	**$323,971,602**	**$269,692,302**	**$95,345,559**	**$5,609,866**	**$10,362,948**	**$9,738,321**	**$204,136,753**

OPERS' exposure to foreign currency risk in U.S. dollars as of December 31, 2008 is as follows:

Exposure to Foreign Currency Risk in U.S. Dollars (as of December 31, 2008)

Currency	Cash	Forwards	Bonds	International Equities	Real Estate	Private Equities
Argentine Peso	$789,353		$548,376			
Australian Dollar	3,564,873	$4,745,443		$101,435,627		
Brazilian Real	595,034	(516,642)	27,384,548	74,746,753		
British Pound Sterling	2,133,044	(79,234,795)	850,466	826,667,876	$18,978,511	$33,208,617
Canadian Dollar	2,259,457	12,570,234		130,768,915		
Chinese Yuan Renminbi	(31,396)					
Columbian Peso	986		8,030,035			
Czech Koruna	1,236,115	(529,367)	563,065	7,022,796		
Danish Krone	2,165,759			15,021,845		
Egyptian Pound	2,619		1,120,530	3,467,419		
Euro Currency	7,399,745	13,504,620	9,239,937	1,331,339,720	104,039,363	233,367,704
Hong Kong Dollar	5,394,801			254,327,256		
Hungarian Forint	493,739			5,453,157		
Indian Rupee	3,258,562			15,857,397		
Indonesian Rupiah	122,414		1,912,433	4,625,527		
Israeli Shekel	105,589	2,477,684	974,746	2,432,372		
Japanese Yen	4,903,399	(21,243,661)	10,392,507	1,094,922,783		
Malaysian Ringgit	198,150		1,930,391	17,892,577		
Mexican Peso	3,322,329	3,899,943	10,361,085	16,819,899		
New Zealand Dollar	355,080			3,163,634		
Nigerian Naira	12,259					
Norwegian Krone	482,653	(132,181)		21,125,173		
Philippine Peso	6,681			191,691		
Polish Zolty	352,331	180,369	2,033,040	20,349,530		
Singapore Dollar	384,438			34,795,015		
South African Rand	3,591,396			38,869,128		
South Korean Won	969,446		170,317	119,850,248		
Swedish Krona	269,888	8,388,008		63,435,657		
Swiss Franc	5,524,582	(8,705,651)		281,112,211		
Taiwan Dollar	3,814,757			77,195,634		
Thailand Baht	99,804			16,124,736		
Turkish Lira	1,207,243	1,337,855	11,942,955	13,146,867		
Uruguay Peso			1,950,876			
Total	**$54,985,130**	**$(63,258,141)**	**$89,405,307**	**$4,592,161,443**	**$123,017,874**	**$266,576,321**

g. **Securities Lending**—OPERS maintains a securities lending program. OPERS uses its own discretion to determine the type and amount of securities lent under the program. Under this program securities are loaned to brokers. In return, 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. There is always a positive spread between the cost of funds raised from a securities loan and the income earned from the associated repurchase. At year end, OPERS had no credit risk exposure to borrowers because the fair value of collateral OPERS held exceeded the fair value of securities loaned.

   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.

   As of December 31, 2007, the fair value of securities on loan was $12,852,633,782. Associated collateral totaling $13,159,403,768 was comprised of cash.

   Net security lending income is composed of three components: gross income, broker rebates, and agent fees. Gross income is equal to earnings on cash collateral received in a security lending transaction. A broker rebate is the cost of using that cash collateral. Agent fees represent the fees paid to the agent for administering the lending program. Net security lending income is equal to gross income less broker rebates and agent fees. Security lending income for 2008 and 2007 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 statement of changes in fiduciary net assets.

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

Fair Values of Forward-Currency Contracts (as of December 31, 2008 and 2007)

	2008	2007
Forward-currency purchases	$131,219	$999,415
Forward-currency sales	883,638	973,699
Unrealized loss	(7,509)	(881)

The fair values of contracts hedged were:

Fair Values of Contracts Hedged (as of December 31, 2008 and 2007)

	2008	2007
Hedge-contract purchases	$139,271,759	$126,398,857
Hedge-contract sales	202,529,900	149,211,089
Unrealized gain	1,966,209	1,827,733

- ***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. 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, 2008 and 2007.

Futures Positions Held (as of December 31, 2008 and 2007)

	2008		2007	
Stock Index Futures	Number of Contracts	Contract Principal	Number of Contracts	Contract Principal
Equity Index Futures purchased long	13,168	$613,872,785	8,563	$647,882,560
U.S. Treasury Futures purchased long	392	47,695,016	566	63,741,531
U.S. Treasury Futures purchased short	(118)	(14,930,813)	(264)	(31,194,297)
Euro Futures purchased short	(24)	(5,929,500)	(42)	(10,119,750)
10-Year Interest Rate Swap purchased short	N/A	N/A	143	15,797,031

- ***Credit Default Swaps***—OPERS may manage credit exposure through the use of credit default swaps. A credit default swap (CDS) is a contract whereby the credit risk associated with an investment is transferred by entering into an agreement with another party who, in exchange for periodic fees, agrees to make payments in the event of a default or other predetermined credit event. One of the main advantages of a CDS is it allows for exposure to credit risk while limiting exposure to other risks such as interest rate and currency risk. OPERS did not hold any CDS as of December 31, 2008. As of December 31, 2007, OPERS held credit default swaps with a notional value of $25,065,000.

4. Vacation and Sick Leave

As of December 31, 2008 and 2007, $6,048,576 and $5,890,173, 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 are entitled to receive payment for a percentage of 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, available to all OPERS employees, permits them to defer a portion of their salary until future years. Deferred compensation assets are not available to employees until termination, retirement, death, or unforeseeable emergency.

IRC Section 457 requires that the amount of compensation assets deferred under a plan, all property and rights, and all income attributable to those amounts, property, or rights be held in trust for the benefit of the participants. This insulates 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, 2008, 2007 and 2006 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
2008	$2,673,093	100%	$2,673,093	100%
2007	3,109,122	100	2,046,417	100
2006	3,263,993	100	1,596,518	100

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 2008 and 2007. OPERS has a lifetime maximum coverage per employee for medical benefits in the amount of $2,500,000.

The summary of changes in incurred, but unreported, claims for the years ended December 31, 2008 and 2007 follows:

Employee Health Insurance

	2008	2007
Balance January 1	$71,907	$38,220
Claims Incurred	4,585,564	4,716,884
Claims Paid	(4,635,305)	(4,683,197)
Balance December 31	**$22,166**	**$71,907**

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, 2007, the most recent actuarial valuation date, is as follows:

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

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:	$69,734	$67,151	$2,583	96%	$12,583	21%
Traditional Plan	69,639	67,067	2,572	96	12,347	21
Combined Plan	95	84	11	88	236	5
Health Care	29,825	12,801	17,024	43	12,584	135

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, 2007	December 31, 2007
Actuarial cost method	Individual entry age	Individual entry age
Amortization method	Level percentage of pay, open	Level percentage of pay, open
Amortization period	14 years	30 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	8.0% initial, 4.0% ultimate

During the year ended December 31, 2008, the System experienced an investment return of -26.9%. The impact of the current year loss on the schedules of funding progress will not be known until the annual actuarial valuation process is completed later in the year, however, estimates indicate a probable decline in the ratio of valuation assets to the unfunded actuarial accrued liabilities (AAL) from 96% as of December 31, 2007 to a range of 75%-80% as of December 31, 2008 for pension and a decline from 43% as of December 31, 2007 to a range of 34%-39% as of December 31, 2008 for health care. In addition, the actuarial valuation of assets is determined by smoothing the asset gain or loss over a four year period. The impact of the investment loss experienced during the year ended December 31, 2008 on the future actuarial valuation of assets has not been determined and could have a significant impact on the ratio of assets to AAL for the System in future years.

Schedule of Funding Progress* ($ in millions) — Traditional and Combined 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
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
2002	50,872	43,706	7,166	86	11,207	64

* 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
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
2002	50,872	43,706	7,166	86	11,207	64

* 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
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.
#* 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) — 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
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
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
2003	979,674,494	100

Schedule of Employer Contributions* — Traditional Plan

Year Ended December 31	Annual Required Contributions	% Contributed
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
2003	971,223,297	100

Schedule of Employer Contributions* — Combined Plan**

Year Ended December 31	Annual Required Contributions	% Contributed
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
2003	8,451,197	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
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 which 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. Observation of this relative index over a period of years will give an indication of whether a 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, 2007, the date of the last actuarial study, the funding period was 14 and 30 years for the Traditional and Combined plans, respectively.

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

- ***Significant Actuarial Assumptions*** employed by the actuary for funding purposes as of December 31, 2007, the date of the latest actuarial study, and 2006 include:

  - ***Investment Return***—An investment return rate of 8% compounded annually, for all members, retirees, and beneficiaries was assumed for the years 2007 and 2006.
  - ***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 2007 and 2006 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 utilizing a method which 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, 2007, the date of the latest actuarial study, and for 2006, include:
  - ***Investment Return***—An investment return rate of 6.5% compounded annually, for all members, retirees, and beneficiaries for the years 2007 and 2006.
  - ***Salary Scale***—The active member payroll was assumed to increase 4.0% 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 4.0% for the next seven years. In subsequent years, (eight 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, 2008 and 2007)

	2008	2007
Personnel Expenses:		
Wages and Salaries	$39,501,426	$38,180,152
Retirement Contributions—OPERS	5,346,186	5,155,539
Retirement Contributions—Medicare	521,024	494,078
Employee Insurance	4,681,177	4,719,758
Other Personnel Expense	323,030	343,189
Purchased Services and Supplies:		
Professional expenses:		
Audit Services	457,466	281,623
Actuarial Services	656,625	607,361
Consulting Services	1,349,495	771,660
Investment and Financial Services	7,123,210	6,690,751
Legal and Investigation Services	1,154,059	2,286,907
Medical Examinations	2,006,742	2,129,561
Retirement Study Council	257,629	241,924
Custodial and Banking Fees	2,378,005	4,005,371
Information Technology	8,186,637	5,454,023
Communications	2,623,720	2,661,467
Office Supplies and Equipment	606,172	678,273
Training and Travel Expenses	1,673,275	1,667,358
Other Miscellaneous	120,589	127,259
Facility Expenses	4,655,231	4,994,380
Subtotal Operating Expenses	**83,621,698**	**81,490,634**
Depreciation Expense:		
Building	2,329,727	2,284,163
Furniture and Equipment	9,443,004	8,105,861
Subtotal Depreciation	**11,772,731**	**10,390,024**
Total Administrative Expenses	**95,394,429**	**91,880,658**
Investment Expenses	(21,371,449)	(22,574,667)
Net Administrative Expenses	**74,022,980**	**69,305,991**

Schedule of Investment Expenses (for the years ended December 31, 2008 and 2007)

	2008	2007
Investment Staff Expense	$9,892,203	$9,836,888
Investment Services	8,968,991	10,321,092
Investment Legal Services*	708,526	552,545
Allocation of Administrative Expenses	1,801,729	1,864,142
(See Note 2b to Financial Statements)		
Total Investment Expenses*	**$21,371,449**	**$22,574,667**

*Excludes fees and commissions, please see Schedule of U.S. Stock Brokerage Commissions Paid presented on page 82.

Schedule of Payments to Consultants

OPERS incurred expenses with the following investment consultants during 2008:	
Financial Risk Mitigation Inc.	$7,000
Hamilton Lane Advisors LLC	525,000
Mercer Investment Consulting	645,004
Pacific Corporate Group	300,000
Strategic Capital Management AG	125,000
The Townsend Group	425,000
Total	**$2,027,004**

Schedule of External Asset Managers' Fees (for the years ended December 31, 2008 and 2007)

	2008	2007
Global Bonds	$6,243,580	$9,411,605
Domestic Equities	9,450,980	15,311,142
International Equities	38,065,249	42,348,988
Real Estate	29,585,058	29,040,475
Private Equities	33,021,028	24,620,540
Total	**$116,365,895**	**$120,732,750**

This page left blank intentionally.

Investment Section

The long and winding road
that leads to your door.

Beatles

OPERS

Dear Members of the OPERS Board of Trustees:

It's my privilege to have the opportunity to discuss with you the activities of the Investment Division for the year ending December 31, 2008. Because of the unprecedented global financial turmoil experienced last year, the information regarding our investment activities is especially important.

As always, the overriding goal for 2008 was to generate target returns for the total fund through each asset class and portfolio, while maintaining a competitive cost structure relative to our peers. The market dislocation prevented the fund from generating positive returns; however, our cost structure and future positioning efforts remain strong.

Historical perspective

The returns for 2008 were greatly disappointing. However, we believe that over time, the capital market will recover as it has done in the past and again generate positive results. Although past performance does not guarantee the future, a review of the history of the market does provide some insights:

- Market timing does not work in the long term. Although the results of 2008 were negative, OPERS has a long-term time horizon. This allows OPERS time to recover from losses experienced in 2008 and to tactically take advantage of investment opportunities.
- The market goes through economic cycles. In the past 82 years of stock market returns, there have been positive returns 72% of the time, or 59 years. Keeping focused on our goals and objectives allows us to remain committed to our long-term institutional goals.

What We Know: Managing assets in a challenging market environment

While recovery is expected, no one knows exactly if the market has bottomed and when it will recover. Investment staff, in collaboration with the OPERS Board of Trustees and investment consultants, will continue to prudently manage OPERS assets through this difficult market.

- Because of OPERS' long-term time horizon, we are patient investors with patient capital to allow us time to recover from the losses experienced in 2008. As discussed in the Letter of Transmittal, all divisions of OPERS, including the Investment Division, are proactively positioning this organization for future success.
- Because we have a strategic asset allocation policy designed to meet OPERS' goals, we remain committed to the development and execution of strategies designed to meet our return objectives within our risk parameters.
- Because we review our investment plan on an annual basis, we are focused on both our strategic objectives and tactical opportunities. The annual plan supports the discipline to follow through with our initiatives while being mindful of market dynamics and opportunities.

What we accomplished: Review of 2008

Throughout 2008, the Investment Division took investment actions to preserve the fund assets and address the heightened level of uncertainty in the financial markets.

Key accomplishments included:

- Added returns through tactical asset allocation decisions—U.S. and Non-U.S. equity exposures were reduced at opportune times, which reduced further erosion as the market continued to deteriorate.
- Expanded asset allocation policy ranges—Policy ranges were temporarily expanded to address the heightened market volatility and the transaction costs associated with rebalancing in an illiquid market.
- Established opportunistic debt portfolios—This action will allow us to realize the intrinsic value of distressed securities in the future given our long-term time horizon.
- Used derivatives to manage our asset class exposure—Derivatives are a cost-effective and efficient tool to implement tactical asset allocation decisions.
- Actively managed the financial sector and security exposure—The equity and fixed-income exposure to the risky financial names was proactively reduced, which limited losses to the fund.

Investment results

OPERS' total portfolio is comprised of the Defined Benefit, Health Care and Defined Contribution portfolios. In 2007, the total fund delivered a positive 8.53% return—exceeding both the Division's target benchmark and actuarial rate of return. In 2008, due to the worst financial crisis since the Great Depression, the total fund posted a return of -26.92%, which was more favorable in comparison to the public pension fund universe. These returns resulted in a diminished investment asset base from $83.0 billion at year-end 2007 to $58.7 billion at year-end 2008.

The three-year return was also impacted by the 2008 performance. For the total fund, the three-year return was -1.26%, compared to the benchmark of -1.11%. The 30-year return, however, shows a positive 8.22% return, which is above the actuarial target rate of return of 8.0%.

Results by specific fund:

- The Defined Benefit Portfolio supports the assets of the Traditional Plan, the VEBA and the defined benefit portion of the Combined Plan. The assets in this portfolio grew in the up markets of 2006-2007 with $69.6 billion in assets by year-end 2007. The turbulent global bear market in 2008 resulted in some erosion of the asset base, which stood at $49.0 billion at year-end. The overall investment return for this portfolio was 8.89% and -27.15% in 2007 and 2008, respectively.
- The Health Care Portfolio's assets grew to $13.2 billion at the year-end 2007 with a positive return of 6.87%, which was above the actuarial rate of return of 6.5%. In 2008, this portfolio posted a -25.77% return, diminishing the asset base to $9.5 billion.
- The Defined Contribution Portfolio includes assets from the Member-Directed Plan and the defined contribution portion of the Combined Plan. The assets in this portfolio were reported at year-end 2007 at $237.2 million and declined to $226.2 million at the year-end 2008. In 2007, the rate of return was 5.8%; in 2008, the rate of return was -28.0%. Because the participants in the Member-Directed and Combined plans choose the investment options for these assets, rather than the Investment staff, there is no benchmark for this portfolio.

Summary

As prudent stewards of public fund assets with a long-term time horizon, the Investment staff remains focused and disciplined in delivering the best risk-adjusted returns to our plan participants. We remain committed to our mission, “To provide a secure financial future for public employees.” This noble mission can be accomplished by establishing our investment goals and objectives, developing our strategies to support these goals and diligently implementing and monitoring our objectives.

The future ahead of us remains uncertain but we will continue to adapt and be nimble to opportunities in this challenging market environment. We have an engaged Board, an independent Investment Committee, a dedicated staff and strong investment consultants. This collaboration among all parties ensures that the OPERS investment program is positioned to address the challenges experienced in 2008 and in the future.

As always, the Investment Division relies upon the support given by the OPERS Board of Trustees. I would be remiss if I missed this opportunity to thank the members of our Board, the Investment staff, OPERS senior management and all stakeholders who have worked closely with us to mitigate the impact of this market. Together, we will continue to provide a secure financial future for public employees.

Sincerely,

Jennifer C. Hom, CFA
Director—Investments

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.

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

10 South Wacker Drive, Suite 1700
Chicago, IL 60606
312 902 7147 Fax 312 902 7640
douglas.kryscio@mercer.com
www.mercer.com

May 1, 2009

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.

Since being hired by the Board in June 2007, the Mercer team has provided 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.

Services provided by Mercer Investment Consulting, Inc.

Consulting. Outsourcing. Investments.

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Page 2
May 1, 2009
Board of Trustees
Ohio Public Employees Retirement System

Internal Compliance

Mercer believes that OPERS internal compliance structure for the Investment Division is appropriately resourced and operates effectively. 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 over the OPERS Defined Benefit, Health Care and Defined Contribution Plans through quarterly performance reviews, regular oversight of Staff's activities including through monthly meetings with Staff, the investment consultants and other independent service providers.

Sincerely,

Kristin Finney-Cooke
Principal

Doug Kryscio
Principal

Steve Case
Principal

Rich Nuzum
President

Introduction

OPERS' total investments 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 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, 2008, 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. The investment results reported for these asset classes in the Investment Section reflect this practice. However, due to significant market losses incurred in the fourth quarter of 2008, these asset classes were adjusted for financial reporting purposes to reflect the estimated market value at December 31, 2008. These adjustments are identified individually for the real estate and private equity assets on the table below. 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, 2008 and 2007)

	2008		2007	
	Fair Value	% of Total Fair Value	Fair Value	% of Total Fair Value
Investments:				
Global Bonds:				
U.S. Corporate Bonds	$5,329,750,656	9.08%	$7,459,132,854	8.98%
Non-U.S. Notes Bonds	1,556,255,062	2.65	1,785,223,748	2.15
U.S. Government and Agencies	7,427,099,632	12.65	7,463,435,091	8.99
U.S. Mortgage Backed	4,124,931,034	7.02	6,687,855,616	8.05
Total Global Bonds	$18,438,036,384	31.40%	$23,395,647,309	28.17%
Domestic Equities	21,213,241,995	36.13	33,782,291,499	40.70
Real Estate	4,759,402,602		4,695,739,359	
Less Market Adjustments	(449,215,000)			
Adjusted Real Estate	4,310,187,602	7.34	4,695,739,359	5.66
Private Equities	2,531,470,264		2,346,371,489	
Less Market Adjustments	(257,614,492)			
Adjusted Private Equities	2,273,855,772	3.87	2,346,371,489	2.83
International Equities	11,053,888,253	18.83	17,781,078,614	21.41
Total Long-term Investments	**$57,289,210,006**	**97.57%**	**$82,001,128,270**	**98.77%**
Cash and Short-term Investments:				
Cash	73,288,487	0.13	101,162,570	0.12
Short-term Securities:				
Commercial Paper	172,632,458	0.29	86,562,931	0.10
U.S. Treasury Obligations	88,587,414	0.15	35,656,916	0.04
Agency Discount Notes	856,879	0.00	669,506	0.00
Repurchase Agreements	460,994,550	0.79	508,137,000	0.61
Corporate Bonds	1,290,824	0.00		
Short-term Investment Funds (STIF)	631,981,881	1.08	298,754,685	0.36
Total Cash and Short-term Investments	**$1,429,632,493**	**2.43%**	**$1,030,943,608**	**1.23%**
Total Cash and Investments	**$58,718,842,499**	**100.00%**	**$83,032,071,878**	**100.00%**

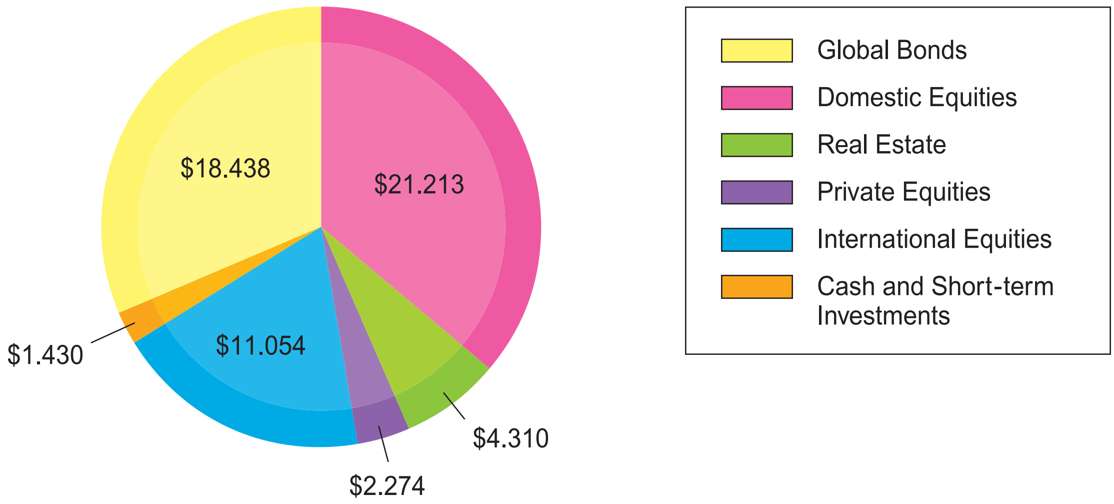
The following table reflects the breakdown of the total investment portfolio into the three component portfolios—the Defined Benefit, Health Care, and the Defined Contribution portfolios. As noted above, the real estate and private equities asset classes were adjusted for financial reporting purposes to recognize the impact of fourth quarter market losses.

Total Investment Summary by Portfolio* (as of December 31, 2008)

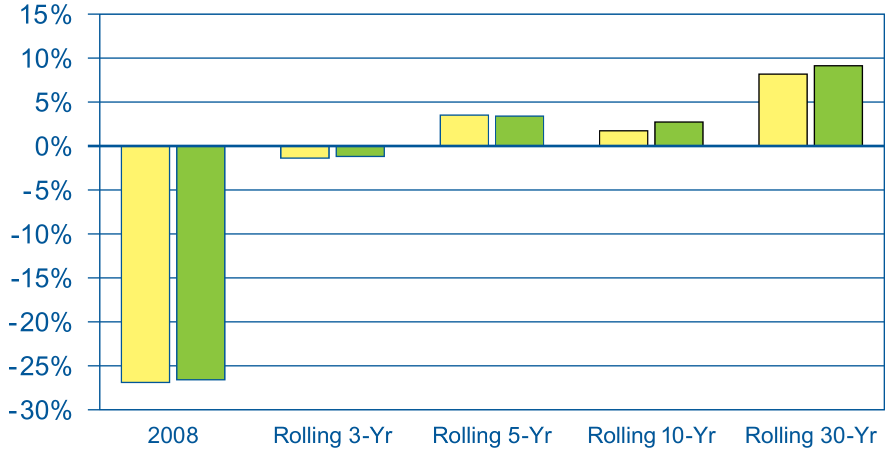
	Defined Benefit	Health Care	Defined Contribution	Total
Bonds	$14,015,824,751	$4,363,406,922	$58,804,711	$18,438,036,384
Domestic Equities	18,384,698,233	2,731,493,461	97,050,301	21,213,241,995
Real Estate	4,759,402,602			4,759,402,602
Less Market Adjustments	(449,215,000)			(449,215,000)
Adjusted Real Estate	4,310,187,602			4,310,187,602
Private Equities	2,525,805,027	5,665,237		2,531,470,264
Less Market Adjustments	(257,099,263)	(515,229)		(257,614,492)
Adjusted Private Equities	2,268,705,764	5,150,008		2,273,855,772
International Equities	8,785,058,807	2,201,764,403	67,065,043	11,053,888,253
Cash & Short-term Investments	1,212,095,812	214,267,049	3,269,632	1,429,632,493
Total	**$48,976,570,969**	**$9,516,081,843**	**$226,189,687**	**$58,718,842,499**

*Assets summarized on performance basis.

Total Investment Summary (as of December 31, 2008) ($ in billions)



Total Investment Returns—Annual Rates of Return*



	2008	Rolling 3-Yr	Rolling 5-Yr	Rolling 10-Yr	Rolling 30-Yr
OPERS' Return	-26.92%	-1.26%	3.55%	1.75%	8.22%
Policy Benchmark Return	-26.60%	-1.11%	3.42%	2.79%	9.16%

*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.

Largest Equity Holdings (by fair value)* (as of December 31, 2008)

Description	Shares	Fair Value
Exxon Mobil Corporation	10,944,998	$873,739,190
Procter & Gamble Company	6,340,101	391,945,044
AT&T Incorporated	13,000,758	370,521,603
Johnson & Johnson Company	5,930,656	354,831,148
General Electric Company	21,555,453	349,198,339
Chevron Corporation	4,609,212	340,943,412
Microsoft Corporation	16,051,844	312,047,847
Wal-Mart Stores Incorporated	4,814,278	269,888,425
International Business Machines Corporation	3,030,108	255,013,889
JPMorgan Chase & Company	7,973,895	251,416,909
Total	**94,251,303**	**$3,769,545,806**

Largest Bond Holdings (by fair value)* (as of December 31, 2008)

Description	Coupon	Maturity	Rating	Par Value	Fair Value
U.S. Treasury Bond	6.125%	11/15/2027	AAA	$229,980,000	$329,524,536
U.S. Treasury Bond	6.000	2/15/2026	AAA	212,500,000	296,407,733
U.S. Treasury Bond	4.375	2/15/2038	AAA	175,838,000	235,543,797
U.S. Treasury Bond	6.250	8/15/2023	AAA	161,121,000	219,582,139
U.S. Treasury Note	0.875	12/31/2010	AAA	212,897,000	213,303,621
U.S. Treasury Bond	8.000	11/15/2021	AAA	132,100,000	200,140,752
U.S. Treasury Note	1.125	12/15/2011	AAA	194,442,000	195,262,539
U.S. Treasury Bond	8.750	8/15/2020	AAA	120,000,000	187,081,201
U.S. Treasury Bond	7.875	2/15/2021	AAA	115,000,000	170,461,056
U.S. Treasury Note	5.125	6/30/2011	AAA	141,472,000	156,496,319
Total				**$1,695,350,000**	**$2,203,803,693**

* A complete list of assets held at December 31, 2008, is available from OPERS upon request.

U.S. Equity Commissions (for the year ended December 31, 2008)

Brokerage Firm	U.S. Equity Commissions Paid	Shares Traded	Average Commission Per Share
Citigroup Global Markets Inc.	$1,611,667	46,203,083	$0.035
JPMorgan Securities Inc.	1,554,724	49,492,446	0.031
Goldman Sachs & Co.	1,540,510	32,544,311	0.047
Lehman Brothers Inc.	1,427,792	43,278,388	0.033
Banc of America Securities LLC	1,404,490	43,298,373	0.032
Deutsche Bank Securities Inc.	1,238,835	39,048,070	0.032
Morgan Stanley Co. Inc.	1,206,848	48,531,064	0.025
Sanford C. Bernstein Co. LLC	1,107,674	44,952,216	0.025
Credit Suisse First Boston Corp.	950,866	53,432,918	0.018
Merrill Lynch, Pierce, Fenner & Smith	935,000	116,827,799	0.008
UBS Securities LLC	882,199	35,536,015	0.025
Simmons & Company International	669,416	16,776,329	0.040
Bear Stearns Securities Corp.	504,202	12,866,043	0.039
ITG Inc.	440,800	30,556,503	0.014
Cowen & Co. LLC	419,586	10,652,968	0.039
Raymond James & Associates Inc.	397,635	10,462,436	0.038
Thomas Weisel Partners LLC	397,184	10,177,703	0.039
Keefe Bruyette & Woods Inc.	387,656	9,975,140	0.039
William Blair & Co. LLC	378,706	9,511,479	0.040
Leerink Swann & Co.	360,323	9,127,338	0.039
Stifel Nicolaus & Co. Inc.	281,744	8,009,693	0.035
Stanford Group Co.	278,736	7,558,702	0.037
Miller Tabak & Co. LLC	275,092	7,181,892	0.038
Robert W. Baird & Co.	271,181	7,546,990	0.036
Oppenheimer & Co.	266,002	6,716,060	0.040
Sandler O'Neill & Partners LP	235,351	6,196,283	0.038
Wedbush Morgan Securities Inc.	233,781	5,845,148	0.040
Barclays Global Investors	212,068	5,900,389	0.036
Fox Pitt Kelton Inc.	188,474	4,739,200	0.040
Jeffries & Co.	164,462	7,133,372	0.023
Green Street Advisors	145,472	4,711,488	0.031

continued on page 83

continued from page 82

U.S. Equity Commissions (for the year ended December 31, 2008)

Brokerage Firm	U.S. Equity Commissions Paid	Shares Traded	Average Commission Per Share
Baypoint Trading LLC	$141,453	3,872,357	$0.037
ISI Group Inc.	123,898	3,101,737	0.040
Cantor Fitzgerald & Co.	98,832	4,451,768	0.022
Soleil Securities	87,660	2,191,491	0.040
Midwest Research Securities	82,580	2,107,647	0.039
Williams Capital Group	62,587	1,581,999	0.040
Dowling & Partners	59,712	1,492,800	0.040
RBC Capital Markets	47,519	1,482,765	0.032
SK International Securities	45,097	1,903,493	0.024
McDonald Investments Inc.	42,753	1,087,014	0.039
National Financial Services Corp.	40,336	2,480,390	0.016
Longbow Securities LLC	39,016	975,400	0.040
Cabrera Capital Markets	37,688	1,233,472	0.031
Harris Nesbitt Corp.	34,652	866,900	0.040
Nutmeg Securities	32,423	819,963	0.040
Pershing LLC	25,989	1,118,149	0.023
Instinet Clearing Services Inc.	25,498	1,819,058	0.014
Knight Securities	24,851	2,013,317	0.012
Other commissions less than $20,000	242,866	9,527,822	0.025
Total U.S. Equity Commissions	**$21,663,887**	**788,917,381**	**$0.027**

Non-U.S. Equity Commissions (for the year ended December 31, 2008)

Brokerage Firm	Non-U.S. Equity Commissions Paid	Proceeds	Percent of Proceeds
Merrill Lynch	$998,915	$924,086,364	0.108%
Credit Suisse	883,957	1,068,901,623	0.083
UBS Securities LLC	787,304	996,733,521	0.079
Morgan Stanley Co. Inc.	682,330	678,503,190	0.101
Citigroup Global Markets Inc.	567,199	644,037,442	0.088
Deutsche Bank Securities Inc.	546,555	402,927,193	0.136
Goldman Sachs & Co.	512,076	569,134,387	0.090
JPMorgan Securities Inc.	494,524	488,729,116	0.101
Lehman Brothers Inc.	275,844	298,418,783	0.092
Macquarie Securities	239,936	126,997,503	0.189
ABN Amro	187,873	229,557,427	0.082
Credit Lyonnais Securities	175,068	105,295,271	0.166
Nomura Securities International Inc.	144,238	149,934,007	0.096
HSBC Securities	141,222	109,889,082	0.129
Pershing LLC	134,000	144,037,813	0.093
Societe Gererale Securities Corp.	114,897	125,936,461	0.091
Instinet	106,954	179,711,673	0.060
SG Securities	95,867	143,669,863	0.067
Bear Stearns Securities Corp.	91,335	105,231,851	0.087
CLSA Securities Korea Ltd.	89,966	36,059,487	0.249
Daiwa	82,441	119,903,135	0.069
BNP Paribas	64,369	40,134,698	0.160
Mitsubishi Securities	59,021	39,781,564	0.148
Exane SA	54,972	46,821,760	0.117
Brockhouse & Cooper Inc.	50,746	54,373,989	0.093
Bunting Warburg Inc.	45,826	23,172,384	0.198
KBC Financial Products UK Ltd.	45,321	30,213,942	0.150
Credit Agricole Indosuez Cheuvreux	41,964	32,977,291	0.127
Dresdner Kleinworth Wasserstein Securities	41,360	43,304,241	0.096
ITG Securities	40,921	99,514,366	0.041
Mainfirst Bank	38,010	29,023,303	0.131

continued on page 85

continued from page 84

Non-U.S. Equity Commissions (for the year ended December 31, 2008)

Brokerage Firm	Non-U.S. Equity Commissions Paid	Proceeds	Percent of Proceeds
Lazard Capital Markets	$34,763	$38,964,102	0.089%
Cazenove & Co.	30,799	27,231,642	0.113
Capel Cure Sharpe Ltd.	26,891	22,394,042	0.120
Boci Securities Ltd.	25,379	6,858,681	0.370
Wood & Co.	25,323	8,440,897	0.300
Sanford C. Bernstein Co. Ltd.	25,305	19,290,850	0.131
Financial Brokerage Group (FBG)	23,607	22,682,807	0.104
ABG Securities	22,968	32,810,955	0.070
China International Capital Corp.	22,804	7,790,298	0.293
Other commissions less than $20,000	552,640	479,202,118	0.115
Total Non-U.S. Equity Commissions	**$8,625,489**	**$8,752,679,125**	**0.099%**
Total U.S. Equity Commissions and Non-U.S. Equity Commissions	**$30,289,376**	**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, 2008)

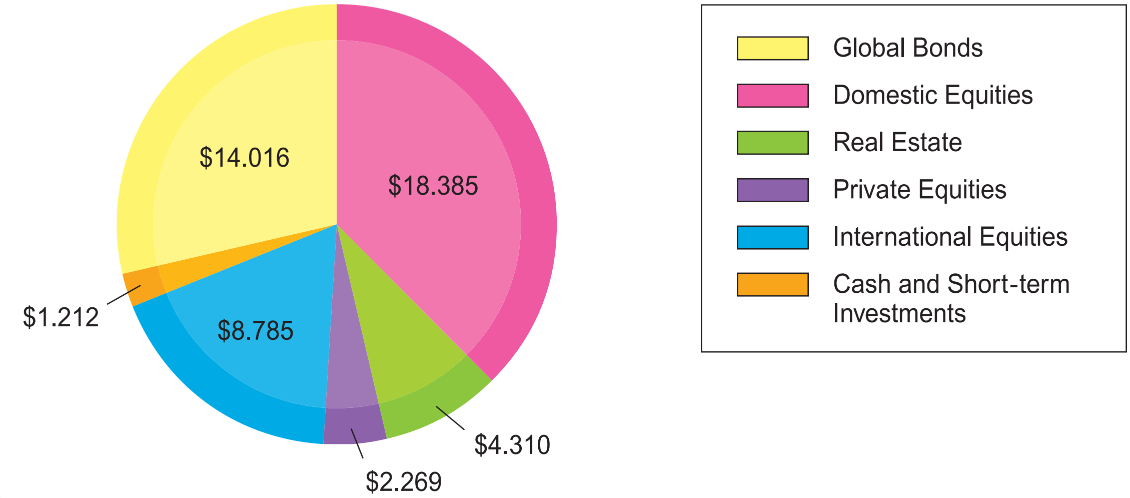
	Defined Benefit	Health Care	Defined Contribution	Total
Global Bonds	$5,156,098	$949,681	$137,801	$6,243,580
Domestic Equities	7,902,360	1,481,144	67,476	9,450,980
International Equities	31,967,563	5,991,699	105,987	38,065,249
Real Estate	29,585,058			29,585,058
Private Equities	32,769,054	251,974		33,021,028
Total Fees	**$107,380,133**	**$8,674,498**	**$311,264**	**$116,365,895**

Schedule of External Asset Managers (for the year ended December 31, 2008)

U.S. Equity Managers	Non-U.S. Equity Managers	Bond Managers
Alliance Bernstein	Acadian	AFL-CIO Housing Investment Trust
Barclays Global Investors	Alliance Bernstein	Capital Guardian
Crestline	Barclays Global Investors	Fort Washington
Goldman Sachs	Baring	Goldman Sachs
Invesco	Brandes	Goode Investment Management
Leading Edge	JPMorgan Fleming	Invesco
PAAMCO	Lazard	Post Advisory Group
Piedmont	LSV	Pyramis
PIMCO	QMA	Shenkman
Progress	T Rowe Price	Smith Breeden
Pyramis	TT International	Stone Harbor
	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 (DB), the Health Care portfolio (HC) and the Defined Contribution portfolio (DC). 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.

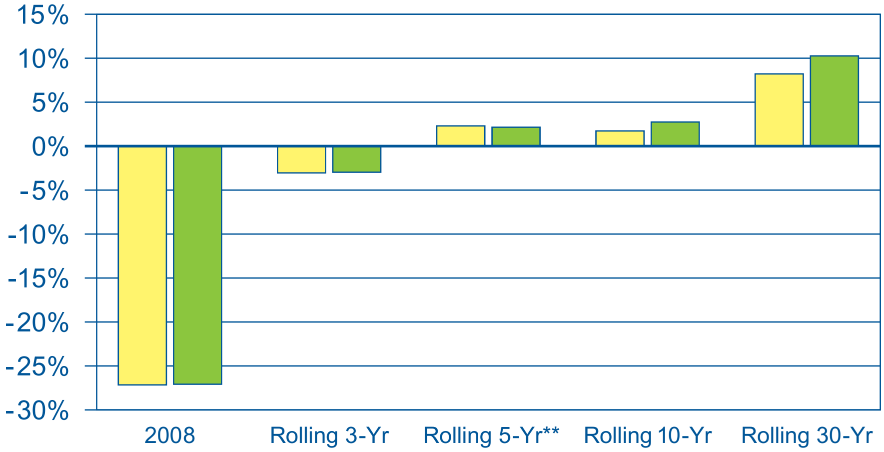
Defined Benefit Portfolio Asset Allocation (as of December 31, 2008) ($ in billions)



Investment Returns

The OPERS DB portfolio returned -27.15% in 2008. 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 2008 was -27.06%.

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



	2008	Rolling 3-Yr	Rolling 5-Yr**	Rolling 10-Yr	Rolling 30-Yr
OPERS' Defined Benefit Portfolio	-27.15%	-3.00%	2.32%	1.75%	8.22%
Policy Benchmark Return	-27.06%	-2.98%	2.11%	2.81%	10.25%

* 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 combination 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 5-year rolling return information reflects both the Defined Benefit and Health Care portfolio.

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

Schedule of Investment Results—Defined Benefit Portfolio (for the year ended December 31, 2008)

	2008	Rolling 3-Year	Rolling 5-Year
Total Defined Benefit Portfolio	(27.15)%	(3.00)%	2.32%
Defined Benefit Portfolio Benchmark [1]	(27.06)	(2.98)	2.11
U.S. Equity Composite	(37.81)	(9.08)	(2.11)
U.S. Equity Composite Benchmark	(37.31)	(8.63)	(1.95)
Opportunistic Composite	(16.94)	N/A	N/A
Opportunistic Composite Benchmark	6.35	N/A	N/A
Universal Bond Composite	(4.39)	2.00	3.00
Universal Bond Composite Benchmark	2.38	4.60	4.29
Stable Value Composite	3.67	4.21	4.21
Stable Value Composite Benchmark	2.24	4.06	3.31
Long-Duration Bond Composite	6.26	N/A	N/A
Long-Duration Bond Composite Benchmark	8.44	N/A	N/A
Non-U.S. Equity Composite	(45.80)	(7.14)	2.73
Non-U.S. Equity Composite Benchmark	(45.53)	(6.98)	2.56
Private Real Estate Composite	(3.53)	9.55	11.90
Private Real Estate Composite Benchmark	2.00	11.27	13.18
REITS Composite	(39.79)	(12.27)	0.20
REITS Composite Benchmark	(39.83)	(12.44)	0.56
Private Equity Composite	(7.38)	11.89	18.01
Private Equity Composite Benchmark	(19.12)	3.33	8.91
Cash Equivalents Composite	1.99	4.22	3.49
Cash Equivalents Composite Benchmark	2.06	3.96	3.25

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	2008	2007	2006	2005
U.S. Equity	43.4%	45.4%	45.6%	46.1%
Opportunistic	0.2	0.1	0.0	0.0
Universal Bond	14.4	16.2	24.6	25.9
Stable Value	0.0	0.0	0.0	0.0
Long Duration Bond	9.6	8.6	0.0	0.0
Non-U.S. Equity	20.0	20.0	20.0	20.0
Private Real Estate	7.0	6.2	6.5	6.1
REITS	1.0	1.0	1.0	0.0
Private Equity	4.4	2.5	1.3	0.9
Cash Equivalents	0.0	0.0	1.0	1.0
Total	**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	12/31/2008	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%	N/A	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 ACWI x U.S. (net) [7]	MSCI ACWI x U.S. (net)	MSCI ACWI x U.S. (net)	MSCI ACWI x U.S. (net)
Private Real Estate	NCREIF Property Index (quarter lag) [8]	NCREIF Property Index	NCREIF Property Index	NCREIF Property Index 100 bps
REITS	DJ Wilshire RESI (adjusted cap) [9]	DJ Wilshire RESI	DJ Wilshire RESI	DJ Wilshire RESI 20 bps
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 12/31/2008 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 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.

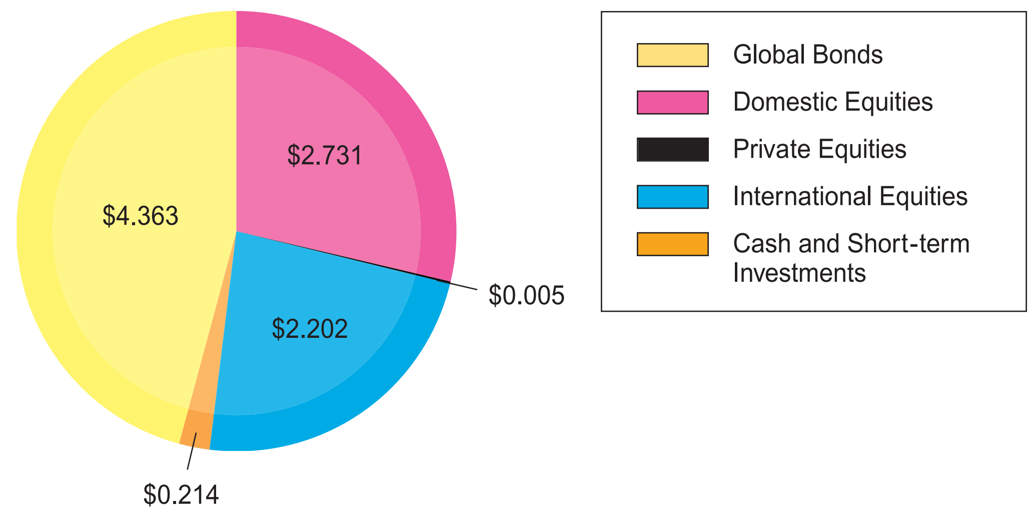
6 **Barclays U.S. Long Government/Credit Bond Index**—The long component of the Barclays U.S. Government/Credit Index, a widely recognized index that features a blend of U.S. Treasury, government-sponsored (U.S. Agency and supranational), mortgage, and corporate securities limited to a maturity of more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

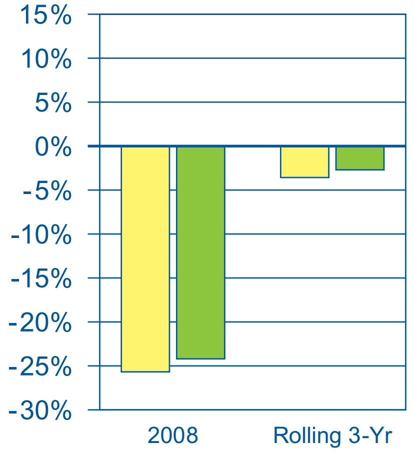
Health Care Portfolio Asset Allocation (as of December 31, 2008) ($ in billions)



Investment Returns

The OPERS Health Care portfolio returned -25.77% in 2008. 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 2008 was -24.17%.

Investments Returns—Annual Rates of Return—Health Care Portfolio* (for the year ended December 31, 2008)



	2008	Rolling 3-Yr
OPERS' Health Care Portfolio	-25.77%	-3.64%
Policy Benchmark Return	-24.17%	-2.80%

*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.

**The Health Care portfolio was segregated from the Defined Benefit portfolio in 2005, thus the 5-year, 10-year and 30-year rolling return information is reflected in the Defined Benefit portfolio, page 85.

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

Note: Calendar year 2005 marked the first year health care assets were separated from the Defined Benefit portfolio.

Schedule of Investment Results—Health Care Portfolio[1] (for the year ended December 31, 2008)

	2008	Rolling 3-Year	Rolling 5-Year
Total Health Care Portfolio	(25.77)%	(3.64)%	N/A
Health Care Portfolio Benchmark	(24.17)	(2.80)	N/A
U.S. Equity Composite	(37.81)	(9.08)	N/A
U.S. Equity Composite Benchmark	(37.31)	(8.63)	N/A
Universal Bond Composite	(4.39)	2.00	N/A
Universal Bond Composite Benchmark	2.38	4.60	N/A
TIPS Portfolio	(2.13)	3.25	N/A
TIPS Portfolio Benchmark	(2.35)	3.06	N/A
Short Duration Bond Composite	(6.71)	0.27	N/A
Short Duration Bond Composite Benchmark	6.66	5.95	N/A
Non-U.S. Equity Composite	(45.80)	(7.14)	N/A
Non-U.S. Equity Composite Benchmark	(45.53)	(6.98)	N/A
REITS Composite	(39.79)	(12.27)	N/A
REITS Composite Benchmark	(39.83)	(12.44)	N/A
Cash Equivalents Composite	1.94	4.22	N/A
Cash Equivalents Composite Benchmark	2.06	3.96	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 listed 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 subsequent table.

Historical Asset Class Target Allocations—Health Care Portfolio

Asset Class	2008	2007	2006*	2005*
U.S. Equity	29.0%	30.0%	34.6%	44.6%
Universal Bond	10.3	15.0	16.8	20.7
TIPS	20.2	20.0	15.4	5.5
Short Duration Bond	11.5	15.0	11.6	4.3
Non-U.S. Equity	23.0	15.0	16.8	20.9
REITS	6.0	5.0	4.7	4.0
Cash Equivalents	0.0	N/A	N/A	N/A
Private Equity	0.0	N/A	N/A	N/A
Total	**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 ACWI Free x U.S. [6]
REITS	DJ Wilshire RESI (Full Cap) [7]
Cash Equivalents	90-day U.S. Treasury Bill [8]

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.

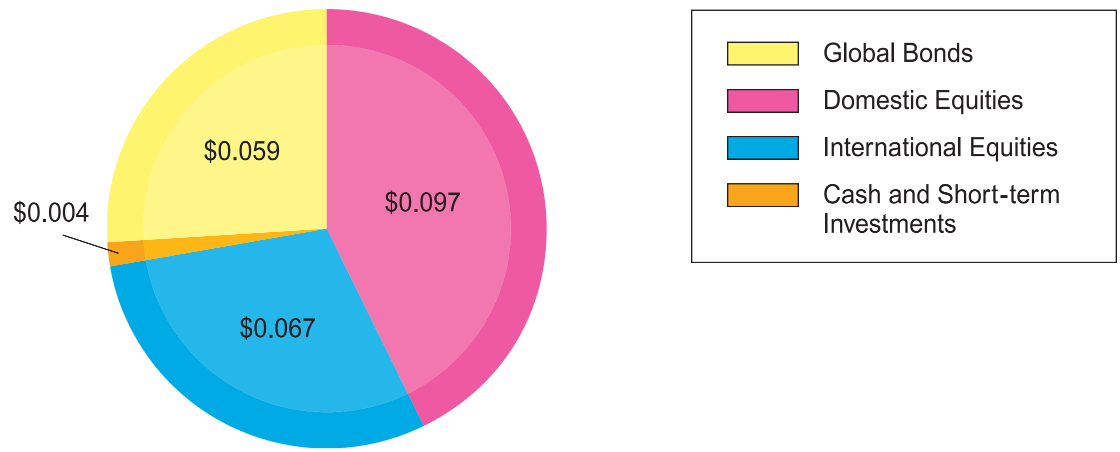
5 **Barclays Government 1-3 Year**—Securities in the U.S. Government Index with a maturity from one up to (but not including) three years.

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

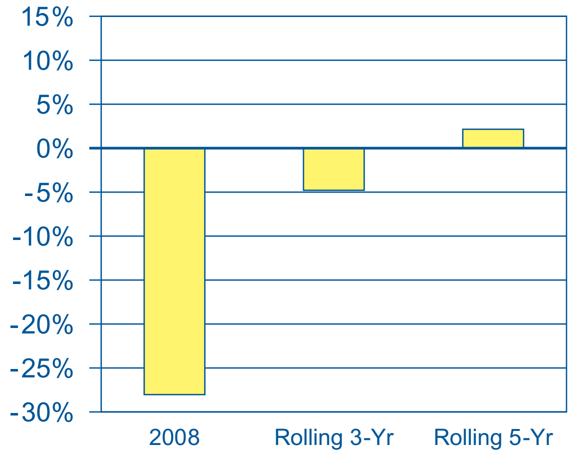
Defined Contribution Portfolio Asset Allocation (as of December 31, 2008) ($ in billions)



Investment Returns

The OPERS Defined Contribution portfolio returned -28.00% in 2008. 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*



	2008	Rolling 3-Yr	Rolling 5-Yr
OPERS' Defined Contribution Portfolio	-28.00%	-4.88%	0.22%

*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 plan 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, 2008)

	2008	Rolling 3-Year	Rolling 5-Year
Total Defined Contribution Portfolio	(28.00)%	(4.88)%	0.22%
Target Payout Fund	(14.63)	(0.32)	2.48
Target Payout Fund [7]	(12.52)	0.91	3.02
Target 2010 Fund	(19.97)	(1.53)	2.34
Target 2010 Fund Index [8]	(16.09)	0.44	3.56
Target 2015 Fund	(28.36)	(4.06)	1.34
Target 2015 Fund Index [9]	(23.43)	(1.47)	3.14
Target 2020 Fund	(33.50)	(5.70)	0.67
Target 2020 Fund Index [10]	(29.58)	(3.47)	2.41
Target 2025 Fund	(36.27)	(6.71)	0.13
Target 2025 Fund Index [11]	(33.66)	(5.04)	1.52
Target 2030 Fund	(37.15)	(7.01)	0.01
Target 2030 Fund Index [12]	(34.77)	(5.44)	1.36
Target 2035 Fund	(37.76)	(7.20)	(0.04)
Target 2035 Fund Index [13]	(35.49)	(5.69)	1.29
Target 2040 Fund	(38.52)	(7.40)	(0.08)
Target 2040 Fund Index [14]	(36.33)	(5.93)	1.23
Target 2045 Fund	(39.42)	(7.72)	(0.24)
Target 2045 Fund Index [15]	(37.41)	(6.33)	1.03
Target 2050 Fund	(39.39)	(7.71)	(0.23)
Target 2050 Fund Index [16]	(37.41)	(6.33)	1.03
Stable Value Portfolio	4.00	4.31	4.26
ML 3-Month Treasury Bill [1]	2.06	3.96	3.25
Bond Portfolio	(5.26)	1.13	2.26
Barclays Universal Index [2]	2.39	4.62	4.30
Stock Index Portfolio	(37.17)	(8.56)	(1.90)
Russel 3000 Stock Index [3]	(37.31)	(8.63)	(1.95)
Large Cap Portfolio	(38.02)	(10.61)	(3.65)
Russel 1000 Stock Index [4]	(37.60)	(8.66)	(2.04)
Small Cap Portfolio	(33.27)	(9.45)	(1.99)
Russel 2000 Stock Index [5]	(33.80)	(8.29)	(0.93)
Non-U.S. Equity Portfolio	(48.85)	(9.11)	0.40
MSCI ACWIF x U.S. [6]	(45.59)	(7.01)	2.54

Footnotes for Schedule of Investment Results—Defined Contribution Portfolio

1 **ML 3-Month Treasury Bill**—The 3-Month Treasury bill return as measured by Merrill Lynch.

2 **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.

3 **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.

4 **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.

5 **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.

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 **Target Payout Fund Index**—40% ML 3-Month Treasury bill, 30% Lehman 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.)

8 **Target 2010 Fund Index**—35% ML 3-Month Treasury bill, 28% Lehman 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.)

9 **Target 2015 Fund Index**—23% ML 3-Month Treasury bill, 23% Lehman 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.)

10 **Target 2020 Fund Index**—11% ML 3-Month Treasury bill, 20% Lehman 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.)

11 **Target 2025 Fund Index**—0% ML 3-Month Treasury bill, 20% Lehman 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.)

12 **Target 2030 Fund Index**—0% ML 3-Month Treasury bill, 17% Lehman 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.)

13 **Target 2035 Fund Index**—0% ML 3-Month Treasury bill, 15% Lehman 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.)

14 **Target 2040 Fund Index**—0% ML 3-Month Treasury bill, 13% Lehman 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.)

15 **Target 2045 Fund Index**—0% ML 3-Month Treasury bill, 10% Lehman 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.)

16 **Target 2050 Fund Index**—0% ML 3-Month Treasury bill, 10% Lehman 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.)

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 $1.2 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 $1.1 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 215,000 people in Ohio.

Top Ohio Holdings (for the year ended December 31, 2008)

Direct		Indirect		
Largest Firms Headquartered in Ohio	Fair Value	Firms With Largest Employment Presence	Ohio Employment Estimated Headcount	Fair Value
Procter & Gamble	$783,890,088	Wal-Mart	55,000	$269,888,425
FirstEnergy	79,365,535	Kroger	38,000	31,946,143
Kroger	63,892,287	JPMorgan Chase	17,500	251,416,909
Progressive Corp.	47,213,984	Sears	16,400	3,803,663
AEP	46,754,140	Bob Evans Farms	16,000	1,470,082
Eaton Corp.	45,931,046	Honda Motor Co.	15,000	27,156,798
Cardinal Health	41,001,789	Target Corp.	15,000	59,512,248
Parker Hannifin Corp.	32,714,962	United Parcel Service Inc.	14,570	66,548,940
Sherwin-William Co.	29,707,102	General Electric	14,000	349,198,339
LTD Brands Inc.	21,503,853	PNC Financial Services Group	14,000	33,020,425
Total	**$1,191,974,786**	**Total**	**215,470**	**$1,093,961,972**

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	43%	+/– 4%	Russell 3000 Stock Index
Opportunistic Fund	N/A	0 to 3	Customized Benchmark
Non-U.S. Equity	20	+/– 4	MSCI All Country World Free Index Ex-U.S.
Real Estate	8	+/– 4	Custom Real Estate Index
Private Equity	5	+/– 4	Russell 3000 Stock Index + 300 basis points
Global Bonds	24	+/– 4	Barclays U.S. Universal Index (60%) Barclays Long Government/Credit Index (40%)
Cash	N/A	0 to 5	91-day U.S. Treasury Bill
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. A comprehensive review of investment policy designed to assess the continuing appropriateness of investment policy is typically done every three to five years.

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	Asset Class
U.S. Equity	30%	+/– 3%	Russell 3000 Stock Index
Non-U.S. Equity	15	+/– 3	MSCI All Country World Free Index Ex-U.S.
REITS	5	+/– 3	Wilshire Real Estate Securities Index
Bonds	15	+/– 3	Barclays U.S. Universal Index
TIPS	20	+/– 3	Barclays U.S. TIPS Index
Short-Duration Bonds	15	+/– 3	Barclays 1-3 Year Government Bond Index
Cash	< 1	0 to 5	91-day U.S. Treasury Bill
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.

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	40%	+/– 4%	35%	+/– 4%	23%	+/– 4%	11%	+/– 4%	0%	+/– 4%
Bond	30	+/– 6	28	+/– 4	23	+/– 4	20	+/– 4	20	+/– 4
Stock Index	8	+/– 2	10	+/– 4	14	+/– 4	17	+/– 4	20	+/– 4
Large Cap	3	+/– 1	3	+/– 4	6	+/– 4	7	+/– 4	8	+/– 4
Small Cap	4	+/– 1	5	+/– 4	8	+/– 4	10	+/– 4	12	+/– 4
Non-U.S. Stock	15	+/– 2	19	+/– 4	26	+/– 4	35	+/– 4	40	+/– 4

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%	+/– 4%	0%	+/– 4%	0%	+/– 4%	0%	+/– 4%	0%	+/– 4%
Bond	17	+/– 6	15	+/– 4	13	+/– 4	10	+/– 4	10	+/– 4
Stock Index	21	+/– 2	22	+/– 4	22	+/– 4	23	+/– 4	23	+/– 4
Large Cap	9	+/– 1	8	+/– 4	8	+/– 4	9	+/– 4	9	+/– 4
Small Cap	12	+/– 1	13	+/– 4	13	+/– 4	13	+/– 4	13	+/– 4
Non-U.S. Stock	41	+/– 2	42	+/– 4	44	+/– 4	45	+/– 4	45	+/– 4

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 Indexes and Peer Universes

Asset Class	Market Index	Peer Universe
Stable Value	M L 3-Month Treasury Bill	Stable Value
Bond	Barclays U.S. Universal	Core Bond
Stock Index	Russell 3000	Core Equity
Large Cap	Russell 3000	Large Cap Core
Small Cap	Russell 3000	Small Cap Core
Non-U.S. Stock	MSCI All Country World Free Index Ex-U.S.	Core International

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 30 and 70 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.

International Equities

The Non-U.S. Equity program is expected to out perform the Morgan Stanley Capital International All Country World Index Free 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 within 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.

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.

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 the lesser of 5% of the private market Real Estate target allocation or $300 million. Commingled fund commitments are limited to the lesser of 5% of the private market Real Estate target allocation or $400 million.

The U.S. public market Real Estate program is expected to meet or exceed the Dow Jones Wilshire Real Estate Securities Index (WRESI) by 50 basis points annualized over rolling five-year periods, net of fees, with a tracking error generally within 200 basis points.

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.

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, 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%.

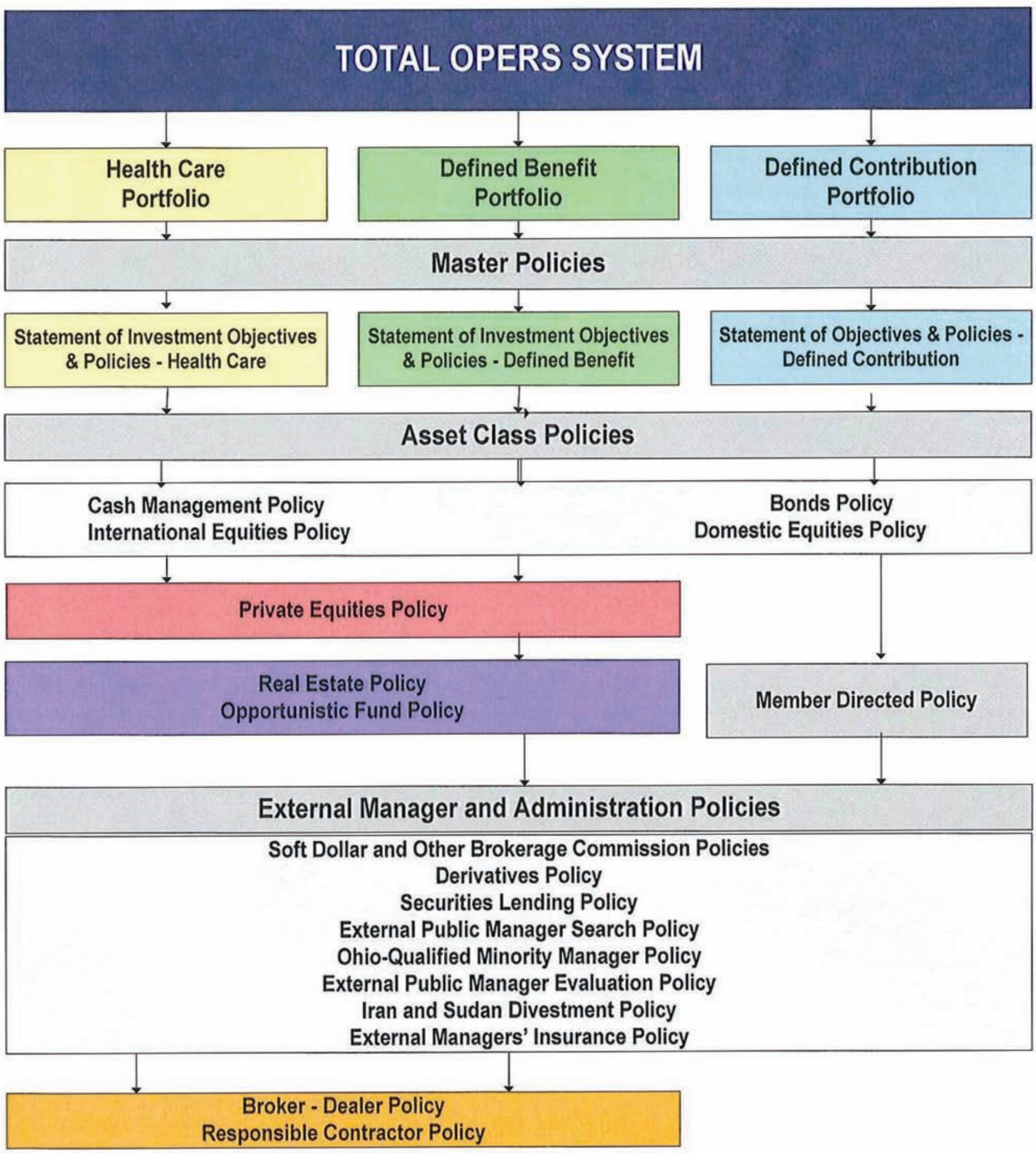
Securities Lending

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.

Structure and Relationship of Investment Policies

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



Actuarial Section

The road to success is
always under construction.

Lilly Tomlin

OPERS

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

One Towne Square
Suite 800
Southfield, MI 48076-3723

248.799.9000 phone
248.799.9020 fax
www.gabrielroeder.com

April 22, 2009

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, 2007.

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 22, 2009
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, 2007 valuations were based upon assumptions that were recommended in connection with a study of experience covering the 2001-2005 period.

Pension experience was favorable during 2007, leading to a 14 year amortization period, compared with 26 years in the prior report. While investment return in 2007 was very close to assumed, continued recognition of prior gains contributed to the reduction in the amortization period. The solvency period in the retiree health plan also improved since the prior valuation.

Based upon the results of the December 31, 2007 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, and the retiree health plan results have improved. Investment results during 2008 for OPERS, and most retirement systems in the country were poor. Those results will be reflected in the December 31, 2008 valuation.

Respectfully submitted,

Brian B. Murphy, FSA, MAAA

Mita D. Drazilov, ASA, MAAA

BBM/MDD:vmb

Gabriel Roeder Smith & Company

The actuarial information presented in the 2008 *Comprehensive Annual Financial Report* is based on the System's most current actuarial valuation data of December 31, 2007.

The Board approved and adopted the following methods and assumptions in 2006 following an experience study and based on the recommendation of the actuary. 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		Local		Public Safety		Law Enforcement	
		Men	Women	Men	Women	Men	Women	Men	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		Disability					
		All Divisions		State		Local		Public Safety & Law Enforcement	
		Men	Women	Men	Women	Men	Women	Men	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 plans 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	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
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
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	1.99	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
2002	365,424	11,207	30,668	2.49	141,019	2,080	14,750

*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
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 and beneficiaries.

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 Allowance ($ millions)	Average Allowance	Number*	Annual Allowance ($ millions)	Average Allowance
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, 2008.

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

	Added to Rolls		Removed from Rolls		Rolls at End of Year			
Year Ended	Number*	Annual Allowances	Number*	Annual Allowances	Number*	Annual Allowances	Percentage Increase in Annual Allowances	Average Annual Allowances
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
2003	8,424	191,332,574	5,150	61,786,975	138,459	2,231,545,677	8.6	16,117

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

**Restated to remove annuitized defined contribution accounts previously included in values.

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

	Added to Rolls		Removed from Rolls		Rolls at End of Year			
Year Ended	Number*	Annual Allowances	Number*	Annual Allowances	Number*	Annual Allowances	Percentage Increase in Annual Allowances	Average Annual Allowances
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		1,505

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

**Restated to remove annuitized defined contribution accounts previously included in values.

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) Active 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)
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
2002	8,514	21,205	21,153	43,706	100	100	66

* 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) Active 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)
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)			
	2007	2006	2005	2004
Age-and-Service Retirements If members retire at older ages than assumed, there is a gain. If younger ages, a loss.	($30.6)	($32.1)	($26.7)	$23.7
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	36.7	3.0	(25.6)	(9.8)
Death-In-Service Annuities If survivor claims are less than assumed, there is a gain. If more claims, a loss.	29.5	14.3	23.1	35.7
Other Separations If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.	(129.0)	(134.4)	(112.1)	18.9
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	202.4	373.3	302.3	733.1
Investment Return If there is greater investment return than assumed, there is a gain. If less return, a loss.	1,979.3	3,332.2	705.9	503.2
Gain (or Loss) During Year from Financial Experience	$2,088.3	$3,556.3	$866.9	$1,304.8

Analysis of Financial Experience — Combined Plan

Type of Activity	Gain (or Loss) for Year ($ in millions)			
	2007	2006	2005	2004
Age-and-Service Retirements If members retire at older ages than assumed, there is a gain. If younger ages, a loss.	($0.03)	($0.01)	($0.01)	N/A
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	1.12	0.89	(0.12)	N/A
Death-In-Service Annuities If survivor claims are less than assumed, there is a gain. If more claims, a loss.	0.21	0.14	(0.03)	N/A
Other Separations If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.	1.08	(3.15)	(1.30)	N/A
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	0.22	0.15	(0.66)	N/A
Investment Return If there is greater investment return than assumed, there is a gain. If less return, a loss.	(0.10)	(0.09)	(0.05)	N/A
Gain (or Loss) During Year from Financial Experience	$2.50	($2.07)	($2.17)	N/A

Actual vs. Recommended Contribution Rates

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

Statistical Section

The road leading to a goal does not separate you from the destination; it is essentially a part of it.

Charles de Lint

OPERS

The objectives of the statistical section are to provide additional historical perspective, context, and relevant details to assist readers in using information in the financial statements, notes to the financial statements, and required supplementary information in order to understand and assess the System's overall financial condition. In support of these objectives, OPERS reports information in this section in compliance with GASB Statement 44, *Economic Condition Reporting: The Statistical Section.* This statement establishes standardized reporting requirements relative to 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, which 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 Net Assets
- Benefits by Type, and
- Refunds by Type.

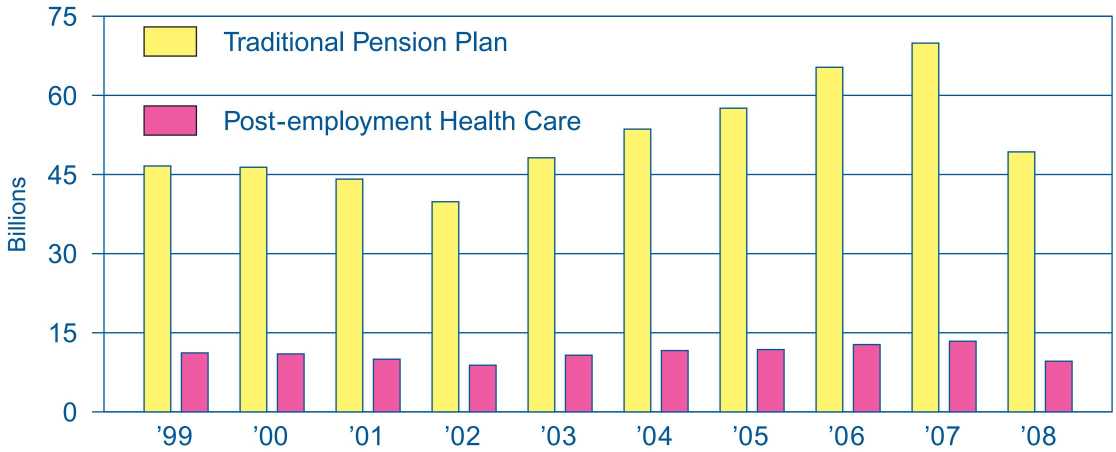
The schedules on page 132 compare the pension assets accumulated to cover the projected pension liabilities that are ultimately due at retirement for each of the defined benefit plans and the corresponding funded ratio. The schedule on page 133 displays similar information for OPERS' health care assets 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.

The schedules beginning on page 134 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:

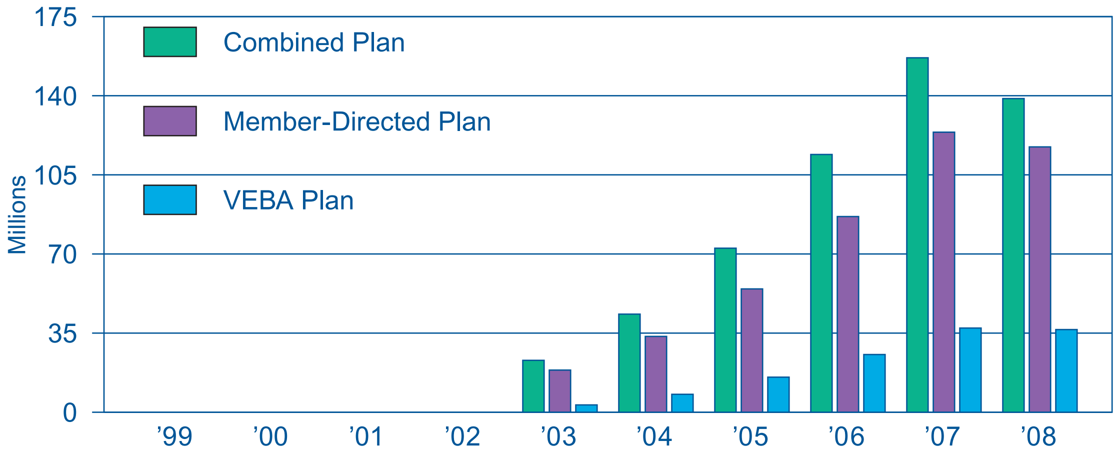
- Number of Refund Payments by Plan,
- Pension and Health Care Assets vs Liabilities,
- Number of Benefit Recipients by Category,
- Number of Covered Lives by Category,
- Schedule of Benefit Recipients by Benefit Type and Amount,
- Number of New Pension Benefit Recipients,
- Schedules of Average Benefits (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 years)

Year	Traditional Plan	Post-employment Health Care	Combined Plan	Member-Directed Plan	VEBA Plan	Total Net Assets
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
1999	46,782,213,151	11,163,213,257	N/A	N/A	N/A	57,945,426,408

Statutory Fund Balance by Plan (last ten fiscal years)

Year	2008	2007	2006	2005
All Plans				
Employees' Savings Fund	$11,546,208,967	$10,815,159,012	$10,374,480,725	$9,810,364,125
Employers' Accumulation Fund—Pension/Health Care	13,503,733,507	40,336,757,059	38,641,822,117	33,061,020,982
Annuity and Pension Reserve Fund	32,410,382,036	30,699,027,425	27,770,522,547	25,377,301,101
Survivors' Benefit Fund	1,418,388,692	1,373,512,884	1,313,109,826	1,209,472,794
Defined Contribution Fund—Retirement/Health Care	216,885,601	234,047,349	165,336,652	102,223,154
Income Fund	100,226,117	99,627,634	95,995,910	87,484,700
Expense Fund	5,693,883	2,496,366		2,439,720
Total Fund Balance	**$59,201,518,803**	**$83,560,627,729**	**$78,361,267,777**	**$69,650,306,576**
Traditional Plan				
Employees' Savings Fund	$11,545,651,011	$10,814,646,533	$10,374,152,385	$9,810,182,770
Employers' Accumulation Fund—Pension	3,832,714,973	26,970,418,583	25,743,571,669	21,175,333,656
Annuity and Pension Reserve Fund	32,410,136,478	30,698,939,078	27,770,523,103	25,377,301,101
Survivors' Benefit Fund	1,418,388,692	1,373,512,884	1,313,109,826	1,209,472,794
Income Fund	100,226,117	99,627,634	95,995,910	87,484,700
Expense Fund	5,693,883	2,496,366		2,439,720
Total Fund Balance	**$49,312,811,154**	**$69,959,641,078**	**$65,297,352,893**	**$57,662,214,741**
Post-employment Health Care				
Employers' Accumulation Fund—Health Care	$9,596,082,077	$13,282,947,482	$12,838,059,079	$11,845,713,012
Total Fund Balance	**$9,596,082,077**	**$13,282,947,482**	**$12,838,059,079**	**$11,845,713,012**
Combined Plan*				
Employees' Savings Fund	$557,956	$512,479	$328,340	$181,355
Employers' Accumulation Fund—Pension	74,976,136	83,391,067	60,191,369	39,974,314
Annuity and Pension Reserve Fund	73,758	60,804	(556)	
Defined Contribution Fund—Retirement	63,342,635	72,900,216	53,479,881	32,343,938
Total Fund Balance	**$138,950,485**	**$156,864,566**	**$113,999,034**	**$72,499,607**
Member-Directed Plan*				
Employers' Accumulation Fund—Pension	$(39,679)	$(73)		
Annuity and Pension Reserve Fund	171,800	27,543		
Defined Contribution Fund—Retirement	117,209,900	123,919,448	$86,524,882	$54,502,026
Total Fund Balance	**$117,342,021**	**$123,946,918**	**$86,524,882**	**$54,502,026**
VEBA Plan*				
Defined Contribution Fund—Health Care	$36,333,066	$37,227,685	$25,331,889	$15,377,190
Total Fund Balance	**$36,333,066**	**$37,227,685**	**$25,331,889**	**$15,377,190**

*Plans commenced January 1, 2003.

Statutory Fund Balance by Plan (continued)

2004	2003	2002	2001	2000	1999
$9,339,927,737	$8,896,964,040	$8,513,859,664	$7,991,271,196	$7,447,696,499	$6,955,342,095
30,921,433,439	27,368,711,915	18,979,364,269	27,435,948,587	31,702,819,858	35,523,440,762
23,663,435,434	21,562,826,137	19,305,720,320	17,438,484,109	17,102,441,704	14,638,972,514
1,171,933,656	1,143,463,941	1,096,358,667	1,027,255,264	918,982,217	786,627,354
62,970,790	35,826,751				
84,749,285	89,838,868	86,024,578	77,946,292	54,086,167	38,128,387
4,000,515	43,332	4,969,567	1,824,898	1,353,106	2,915,296
$65,248,450,856	**$59,097,674,984**	**$47,986,297,065**	**$53,972,730,346**	**$57,227,379,551**	**$57,945,426,408**
$9,339,889,114	$8,896,961,910	$8,513,859,664	$7,991,271,196	$7,447,696,499	$6,955,342,095
19,290,307,206	16,546,201,140	10,093,082,183	17,499,564,593	20,737,390,489	24,360,227,505
23,663,435,434	21,562,826,137	19,305,720,320	17,438,484,109	17,102,441,704	14,638,972,514
1,171,933,656	1,143,463,941	1,096,358,667	1,027,255,264	918,982,217	786,627,354
84,749,285	89,838,868	86,024,578	77,946,292	54,086,167	38,128,387
4,000,515	43,332	4,969,567	1,824,898	1,353,106	2,915,296
$53,554,315,210	**$48,239,335,328**	**$39,100,014,979**	**$44,036,346,352**	**$46,261,950,182**	**$46,782,213,151**
$11,609,113,358	$10,813,803,449	$8,886,282,086	$9,936,383,994	$10,965,429,369	$11,163,213,257
$11,609,113,358	**$10,813,803,449**	**$8,886,282,086**	**$9,936,383,994**	**$10,965,429,369**	**$11,163,213,257**
$38,623	$2,130				
22,012,875	8,707,326				
21,411,957	14,181,032				
$43,463,455	**$22,890,488**				
$33,579,873	$18,464,414				
$33,579,873	**$18,464,414**				
$7,978,960	$3,181,305				
$7,978,960	**$3,181,305**				

Changes in Net Assets (last ten fiscal years)

Year	2008	2007	2006*	2005*
All Plans				
Additions:				
Members' Contributions	$1,386,561,202	$1,306,544,058	$1,171,079,333	$1,055,269,202
Employers' Contributions	1,840,585,266	1,798,305,461	1,673,479,701	1,599,401,084
Contracts and Other Receipts	180,763,502	151,494,844	216,390,457	120,057,761
Medicare Part D Reimbursements	63,310,194	59,075,120	58,987,181	
Net Income (Loss) from Investing Activity	(22,770,412,901)	6,594,053,702	10,028,554,662	5,740,076,574
Other Income, Net	1,635,996	110,559	1,501,275	980,539
Interplan Activity	7,470,205	5,730,846	5,286,335	2,457,816
Total Additions	(19,290,086,536)	9,915,314,590	13,155,278,944	8,518,242,976
Deductions:				
Pension Benefits	3,388,953,861	3,136,995,197	2,906,859,113	2,679,084,743
Health Care Benefits	1,377,274,519	1,282,829,856	1,231,882,888	1,152,943,718
Refunds of Contributions	221,300,825	221,092,748	235,136,633	220,236,000
Administrative Expenses	74,022,980	69,305,991	65,152,774	61,664,979
Interplan Activity	7,470,205	5,730,846	5,286,335	2,457,816
Total Deductions	5,069,022,390	4,715,954,638	4,444,317,743	4,116,387,256
Net Increase (Decrease)	(24,359,108,926)	5,199,359,952	8,710,961,201	4,401,855,720
Net Assets Held in Trust, Beginning of Year	83,560,627,729	78,361,267,777	69,650,306,576	65,248,450,856
Net Assets Held in Trust, End of Year	**$59,201,518,803**	**$83,560,627,729**	**$78,361,267,777**	**$69,650,306,576**
Traditional Plan				
Additions:				
Members' Contributions	$1,253,053,822	$1,183,959,051	$1,065,862,778	$965,977,835
Employers' Contributions	892,693,746	1,051,808,289	1,092,998,459	1,106,755,953
Contracts and Other Receipts	113,351,117	105,157,859	122,076,019	112,227,300
Net Income (Loss) from Investing Activity	(19,258,540,437)	5,717,111,026	8,529,935,923	4,860,636,257
Other Income, Net	1,021,007	40,061	194,492	432,175
Interplan Activity	7,289,779	4,969,740	4,520,387	1,593,458
Total Additions	(16,991,130,966)	8,063,046,026	10,815,588,058	7,047,622,978
Deductions:				
Pension Benefits	3,388,862,796	3,136,978,910	2,906,857,436	2,679,084,743
Refunds of Contributions	212,802,651	213,007,451	228,034,617	215,398,602
Administrative Expenses	53,853,085	50,053,260	44,854,241	44,375,744
Interplan Activity	180,426	718,220	703,612	864,358
Total Deductions	3,655,698,958	3,400,757,841	3,180,449,906	2,939,723,447
Net Increase (Decrease)	(20,646,829,924)	4,662,288,185	7,635,138,152	4,107,899,531
Net Assets Held in Trust, Beginning of Year	69,959,641,078	65,297,352,893	57,662,214,741	53,554,315,210
Net Assets Held in Trust, End of Year	**$49,312,811,154**	**$69,959,641,078**	**$65,297,352,893**	**$57,662,214,741**
Post-employment Health Care				
Additions:				
Members' Contributions	$82,695,255	$79,198,959	$71,718,182	$63,408,347
Employers' Contributions	891,561,073	695,967,837	538,312,995	457,325,506
Contracts and Other Receipts	66,343,542	45,534,017	93,724,104	7,234,092
Medicare Part D Reimbursements	63,310,194	59,075,120	58,987,181	
Net Income (Loss) from Investing Activity	(3,400,647,342)	858,614,433	1,471,059,831	868,900,661
Other Income, Net	614,989	70,498	1,306,783	548,364
Total Additions	(2,296,122,289)	1,738,460,864	2,235,109,076	1,397,416,970
Deductions:				
Health Care Benefits	1,377,146,173	1,282,776,044	1,231,870,038	1,152,941,961
Administrative Expenses	13,596,943	10,796,417	10,892,971	7,875,355
Total Deductions	1,390,743,116	1,293,572,461	1,242,763,009	1,160,817,316
Net Increase (Decrease)	(3,686,865,405)	444,888,403	992,346,067	236,599,654
Net Assets Held in Trust, Beginning of Year	13,282,947,482	12,838,059,079	11,845,713,012	11,609,113,358
Net Assets Held in Trust, End of Year	**$9,596,082,077**	**$13,282,947,482**	**$12,838,059,079**	**$11,845,713,012**

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

Changes in Net Assets (continued)

2004*	2003	2002	2001	2000	1999
$1,038,288,958	$1,023,198,026	$1,094,343,553	$931,050,640	$879,844,987	$839,186,449
1,547,265,013	1,626,775,196	1,683,021,503	1,408,392,987	1,171,674,955	1,327,889,681
139,473,863	200,272				
7,192,406,571	11,868,086,473	(5,684,965,700)	(2,717,806,094)	(443,108,186)	6,495,797,615
(107,798)	411,093	623,421	664,919	884,651	1,785,346
3,510,475	29,392,751				
9,920,837,082	14,548,063,811	(2,906,977,223)	(377,697,548)	1,609,296,407	8,664,659,091
2,454,131,826	2,236,477,663	2,060,130,216	1,880,704,941	1,656,264,159	1,505,940,162
1,040,949,675	907,769,092	776,006,852	693,484,110	559,606,294	523,599,349
209,777,972	193,209,598	187,051,815	262,681,258	81,830,345	120,631,961
61,691,260	69,836,790	56,267,175	40,081,348	29,642,466	24,142,273
3,510,475	29,392,751				
3,770,061,208	3,436,685,894	3,079,456,058	2,876,951,657	2,327,343,264	2,174,313,745
6,150,775,874	11,111,377,917	(5,986,433,281)	(3,254,649,205)	(718,046,857)	6,490,345,346
59,097,674,982	47,986,297,065	53,972,730,346	57,227,379,551	57,945,426,408	51,455,081,062
$65,248,450,856	**$59,097,674,982**	**$47,986,297,065**	**$53,972,730,346**	**$57,227,379,551**	**$57,945,426,408**
$958,095,802	$1,006,863,812	$1,094,343,553	$931,050,640	$879,844,987	$839,186,449
1,057,429,880	1,026,594,837	1,109,983,205	977,289,237	718,807,713	935,429,954
118,205,826					
5,886,688,477	9,603,775,739	(4,841,899,792)	(1,954,230,267)	(353,942,104)	5,211,527,606
(107,798)	411,093	623,421	664,919	884,651	1,785,346
3,510,475	8,754,777				
8,023,822,662	11,646,400,258	(2,636,949,613)	(45,225,471)	1,245,595,247	6,987,929,355
2,454,131,826	2,236,477,663	2,060,130,216	1,880,704,941	1,656,264,159	1,505,940,162
207,121,141	192,768,335	187,051,815	262,681,258	81,830,345	120,631,961
47,589,813	57,195,937	52,199,729	36,992,160	27,763,712	22,384,915
	20,637,974				
2,708,842,780	2,507,079,909	2,299,381,760	2,180,378,359	1,765,858,216	1,648,957,038
5,314,979,882	9,139,320,349	(4,936,331,373)	(2,225,603,830)	(520,262,969)	5,338,972,317
48,239,335,328	39,100,014,979	44,036,346,352	46,261,950,182	46,782,213,151	41,443,240,834
$53,554,315,210	**$48,239,335,328**	**$39,100,014,979**	**$44,036,346,352**	**$46,261,950,182**	**$46,782,213,151**
$58,975,931					
461,788,996	$579,904,361	$573,038,298	$431,103,750	$452,867,242	$392,459,727
20,897,027					
1,297,291,883	2,258,066,075	(843,065,908)	(763,575,827)	(89,166,082)	1,284,270,009
1,838,953,837	2,837,970,436	(270,027,610)	(332,472,077)	363,701,160	1,676,729,736
1,040,949,675	907,769,092	776,006,852	693,484,110	559,606,294	523,599,349
2,694,253	2,679,981	4,067,446	3,089,188	1,878,754	1,757,358
1,043,643,928	910,449,073	780,074,298	696,573,298	561,485,048	525,356,707
795,309,909	1,927,521,363	(1,050,101,908)	(1,029,045,375)	(197,783,888)	1,151,373,029
10,813,803,449	8,886,282,086	9,936,383,994	10,965,429,369	11,163,213,257	10,011,840,228
$11,609,113,358	**$10,813,803,449**	**$8,886,282,086**	**$9,936,383,994**	**$10,965,429,369**	**$11,163,213,257**

Changes in Net Assets (last six fiscal years)

Year	2008	2007	2006	2005
Combined Plan*				
Additions:				
Members' Contributions	$25,123,220	$21,907,704	$17,367,629	$13,720,773
Employers' Contributions	20,352,999	19,241,579	17,689,420	15,632,184
Contracts and Other Receipts	844,005	347,280	427,966	263,142
Net Income (Loss) from Investing Activity	(53,571,566)	9,866,238	14,041,870	5,420,080
Interplan Activity	68,857	411,764	420,198	425,831
Total Additions	(7,182,485)	51,774,565	49,947,083	35,462,010
Deductions:				
Pension Benefits	11,911	5,451	552	
Refunds of Contributions	3,623,723	2,707,630	1,910,107	1,390,162
Administrative Expenses	2,990,092	3,890,828	4,510,803	4,432,803
Interplan Activity	4,105,870	2,305,124	2,026,194	602,893
Total Deductions	10,731,596	8,909,033	8,447,656	6,425,858
Net Increase (Decrease)	(17,914,081)	42,865,532	41,499,427	29,036,152
Net Assets Held in Trust, Beginning of Year	156,864,566	113,999,034	72,499,607	43,463,455
Net Assets Held in Trust, End of Year	**$138,950,485**	**$156,864,566**	**$113,999,034**	**$72,499,607**
Member-Directed Plan*				
Additions:				
Members' Contributions	$25,688,905	$21,478,344	$16,130,744	$12,162,247
Employers' Contributions	24,411,834	21,048,014	16,363,129	12,435,161
Contracts and Other Receipts	223,485	453,716	161,894	332,927
Net Income (Loss) from Investing Activity	(46,084,400)	5,860,816	10,529,166	4,078,183
Interplan Activity	55,277	278,478	345,750	355,531
Total Additions	4,295,101	49,119,368	43,530,683	29,364,049
Deductions:				
Pension Benefits	79,154	10,836	1,125	
Refunds of Contributions	4,874,451	5,377,667	5,191,909	3,447,236
Administrative Expenses	2,762,484	3,601,327	3,882,917	4,128,233
Interplan Activity	3,183,909	2,707,502	2,431,876	866,427
Total Deductions	10,899,998	11,697,332	11,507,827	8,441,896
Net Increase (Decrease)	(6,604,897)	37,422,036	32,022,856	20,922,153
Net Assets Held in Trust, Beginning of Year	123,946,918	86,524,882	54,502,026	33,579,873
Net Assets Held in Trust, End of Year	**$117,342,021**	**$123,946,918**	**$86,524,882**	**$54,502,026**
VEBA Plan*				
Additions:				
Employers' Contributions	$11,565,614	$10,239,742	$8,115,698	$7,252,280
Contracts and Other Receipts	1,353	1,972	474	300
Net Income (Loss) from Investing Activity	(11,569,156)	2,601,189	2,987,872	1,041,393
Interplan Activity	56,292	70,864		82,996
Total Additions	54,103	12,913,767	11,104,044	8,376,969
Deductions:				
Health Care Benefits	128,346	53,812	12,850	1,757
Administrative Expenses	820,376	964,159	1,011,842	852,844
Interplan Activity			124,653	124,138
Total Deductions	948,722	1,017,971	1,149,345	978,739
Net Increase (Decrease)	(894,619)	11,895,796	9,954,699	7,398,230
Net Assets Held in Trust, Beginning of Year	37,227,685	25,331,889	15,377,190	7,978,960
Net Assets Held in Trust, End of Year	**$36,333,066**	**$37,227,685**	**$25,331,889**	**$15,377,190**

*Plans commenced January 1, 2003.

Changes in Net Assets (con't)

2004	2003
$11,104,158	$8,658,022
12,164,161	8,451,197
310,255	150,574
4,282,641	3,077,753
	10,300,381
27,861,215	30,637,927
601,042	49,490
5,032,027	4,480,051
1,655,177	3,217,900
7,288,246	7,747,441
20,572,969	22,890,486
22,890,486	
$43,463,455	**$22,890,486**
$10,113,067	$7,676,192
10,026,114	7,462,827
60,434	49,551
3,423,731	2,753,472
	10,337,593
23,623,346	28,279,635
2,055,789	391,773
4,898,872	5,098,717
1,553,226	4,324,731
8,507,887	9,815,221
15,115,459	18,464,414
18,464,414	
$33,579,873	**$18,464,414**
$5,855,862	$4,361,974
321	147
719,839	413,434
6,576,022	4,775,555
1,476,295	382,104
302,072	1,212,146
1,778,367	1,594,250
4,797,655	3,181,305
3,181,305	
$7,978,960	**$3,181,305**

Benefits by Type (last ten years)

Year	2008	2007	2006	2005
All Plans				
Pension Benefits:				
Annuities	$2,704,884,589	$2,471,644,840	$2,295,238,967	$2,107,916,570
Disabilities	509,082,328	500,045,797	454,254,591	418,066,051
Other Systems/Death/QEBA	25,216,043	21,293,226	18,413,480	18,826,529
Survivors	149,770,901	144,011,334	138,952,075	134,275,593
Total Pension Benefits	**$3,388,953,861**	**$3,136,995,197**	**$2,906,859,113**	**$2,679,084,743**
Medicare Part B (statutorily required)	$103,934,337	$99,175,973	$92,268,184	$80,094,041
Medical	827,264,256	749,227,963	711,474,474	669,665,389
Prescription drug	441,059,097	431,405,495	428,140,230	403,184,288
Allowance Payment to RMA**	5,016,829	3,020,425		
Total Health Care Benefits	**$1,377,274,519**	**$1,282,829,856**	**$1,231,882,888**	**$1,152,943,718**
Total Pension and Health Care Benefits	**$4,766,228,380**	**$4,419,825,053**	**$4,138,742,001**	**$3,832,028,461**
Traditional Plan				
Pension Benefits:				
Annuities	$2,704,793,524	$2,471,628,553	$2,295,237,290	$2,107,916,570
Disabilities	509,082,328	500,045,797	454,254,591	418,066,051
Other Systems	17,565,698	13,929,119	11,090,453	11,331,852
Survivors	149,770,901	144,011,334	138,952,075	134,275,593
Death	6,998,605	6,891,186	7,033,516	7,237,063
QEBA***	651,740	472,921	289,511	257,614
Total Pension Benefits	**$3,388,862,796**	**$3,136,978,910**	**$2,906,857,436**	**$2,679,084,743**
Post-employment Health Care				
Health Care Benefits:				
Medicare Part B (statutorily required)	$103,934,337	$99,175,973	$92,268,184	$80,094,041
Medical	827,135,910	749,174,151	711,461,624	669,663,632
Prescription drug	441,059,097	431,405,495	428,140,230	403,184,288
Allowance Payment to RMA**	5,016,829	3,020,425		
Total Health Care Benefits	**$1,377,146,173**	**$1,282,776,044**	**$1,231,870,038**	**$1,152,941,961**
Combined Plan*				
Pension Benefits:				
Annuities and installment payments	$11,911	$5,451	$552	
Total Pension Benefits	**$11,911**	**$5,451**	**$552**	
Member-Directed Plan*				
Pension Benefits:				
Annuities and installment payments	$79,154	$10,836	$1,125	
Total Pension Benefits	**$79,154**	**$10,836**	**$1,125**	
VEBA Plan*				
Health Care Benefits:				
Medical and Prescription Drug	$128,346	$53,812	$12,850	$1,757
Total Health Care Benefits	**$128,346**	**$53,812**	**$12,850**	**$1,757**

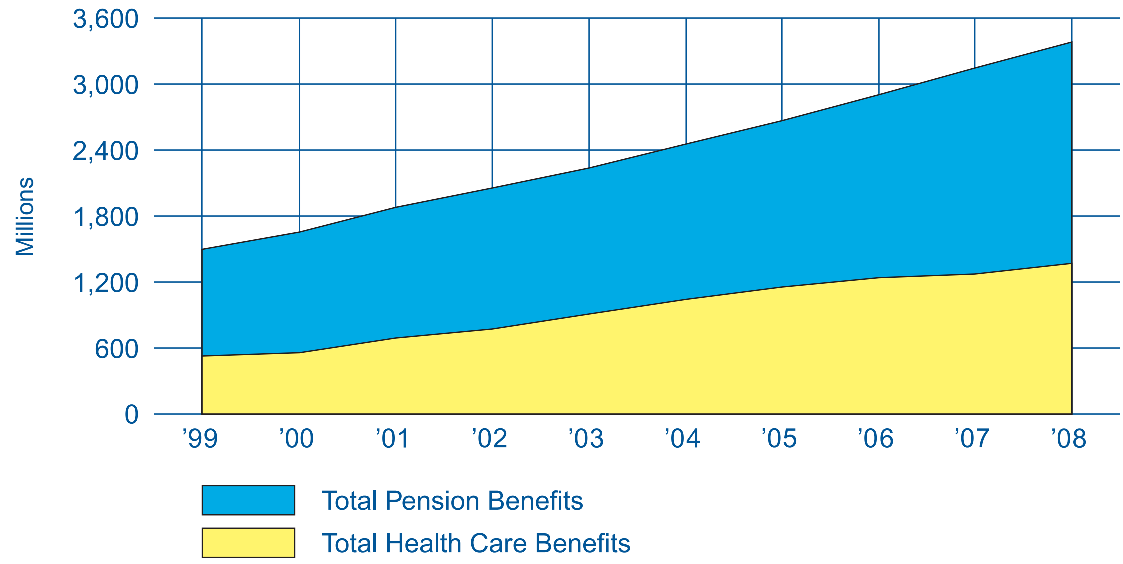
*Plan commenced January 1, 2003.
**Retiree Medical Account (RMA) commenced January 1, 2007.
***QEBA commenced in 2000 with retroactive payments made in 2004.

Benefits by Type (continued)

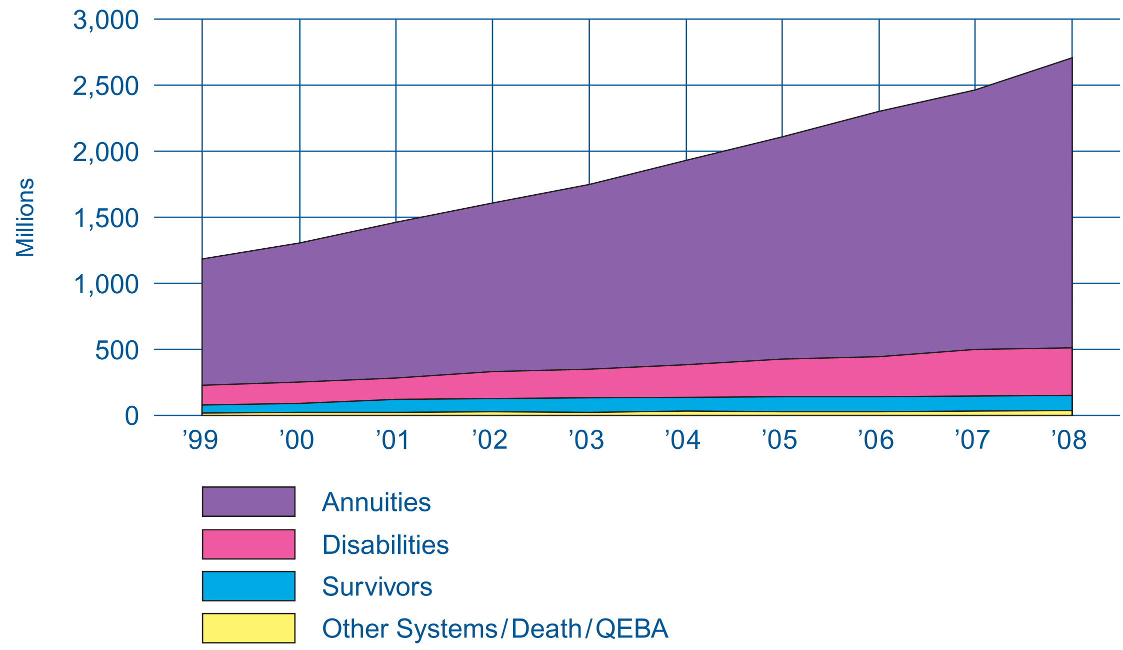
2004	2003	2002	2001	2000	1999
$1,921,376,875	$1,746,038,446	$1,603,187,593	$1,464,902,740	$1,300,982,670	$1,189,128,416
384,376,167	352,768,476	319,946,811	287,759,349	251,751,580	224,029,395
20,452,688	14,485,111	18,241,094	13,944,000	14,232,058	12,996,246
127,926,096	123,185,630	118,754,718	114,098,852	89,297,851	79,786,105
$2,454,131,826	**$2,236,477,663**	**$2,060,130,216**	**$1,880,704,941**	**$1,656,264,159**	**$1,505,940,162**
$67,295,184	$58,704,582	$53,572,102	$49,192,479	$44,470,799	$43,954,974
578,796,744	489,843,513	408,221,504	377,912,277	308,735,099	281,725,956
394,857,747	359,220,997	314,213,246	266,379,354	206,400,396	197,918,419
$1,040,949,675	**$907,769,092**	**$776,006,852**	**$693,484,110**	**$559,606,294**	**$523,599,349**
$3,495,081,501	**$3,144,246,755**	**$2,836,137,068**	**$2,574,189,051**	**$2,215,870,453**	**$2,029,539,511**
$1,921,376,875	$1,746,038,446	$1,603,187,593	$1,464,902,740	$1,300,982,670	$1,189,128,416
384,376,167	352,768,476	319,946,811	287,759,349	251,751,580	224,029,395
13,431,599	7,812,726	11,242,369	6,984,942	7,767,254	6,688,026
127,926,096	123,185,630	118,754,718	114,098,852	89,297,851	79,786,105
6,831,559	6,672,385	6,998,725	6,959,058	6,464,804	6,308,220
189,530					
$2,454,131,826	**$2,236,477,663**	**$2,060,130,216**	**$1,880,704,941**	**$1,656,264,159**	**$1,505,940,162**
$67,295,184	$58,704,582	$53,572,102	$49,192,479	$44,470,799	$43,954,974
578,796,744	489,843,513	408,221,504	377,912,277	308,735,099	281,725,956
394,857,747	359,220,997	314,213,246	266,379,354	206,400,396	197,918,419
$1,040,949,675	**$907,769,092**	**$776,006,852**	**$693,484,110**	**$559,606,294**	**$523,599,349**

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

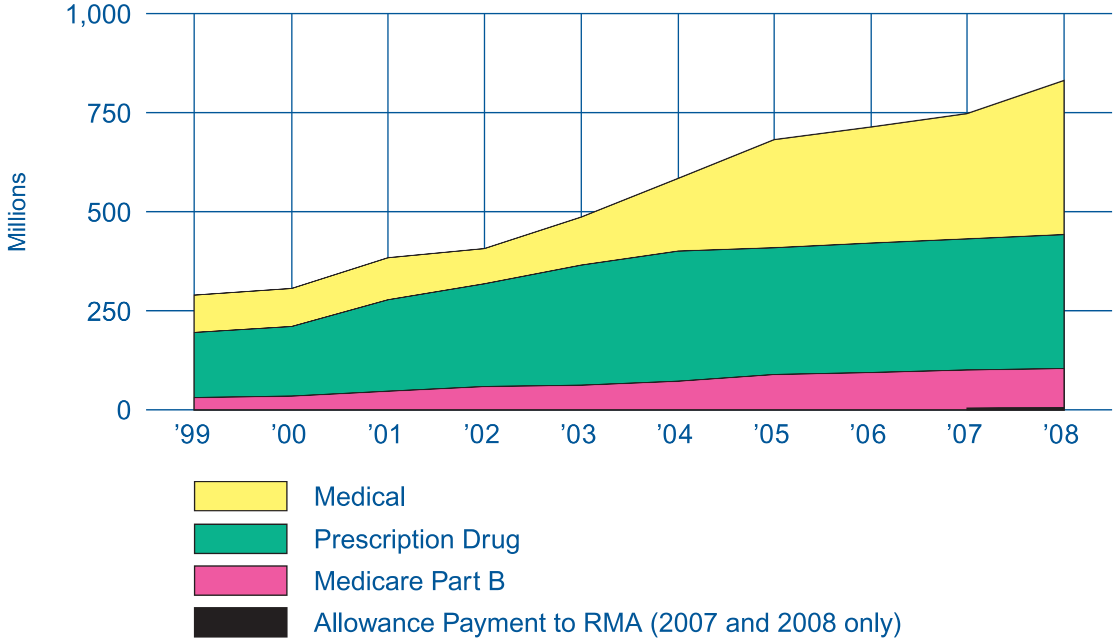
Benefits by Type



Pension Benefits by Type



Health Care Benefits by Type



Refunds by Type (last ten years)

Year	2008	2007	2006	2005
All Plans				
Refunds:				
Separation	$192,910,095	$196,668,493	$207,231,584	$193,717,806
Beneficiaries	19,118,230	18,590,739	18,466,920	18,638,613
Other	9,272,500	5,833,515	9,465,306	7,879,581
Total Refunds	**$221,300,825**	**$221,092,747**	**$235,163,810**	**$220,236,000**
Traditional Plan				
Refunds:				
Separation	$184,463,536	$188,635,768	$200,138,152	$189,019,842
Beneficiaries	19,066,615	18,538,167	18,458,336	18,510,705
Other	9,272,500	5,833,515	9,465,306	7,868,055
Total Refunds	**$212,802,651**	**$213,007,450**	**$228,061,794**	**$215,398,602**
Combined Plan*				
Refunds:				
Separation	$3,596,259	$2,665,357	$1,910,107	$1,346,396
Beneficiaries	27,464	42,273		39,498
Other				4,268
Total Refunds	**$3,623,723**	**$2,707,630**	**$1,910,107**	**$1,390,162**
Member-Directed Plan*				
Refunds:				
Separation	$4,850,300	$5,367,368	$5,183,325	$3,351,568
Beneficiaries	24,151	10,299	8,584	88,410
Other				7,258
Total Refunds	**$4,874,451**	**$5,377,667**	**$5,191,909**	**$3,447,236**

*Plans commenced January 1, 2003.

Number of Refund Payments by Plan (last ten years)

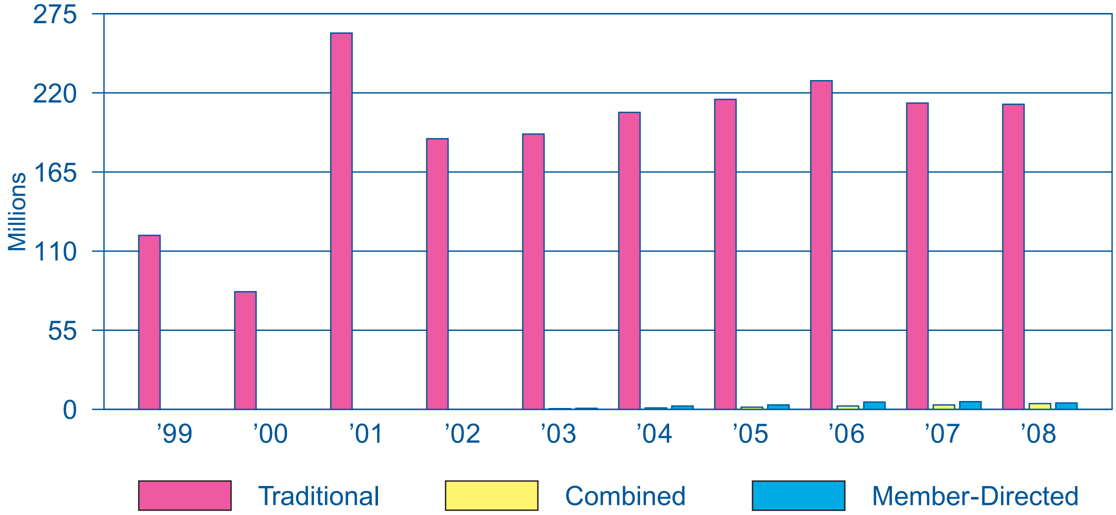
Year	Traditional Plan	Combined Plan*	Member-Directed Plan*	Total
2008	23,173	451	799	24,423
2007	23,679	378	739	24,796
2006	26,276	383	937	27,596
2005	28,013	253	580	28,846
2004	37,728	151	436	38,315
2003	37,022	21	79	37,122
2002	32,186	N/A	N/A	32,186
2001	40,615	N/A	N/A	40,615
2000	31,157	N/A	N/A	31,157
1999	36,442	N/A	N/A	36,442

*Plans commenced January 1, 2003.

Refunds by Type (continued)

2004	2003	2002	2001	2000	1999
$179,851,347	$151,283,802	$159,348,529	$231,665,029	$69,381,933	$101,426,721
19,885,182	28,263,206	15,180,435	22,378,095	2,374,820	4,477,399
10,041,443	13,662,590	12,522,851	8,638,134	10,073,592	14,727,841
$209,777,972	**$193,209,598**	**$187,051,815**	**$262,681,258**	**$81,830,345**	**$120,631,961**
$177,227,660	$150,846,499	$159,348,529	$231,665,029	$69,381,933	$101,426,721
19,872,224	28,263,206	15,180,435	22,378,095	2,374,820	4,477,399
10,021,257	13,658,630	12,522,851	8,638,134	10,073,592	14,727,841
$207,121,141	**$192,768,335**	**$187,051,815**	**$262,681,258**	**$81,830,345**	**$120,631,961**
$595,651	$47,738				
2,642					
2,749	1,752				
$601,042	**$49,490**				
$2,028,036	$389,565				
10,316					
17,437	2,208				
$2,055,789	**$391,773**				

Refunds by Plan



Pension Assets vs Pension Liabilities* (last ten years, $ in millions) — Traditional and Combined Plan

Year	2007	2006	2005#	2005**	2004	2003	2002	2001	2000	1999	1998
Pension Assets	$67,151	$61,296	$54,473	$54,473	$50,452	$46,746	$43,706	$48,748	$46,844	$43,060	$38,360
Accrued Liabilities	69,734	66,161	62,498	61,146	57,604	54,774	50,872	47,492	46,347	43,070	37,714
Unfunded Liabilities	(2,583)	(4,865)	(8,025)	(6,673)	(7,152)	(8,028)	(7,166)	1,256	497	(10)	646
Funded Ratio	96.30%	92.65%	87.16%	89.09%	87.58%	85.34%	85.91%	102.64%	101.07%	99.98%	101.71%

*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 (last ten years, $ in millions) — Traditional Plan

Year	2007	2006	2005#	2005**	2004	2003	2002	2001*	2000*	1999	1998*
Pension Assets	$67,067	$61,235	$54,433	$54,433	$50,430	$46,737	$43,706	$48,748	$46,844	$43,060	$38,360
Accrued Liabilities	69,639	66,089	62,447	61,099	57,573	54,756	50,872	47,492	46,347	43,070	37,714
Unfunded Liabilities	(2,572)	(4,854)	(8,014)	(6,666)	(7,143)	(8,019)	(7,166)	1,256	497	(10)	646
Funded Ratio	96.31%	92.66%	87.17%	89.09%	87.59%	85.36%	85.91%	102.64%	101.07%	99.98%	101.71%

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

Pension Assets vs Pension Liabilities* (last five years, $ in millions) — Combined Plan

Year	2007	2006	2005#	2005**	2004	2003
Pension Assets	$84	$61	$40	$40	$22	$9
Accrued Liabilities	95	72	51	47	31	18
Unfunded Liabilities	(11)	(11)	(11)	(7)	(9)	(9)
Funded Ratio	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.

Health Care Assets vs Liabilities ($ in millions) — Post-employment Health Care

Year	2007	2006	2005#	2005*	2004
Health Care Assets	$12,801	$12,025	$11,070	$11,070	$10,816
Accrued Liabilities	29,825	30,748	31,796	31,307	29,479
Unfunded Liabilities	(17,024)	(18,723)	(20,726)	(20,237)	(18,663)
Funded Ratio	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
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
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
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
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
1999	4.20

*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%.

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, 2008.

Traditional Plan

Year End	Annuities	Disabilities	Survivors	Total
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
1999	101,345	14,868	11,785	127,998

Combined Plan*

Year End	Annuities
2008	7
2007	2
2006	1

*Plan commenced January 1, 2003.

Member-Directed Plan*

Year End	Annuities	Installment Payments	Total
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
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
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, 2008.

Schedule of Benefit Recipients by Benefit Type and Amount (as of December 2008) Traditional Plan

Amount of Monthly Benefit	Annuities	Disabilities	Survivors	Number of Recipients
$1-299	12,469	410	736	13,615
300-499	10,224	451	2,269	12,944
500-999	24,718	2,398	5,842	32,958
1,000-1,499	20,591	4,763	2,434	27,788
1,500-1,999	16,515	5,118	1,021	22,654
2,000 & Over	46,217	9,375	948	56,540
Totals	**130,734**	**22,515**	**13,250**	**166,499**

Combined Plan (as of December 2008)

Amount of Monthly Benefit	Annuities
$1-299	7
300-499	
500-999	
1,000-1,499	
1,500-1,999	
2,000 & Over	
Totals	**7**

Member-Directed Plan (as of December 2008)

Amount of Monthly Benefit	Annuities	Installment Payments	Total
$1-299	3		3
300-499	1		1
500-999	1		1
1,000-1,499			
1,500-1,999			
2,000 & Over			
Various		5	5
Totals	**5**	**5**	**10**

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 Annuities column represents members receiving a retirement benefit under one of the three payment methods (annuitized defined contribution account, installment payment, or defined benefit annuity from employer contributions).

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, 2008.

Traditional Plan

Year	Annuities	Disabilities	Survivors	Total
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
1999	5,387	1,474	652	7,513

Combined Plan

Year	Annuities
2008	5
2007	1
2006	1

Member-Directed Plan

Year	Annuities	Installment Payments	Total
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 Annuities column represents members receiving a retirement benefit under one of the three payment methods (annuitized defined contribution account, installment payment, or defined benefit annuity from employer contributions).

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 years) — Traditional Plan

Retirement Effective Dates		Years Credited Service					
		5-9	10-14	15-19	20-24	25-30	30+
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
1999	Average Monthly Benefit*	$468	$545	$835	$1,135	$1,497	$2,316
	Average Final Average Salary	$22,725	$26,514	$29,828	$32,856	$35,701	$42,948
	Number of Active Recipients	446	1,095	846	897	960	2,079

*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 three years) — Combined Plan

Retirement Effective Dates		Years Credited Service 5-9	Years Credited Service 10-14
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	N/A
	Average Final Average Salary	$37,369	N/A
	Number of Active Recipients	1	N/A
2006	Average Monthly Benefit*	$118	N/A
	Average Final Average Salary	$50,116	N/A
	Number of Active Recipients	1	N/A

*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 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, 2008.

Member Count—Pension Plans — Total All Pension Plans*

Year End	Active	Inactive	Benefit Recipients	Total
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
1999	383,286	207,345	127,998	718,629

*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
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
1999	383,286	207,345	127,998	718,629

*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
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	N/A	5,440
2004	4,223	232	N/A	4,455
2003	3,590	92	N/A	3,682

*Plan commenced January 1, 2003.

Member Count—Pension Plans — Member-Directed Plan*

Year End	Active	Inactive	Benefit Recipients	Total
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	N/A	6,161
2004	4,383	536	N/A	4,919
2003	3,702	233	N/A	3,935

*Plan commenced January 1, 2003.

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

Year End	Active	Inactive	Benefit Recipients	Total
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
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

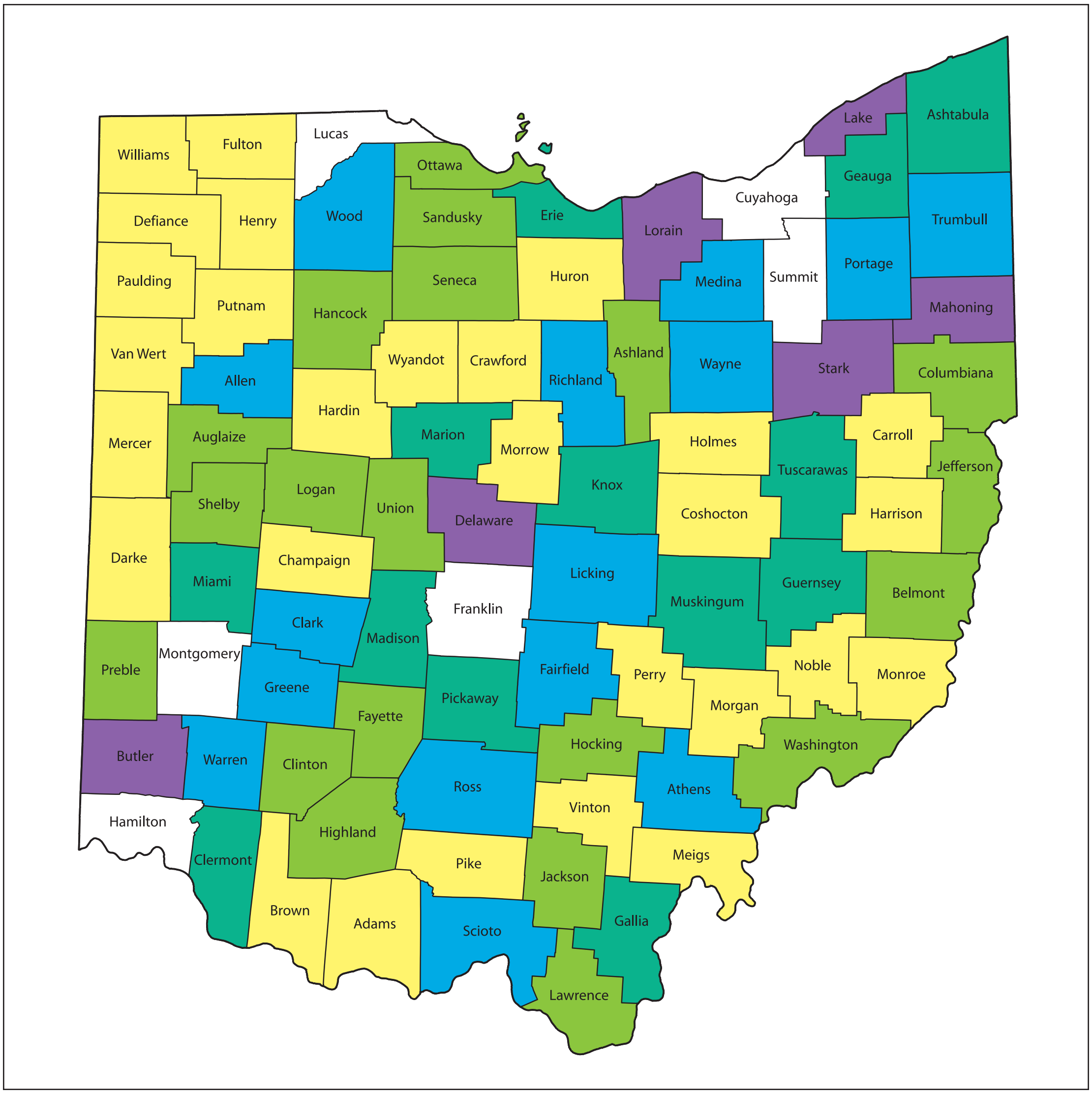
*Data not available prior to 2001. Benefit Recipients is defined as the number of covered lives.

Member Count—Health Care Plans — VEBA Plan*

Year End	Active	Inactive	Benefit Recipients	Total
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.

OPERS' Financial Impact by County

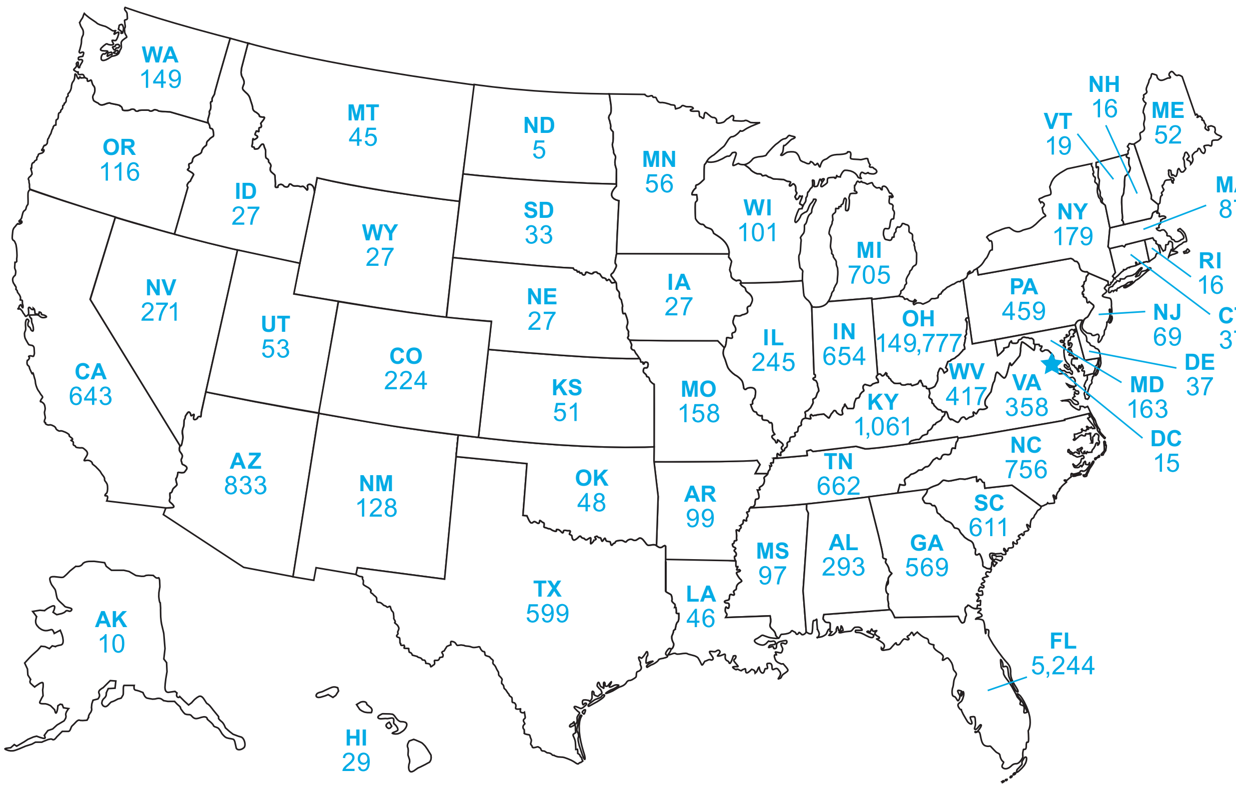


Color Key

$0-$10 million	Yellow
$10-$15 million	Light green
$15-$25 million	Dark green
$25-$50 million	Blue
$50-$100 million	Purple
$100 million +	White

Of the 166,516 retirees and beneficiaries in OPERS, 149,777, or 89.9%, remain Ohio residents. Pension benefit payments approaching $2.9 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
Austria 2
Brazil 1
Canada 22
China 1
Costa Rica 3
Croatia 1
Czech Republic 3
Egypt 2
England 5
France 3
Germany 3
Greece 2
Hungary 1
Israel 5
Italy 6
Japan 1
Latvia 1
Lebanon 3
Lithuania 1
Mexico 4
Netherlands 1
New Zealand 1
Nicaragua 1
Norway 1
Philippines 4
Poland 1
Puerto Rico 9
Romania 1
Scotland 1
Serbia 1
Singapore 1
Slovak Republic 1
South America 1
South Korea 1
Spain 4
Thailand 2
United Kingdom 1
Uruguay 1
Virgin Islands 4
West Indies 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	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
	1999	8.50	6.21	2.90	4.20	13.31	21.81
Local	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
	1999	8.50	6.15	3.20	4.20	13.55	22.05
Law Enforcement	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
	1999	9.00	10.49	2.01	4.20	16.70	25.70
Public Safety	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.

Contribution Rates — Combined Plan

	Year	Member Rates	Employer Rates				Total Employer Rates	Total Aggregate Employer and Member Rates
			Normal Cost	Unfunded Liability	Mitigation Rate	Health		
State	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	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.

Contribution Rates — Member-Directed Plan

	Year	Member Rates	Employer Rates				Total Employer Rates	Total Aggregate Employer and Member Rates
			Normal Cost	Unfunded Liability	Mitigation Rate	VEBA		
State	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	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

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

Number of Employer Units — All Plans*

Year	State	County	Law Enforcement	Municipalities	Villages	Miscellaneous	Libraries	Townships	Totals
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
1999	332	247	233	337	673	406	257	1,312	3,797

*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, 2008 was 3,275.

Principal Participating Employers

Participating Government	2008			2005*		
	Covered Employees	Rank	Percentage of Total System	Covered Employees	Rank	Percentage of Total System
The Ohio State University	24,177	1	6.46%	23,696	1	6.21%
Cuyahoga County	10,208	2	2.73	10,062	2	2.64
City of Columbus	6,788	3	1.81	5,864	8	1.54
Franklin County	6,749	4	1.80	6,551	4	1.72
City of Cleveland	6,141	5	1.64	6,569	3	1.73
Metrohealth Medical Center	5,854	6	1.57	5,988	6	1.57
University of Cincinnati	5,766	7	1.54	5,083	9	1.33
Hamilton County	5,744	8	1.54	5,951	7	1.56
Ohio Dept. of Transportation	5,729	9	1.53	6,297	5	1.65
Montgomery County	4,910	10	1.31	4,896	10	1.28
All Other (see table below)	291,936	N/A	78.07	300,456	N/A	78.77
Total	**374,002**	**N/A**	**100.00%**	**381,413**	**N/A**	**100.00%**

*Information not available prior to 2005.

Principal Participating Employers — All Other Categories

Participating Government	2008		2005	
	Number	Employees	Number	Employees
State	266	84,172	274	84,251
County	240	72,564	235	72,861
Municipalities	249	52,869	253	55,711
Miscellaneous	473	30,022	453	33,975
Libraries	254	15,498	257	15,405
Townships	1,314	14,741	1,312	15,108
Villages	670	14,416	671	15,222
Law Enforcement/Public Safety	248	7,654	247	7,923
Total	3,714	291,936	3,702	300,456

This page left blank intentionally.

Plan Statement

May the road rise up to greet you;
may the wind always be at your back.

Irish blessing

OPERS

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 more than 70 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 Plan. OPERS began offering three retirement plans to its members on January 1, 2003. The plans include the Traditional 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 sixteen 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 sixteen 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 2008 is 14.0%. Employers in the law enforcement and public safety divisions contribute 17.4%.

The 2008 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 plans 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 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 have 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 ten or more years of Ohio service credit have access to OPERS-provided health care coverage on a subsidized basis. These ten 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 ten 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 ten 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. It 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 Benefit

- ***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 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 30% vested in this account after three years of participation in the Member-Directed Plan. Vesting continues to increase at a rate of 10% for each subsequent year of participation until the member is fully vested after ten 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.

OPERS

277 East Town Street
Columbus, Ohio 43215-4642
1-800-222-PERS (7377)
www.opers.org

Our Mission Statement