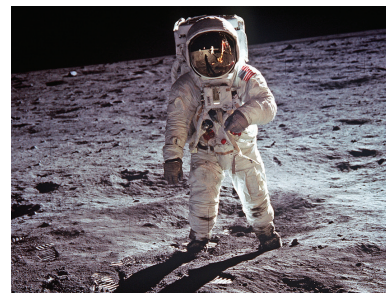


**2017** Popular Annual Financial Report for the year  
ended December 31, 2017

# Focused Forward

*Every step makes a difference*



Ohio Public Employees Retirement System

# Popular Annual Financial Report

(for the year ended December 31, 2017)

## Table of Contents

From OPERS Leadership—Letter of Transmittal .....	1
2017 Financial Highlights .....	2
Assets and Liabilities .....	3
Income and Expenses .....	4
Investment Summary.....	5
OPERS' Net Position .....	6
Funding Retiree Pension Benefits .....	7
Average Retiree Pension Benefits.....	9
Pension Benefits by Type .....	10
Funding Retiree Health Care Coverage .....	11
Health Care Covered Lives .....	12
Funds Restricted for Member Health Care Accounts .....	13
Health Care by Cost Type .....	14
OPERS Members .....	15
Good for Ohio .....	16
Facing the Future—Retirement Basics.....	18
OPERS Board of Trustees and Leadership.....	20
Contact Us.....	21



Karen E. Carraher  
Executive Director

Jennifer H. Starr  
Chief Financial Officer

Dear Fellow Members:

It's a pleasure to share with you with this 2017 Popular Annual Financial Report. Our theme, *Focused Forward: Every step makes a difference*, conveys the impact of our 2017 accomplishments. We know that each step—seemingly small or impressively large—makes a difference. We know that only with well-planned, well-executed steps can we continue to evolve and change for the future. The steps reported here for 2017 clearly illustrate our forward focus—a focus critical to our continued ability to deliver on our commitment of providing a secure retirement for all members—present and future.

### Our Tradition of Focusing Forward

OPERS has always focused forward. We know that only by anticipating change and identifying necessary steps to adapt has the System endured. OPERS began operations in 1935. Since then, the ongoing commitment to evolving for the future has guided this System. That strong focus has made it possible to make decisions enabling OPERS to be an outstanding financial steward of the funds entrusted to the organization. When change has been necessary, we have initiated solutions only after careful consideration of all options. The Legislature, Board and members have trusted OPERS to review the pension plans to ensure sustainability and fairness. As a result, we are able to plan for the future, avoiding the crisis situations that could jeopardize OPERS' financial stability.

As with all years, 2017 brought anticipated and unanticipated challenges and provided significant opportunities. We focused on maximizing the opportunities and minimizing the impact of unexpected events. For your review, here are highlights of 2017.

- **Cost-of-Living Adjustment**—After extensive evaluation, the System sought to modify the annual cost-of-living adjustment. The proposed changes would have modified the cost-of-living adjustment for all retirees and linked the annual cost-of-living adjustment percentage increase to the Consumer Price Index capped at 2.5 percent. Additional incremental changes were provided for such as automatic cost-of-living adjustment changes for significant economic changes—such as extremely high inflationary periods. Similar to the pension and health care changes made in 2012, the proposed legislation was undertaken to improve the financial stability of the System. Although approved by the OPERS Board, the proposed changes have not yet been approved by the General Assembly.
- **Health Care Changes**—Although health care is neither mandated nor guaranteed, we recognize the importance of providing access to meaningful health care. However, we also must recognize the escalating cost of maintaining that access as expenses will continue to grow with the number—and life expectancies—of our retirees. We implemented changes in 2016 that continued to reap savings in 2017. In 2016, the OPERS Medicare Connector was fully deployed providing more than 143,000 Medicare-eligible OPERS retirees and dependents with access to an individualized health care plan and a prescription drug plan from the open market. This solution, along with other changes to the health care program, saved OPERS more than \$12 billion, with more than \$625 million occurring in 2016 and 2017.
- **Financial Reporting**—Also in 2017, OPERS was required to implement extensive financial reporting standards, issued by the Governmental Accounting Standards Board (GASB), for other post-employment benefits (OPEB), such as health care. OPERS has been working to ensure all affected employers will be well-positioned to implement the new standards in 2018.
- **Internal processes and investment in technology**—We work to provide excellent service to ever-increasing numbers without the commensurate increase in staff. The internal technology and business process redesign project attained its targeted 2017 milestones designed to provide more responsive features and better service for our members. The positive impact both in terms of superior service and personnel savings has been realized—we forecast a decrease of approximately \$2.4 million in personnel expenses with the elimination of 32 vacant positions.

We must take the steps and make the decisions that will carry this organization forward so that we can deliver on our commitment of providing financial security in retirement for all generations of OPERS members. We have a responsibility to look forward and prepare for the challenges we see, not wait for them to occur. We will continue to focus forward with the resolve to keep evolving so that OPERS remains strong. We are honored to be associated with, appreciate and acknowledge the efforts of all involved as, together, we prepare for and step into the future.

Respectfully submitted,



Karen E. Carraher, CPA  
Executive Director



Jennifer H. Starr, CPA  
Chief Financial Officer

# 2017 Financial Highlights

## Focused on the Strength of the System and Future Projections

**Pension financials:** Each step we take is designed to keep this organization balanced between strengthening our financial position while continuing to provide for current and future retirees and their beneficiaries.

- When comparing pension commitments to assets available (funded ratio), we have a good, but not great, ratio. That ratio moved from 80 percent in 2016 to 81 percent in 2017. This means the System has 81 percent of the assets necessary to fund the liability that will come due in future years for both active and retired members.
- This change is especially significant because the slight increase comes after extremely strong investment returns in 2017. Even after a year of good returns, OPERS still carries a \$19 billion pension commitment (unfunded liability).

**What this means to members:** By law, OPERS is obligated to pay the benefits that have commenced with retirees. Each year, to make these payments, funds are transferred from the active member employer fund (the Employers' Accumulation Fund) to the pension funds (the Annuity and Pension Reserve Fund and the Survivors' Benefit Fund). Thus, the active member funding is 49 percent as of December 31, 2017, compared to 46 percent as of December 31, 2016. The amortization period reflects how much time will be needed to fund remaining liabilities. The current OPERS amortization period of 18 years is within the statutorily required 30-year window.

**Health Care financials:** OPERS has a tradition of anticipating escalating expenses and proactively working toward funding those expenses. OPERS is not required to provide health care. However, we recognize that providing meaningful access to health care is an important element of financial security for retirees. OPERS has established a plan of pre-funding and continuously evaluating the health care program in an effort to continue health care offerings for current and future generations of retirees.

**What this means to members:** Health care funding cannot be allowed to jeopardize the pension funding. To decrease the pension liability, all available funding has been allocated to the pension fund starting in 2018. In the absence of employer contributions (by law, the only funding that can be used toward health care), the health care fund is currently enhanced solely by investment returns and has approximately 12 years of solvency under the current health care program design.

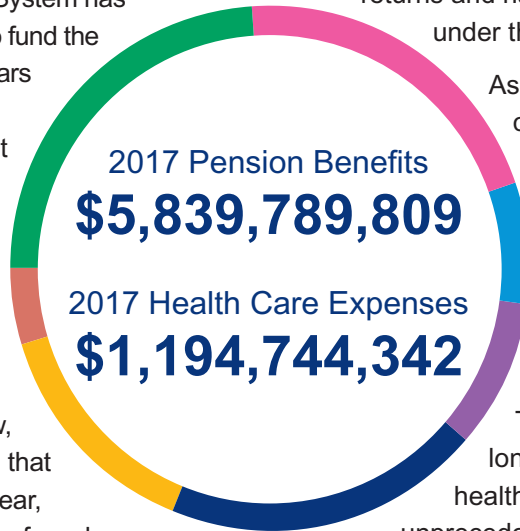
As of the December 31, 2016 health care actuarial funding valuation (the most recent), OPERS was 60.7 percent funded.

### Investment results:

Approximately two-thirds of OPERS revenue, from which benefits are paid, is generated from investment returns.

The growing retiree base, retirees living longer in retirement, and the escalating health care costs continue to place unprecedented drains on income generated from investments. Our long-term investment goal is to attain targeted results so that secure retirement benefits for our members can be provided. Sustaining this goal means we focus on the long-term market view—but understand that year-to-year market fluctuations happen.

**What this means to members:** The 2017 market delivered strong returns—the OPERS total portfolio return for 2017 was 16.62 percent, better than the anticipated benchmark return of 15.11 percent.



## One step at a time

In school, small experiences create the foundation for higher learning. Few children taking their first steps to their first day of school think about advanced calculus or college graduation. Similarly, few public employees are actually thinking about retirement on the first day of public employment.



# Assets and Liabilities

## Summary Comparative Statements of Fiduciary Net Position for all Plans and the Health Care Trust

This statement shows the assets and liabilities for the years ended December 31, 2017 and 2016. The net position represents the funds OPERS has accumulated thus far to pay pension benefits for retirees, active and inactive members, as well as health care costs for current and future retirees. While this is the first year OPERS net position

(assets less liabilities) has exceeded \$100 billion, active members pension funding is only at 49 percent at the end of the year. The System still has a \$19 billion unfunded pension liability and an \$8 billion unfunded health care liability at the end of 2017 and 2016, respectively.

	2017	2016	Amount Increase/ (Decrease) from 2016 to 2017	Percent Increase/ (Decrease) from 2016 to 2017
<b>Assets</b>				
Cash and Cash Equivalents	\$4,625,708,094	\$4,586,305,505	\$39,402,589	0.9%
Receivables	1,113,071,247	1,112,083,698	987,549	0.1
Investments	96,357,409,903	85,449,650,603	10,907,759,300	12.8
Collateral on Loaned Securities	7,935,816,160	8,288,355,523	(352,539,363)	(4.3)
Net Capital Assets	131,801,306	132,961,073	(1,159,767)	(0.9)
Prepaid Expenses and Other Assets	1,304,949	764,515	540,434	70.7
<b>Total Assets</b>	<b>110,165,111,659</b>	<b>99,570,120,917</b>	<b>10,594,990,742</b>	<b>10.6</b>
<b>Liabilities</b>				
Benefits Payable	114,904,201	110,396,253	4,507,948	4.1
Investment Commitments Payable	671,584,704	539,826,060	131,758,644	24.4
Obligations Under Securities Lending	7,933,640,759	8,285,285,181	(351,644,422)	(4.2)
Other Liabilities	19,162,159	23,789,198	(4,627,039)	(19.5)
<b>Total Liabilities</b>	<b>8,739,291,823</b>	<b>8,959,296,692</b>	<b>(220,004,869)</b>	<b>(2.5)</b>
<b>Net Position Held in Trust for Pension Benefits and Post-employment Health Care</b>	<b>\$101,425,819,836</b>	<b>\$90,610,824,225</b>	<b>\$10,814,995,611</b>	<b>11.9%</b>

From the first day of employment to the last day, contributions for each public employee are gathered. These contributions are supplemented by the employee's public employer and carefully invested for the length of his/her public career. Each step, each pay period, is a small step that takes each public employee closer to a secure retirement.

**OPERS fact:** OPERS provides all active members with an individualized account and annual account information—showing how each step takes our members toward retirement.



# Income and Expenses

## Summary Comparative Statements of Changes in Fiduciary Net Position for all Plans and the Health Care Trust

This statement shows OPERS income (additions) and expenses (deductions) for 2017. You'll see investment earnings and contributions made up the vast majority of 2017 income. In 2017, OPERS implemented a new GASB standard (GASB 74) requiring health care-related receipts be netted against health care expenses. In 2016, these receipts were included in Contract and Other Receipts, Retiree-Paid Health Care Premiums and Federal Subsidy.

**What this means to members:** Expenses (including pension benefit payments, health care coverage payments and account refunds) for fiscal year 2017 were \$7.3 billion. In 2017, OPERS paid \$5.8 billion in pension benefits and \$1.0 billion in health care expenses, net of health care receipts, to more than 210,000 OPERS retirees and their beneficiaries.

	2017	2016	Amount Increase/ (Decrease) from 2016 to 2017	Percent Increase/ (Decrease) from 2016 to 2017
<b>Additions</b>				
Member Contributions	\$1,421,754,296	\$1,387,215,220	\$34,539,076	2.5%
Employer Contributions	1,989,941,685	1,941,632,324	48,309,361	2.5
Contract and Other Receipts <sup>1</sup>	93,061,535	172,338,832	(79,277,297)	(46.0)
Retiree-Paid Health Care Premiums <sup>1</sup>		184,368,783	(184,368,783)	(100.0)
Federal Subsidy <sup>1</sup>		4,065,058	(4,065,058)	(100.0)
Net Income from Investing Activity	14,619,914,555	6,926,572,065	7,693,342,490	111.1
Other Income/(expense), net	2,641,100	(2,544,366)	5,185,466	(203.8)
Interplan Activity	20,961,756	17,205,339	3,756,417	21.8
<b>Total Additions</b>	<b>18,148,274,927</b>	<b>10,630,853,255</b>	<b>7,517,421,672</b>	<b>70.7</b>
<b>Deductions</b>				
Pension Benefits	5,839,789,809	5,588,000,966	251,788,843	2.6
Health Care Expenses <sup>1</sup>	1,194,744,342	1,197,374,344	(2,630,002)	(0.2)
Health Care Receipts <sup>1</sup>	(242,742,769)		(242,742,769)	(100.0)
Refunds of Contributions	443,220,698	429,791,141	13,429,557	3.1
Administrative Expenses	77,305,480	79,059,058	(1,753,578)	(2.2)
Interplan Activity	20,961,756	17,205,339	3,756,417	21.8
<b>Total Deductions</b>	<b>7,333,279,316</b>	<b>7,311,430,848</b>	<b>21,848,468</b>	<b>0.3</b>
<b>Net Increase</b>	<b>10,814,995,611</b>	<b>3,319,422,407</b>	<b>7,495,573,204</b>	<b>225.8</b>
<b>Net Position Held in Trust, Beginning of Year</b>	<b>90,610,824,225</b>	<b>87,291,401,818</b>	<b>3,319,422,407</b>	<b>3.8</b>
<b>Net Position Held in Trust, End of Year</b>	<b>\$101,425,819,836</b>	<b>\$90,610,824,225</b>	<b>\$10,814,995,611</b>	<b>11.9%</b>

<sup>1</sup> GASB Statement No. 74 (GASB 74), *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, requires health care expenses be reported net of certain health care receipts. The presentation of Retiree-Paid Health Care Premiums, Federal Subsidy and formulary rebates, formulary rebates included in Contract and Other Receipts, has been revised and is now included in Health Care Expenses in OPERS *Comprehensive Annual Financial Report*, starting in 2017 upon implementation of this standard.

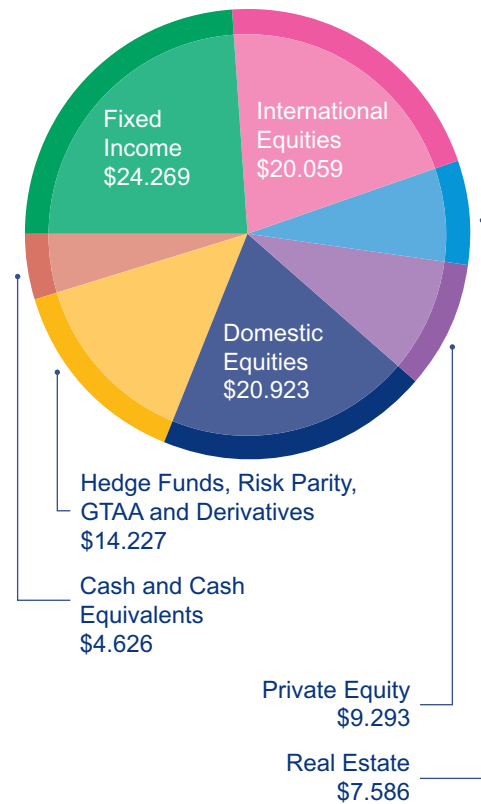
OPERS needs strong years like 2017 to balance out negative and neutral years. Like all mature pension systems, OPERS pays out more in benefits than are received in contributions. The difference is made up from investment income. OPERS finished 2017 with strong results—providing a necessary boost to the asset base:

- Total value of investments under management exceeded \$100 billion, and
- Investment income, net of investment administrative expenses, was \$14.6 billion, compared to \$6.9 billion in 2016.

The results of 2017 should be viewed in context with other years—appropriate as OPERS is a long-term investor. As a result of the financial crisis of 2008, OPERS started 2017 with a \$34 billion shortfall in long-term investment returns. Had the crash not occurred and OPERS earned the expected rate of return, the asset base at the end of 2016 would be \$34 billion higher than actual amounts. Therefore, it's important to understand that, although we ended 2017 with strong returns that help offset a portion of the \$34 billion shortfall at the start of 2017, the OPERS Defined Benefit portfolio still has a shortfall of more than \$25 billion at the end of 2017.

**What this means to members:** In years when more is paid out than received and the market is poor, the financial stability of the System is eroded because fewer funds are available to re-invest to generate returns when markets recover. In 2017, investment returns were able to add to the financial stability of the System, a good thing. However, the returns were not enough to completely mitigate the erosion of the last decade.

**Total Investment Summary**  
(as of December 31, 2017, \$ in billions)



## Historical Investment Returns (net of fees)

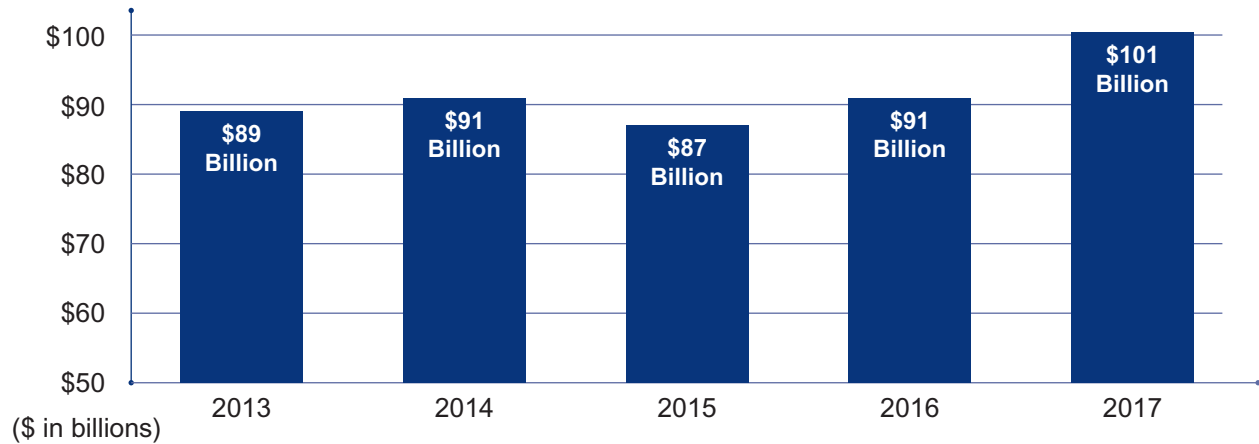
Year	Total Portfolio Return	Total Defined Benefit Return	Total 401(h) Health Care Trust Return	Total 115 Health Care Trust Return (Health Care Portfolio)	Total Defined Contribution Return
2017	16.62%	16.82%		15.25%	17.39%
2016	8.23	8.31 <sup>a</sup>	4.73% <sup>a</sup>	5.11 <sup>a</sup>	9.51
2015	(0.03)	0.33	(2.18)	(3.23)	(1.71)
2014	6.70	6.96	5.28	(0.03) <sup>b</sup>	4.83
2013	14.00	14.38	11.36		20.45
2012	14.40	14.54	13.72		13.37
2011	0.20	0.36	(0.38)		(2.59)
2010	13.90	13.98	13.93		13.74
2009	20.06	19.09	24.80		26.44
2008	(26.92)	(27.15)	(25.77)		(28.00)

<sup>a</sup> Returns are six-month cumulative returns as of June 30, 2016 in the 401 (h) Health Care Trust. The 401(h) Health Care Trust and the Voluntary Employees' Beneficiary Association (VEBA) Trust were closed as of June 30, 2016. Prior to July 1, 2016, the VEBA Trust assets were included in the Defined Benefit portfolio. On July 1, 2016, the 401(h) Health Care Trust and VEBA Trust assets were transferred to the 115 Health Care Trust portfolio. The combined return on the total health care assets for the year ended December 31, 2016 was 7.55 percent. The number disclosed in the 115 Health Care Trust column in 2016, 5.11 percent, represents the return for the 115 Health Care Trust portfolio assets.

<sup>b</sup> The 115 Health Care Trust was established in September 2014. Returns are two-month cumulative returns in 2014 since funding of the 115 Health Care Trust portfolio began in November 2014.

# OPERS' Net Position

Here's the history of OPERS' total net position (or net assets) for the last five years. As of December 31, 2017, net position was approximately \$101 billion.

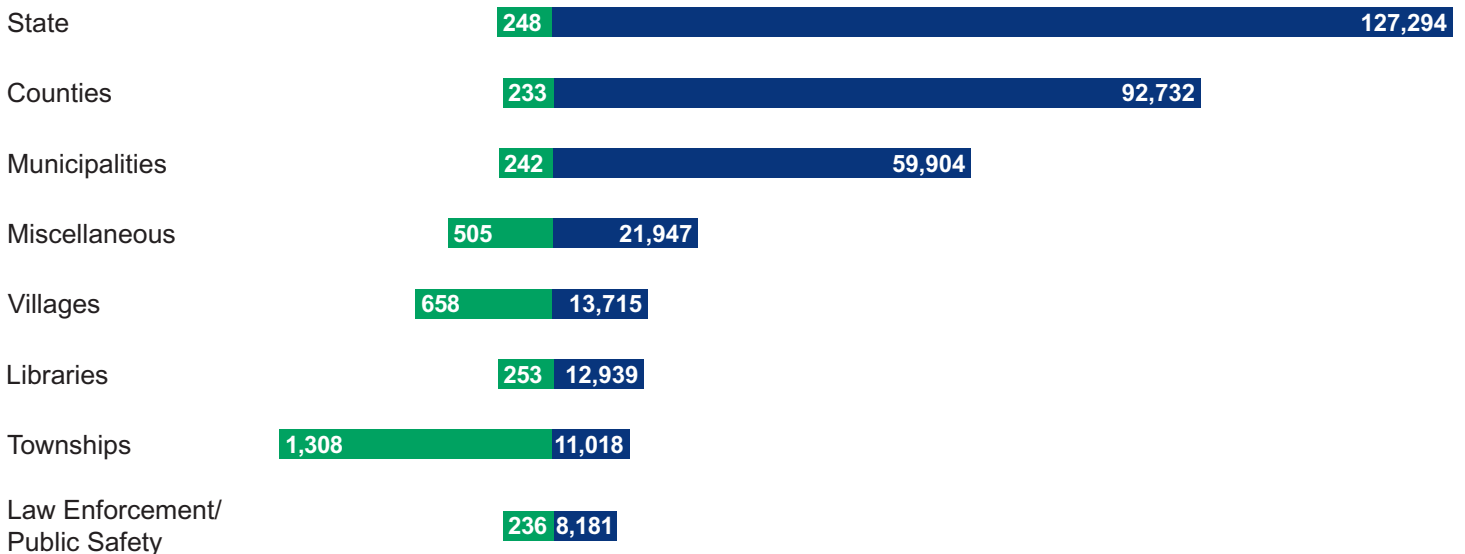


## Ohio's Public Employees by Employer Type

OPERS serves more than 347,000 actively contributing members and nearly 3,700 employers who provide services to Ohio residents. This chart displays the number

of active members who work in each of the primary employer groups, providing services that touch the lives of every Ohioan.

Employer Employees





# Funding Retiree Pension Benefits

## Pension Funding Status

Retiree pension benefits are funded by contributions from members and employers and income earned from investing these funds over the member's career. By law, OPERS is obligated to pay the benefits that have commenced with retirees. To make these payments each year and account for benefits that have commenced with retirees, OPERS transfers funds from the active member employer fund (the Employers' Accumulation Fund) to the pension funds (the Annuity and Pension Reserve Fund and the Survivor Benefit Fund). Thus, the active member

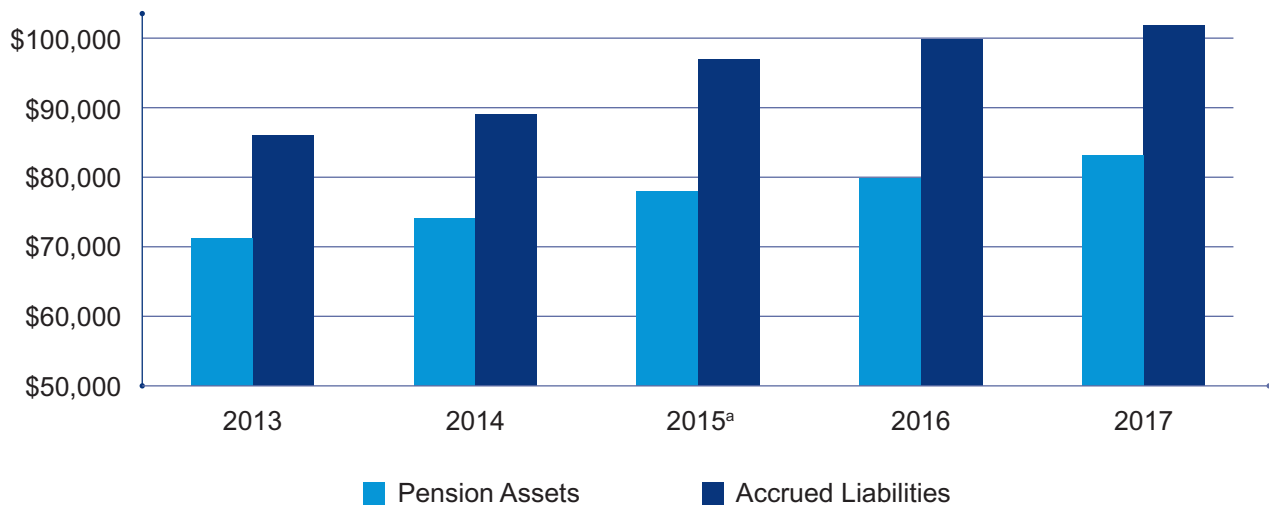
funding is 49 percent as of December 31, 2017, after this annual transfer. Funded status measures the progress of accumulating the funds necessary to meet future obligations.

By law, OPERS must remain within a 30-year funding window, meaning the system will pay all liabilities within 30 years.

As of the December 31, 2017 actuarial valuation, OPERS has a funded status of 81.1 percent, with the unfunded liability expected to be funded within 18 years.

## Pension Valuation Assets vs. Accrued Liabilities—Funding Basis<sup>1</sup> (All Plans)

(\$ in millions)



Funded Ratios	82.4%	83.9%	80.3%	80.1%	81.1%
Funding Years	24	21	20	19	18

<sup>a</sup> Information after completion of the experience study.

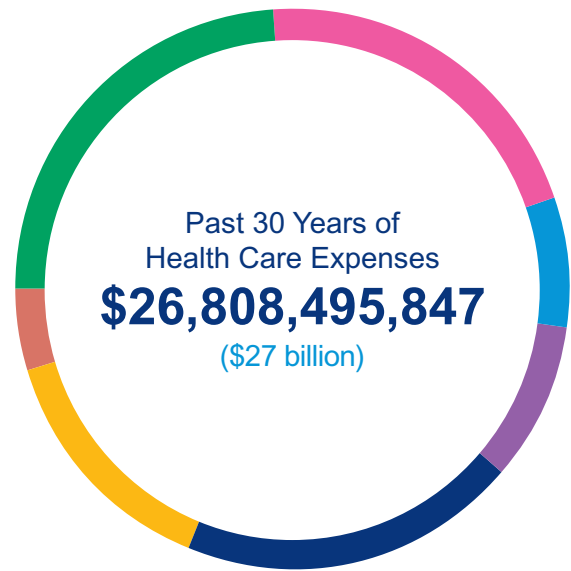
<sup>1</sup> This table includes the funded ratio and funding years based on actuarial assumptions and includes the smoothing of investment gains and losses over a closed four-year period. Information shown on this funding basis is used to monitor the funding status of OPERS.

# Funding Retiree Pension Benefits

Pension Funding Status (continued)

## OPERS is an Economic Engine, Serving Members

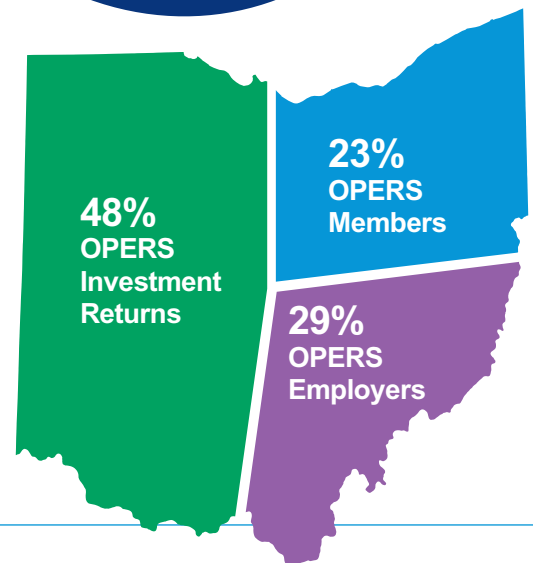
Here are the 30-year totals of payments to OPERS members:



### OPERS Pensions

For those retiring in 2017, 71 percent of the lifetime pension is funded by employee payroll deductions and investment income. The remaining 29 percent is funded by employer contributions.

For every dollar paid by employers, the Ohio economy realized a direct return of \$3.41.



### Consider the Wright Brothers

The Wright Brothers of Dayton were aviators, engineers, inventors, and entrepreneurs with a big dream. They began their journey with small steps and continued on a path from a back room of a store in Ohio to Kitty Hawk, North Carolina, where their dream resulted in the first controlled, sustained flight of a powered aircraft.

# Average Retiree Pension Benefits

Here's the average benefits paid to retirees receiving a benefit under the Traditional Pension Plan. The cost of retirements will continue to increase as new retirees with

higher final average salaries replace long-time retirees with lower final average salaries and as members continue to work longer.

## Average Defined Benefits Paid to OPERS Retirees Traditional Pension Plan December 31, 2017

Average age at  
retirement  
**57.7 years**

Average service  
at retirement  
**23.1 years**

Average Final  
Average Salary  
**\$42,479**



Average pension  
at retirement  
**\$21,016**

Average age on  
valuation date  
**70.4 years**

Average pension  
on valuation date  
**\$27,192**

**OPERS fact:** Today, airport employees are OPERS-contributing members. By making small contributions each pay period, these members are taking small steps that will, when matched with employer contributions and carefully invested over the length of their careers, build a foundation toward a secure retirement.



# Pension Benefits by Type

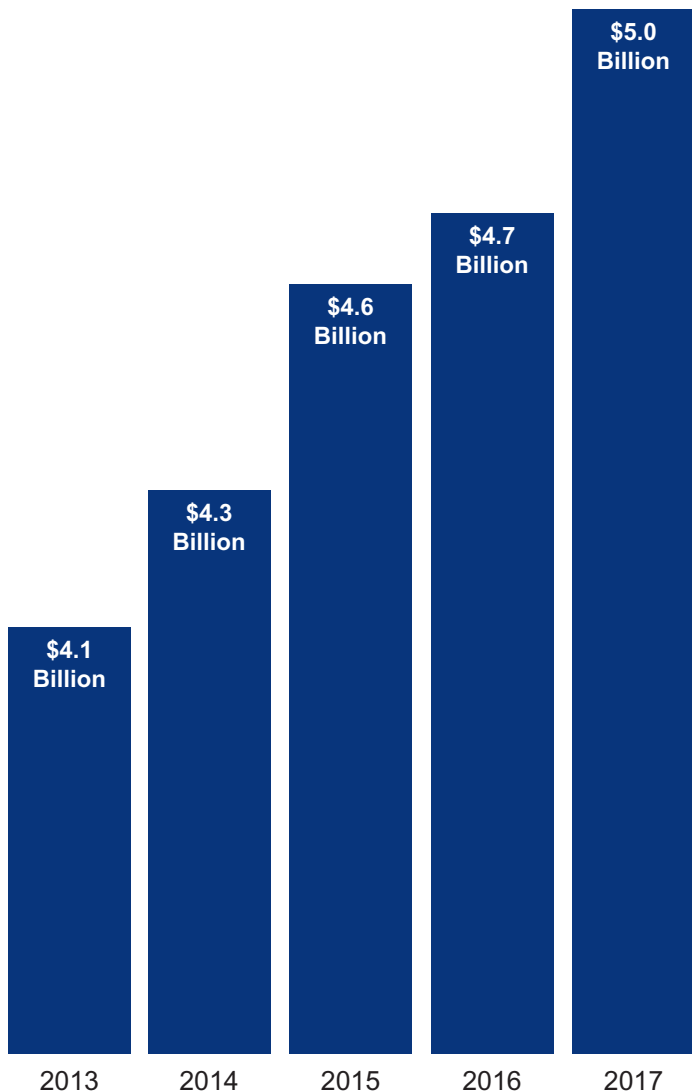
OPERS' mission is to provide financial security for our members in retirement. We do that by accepting contributions throughout an individual's working career. These contributions are then carefully and systematically invested to maximize earnings and the compounding effect of long-term contributions. OPERS Board, management and staff remain dedicated to the fulfillment of this mission.

OPERS provides retirement benefits that include pension payments, disability benefits and survivor benefits. Retirees meeting specific requirements may also receive health care coverage. See page 14 for health care costs by type.

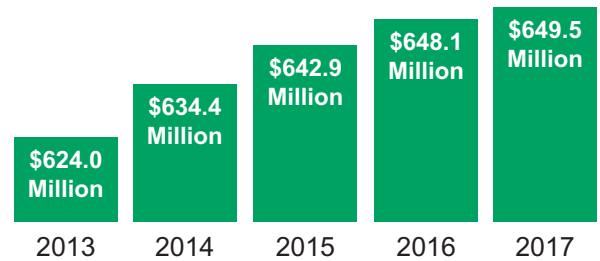
In general, defined benefit pensions (Traditional Pension and Combined plans) are determined by a formula based on the number of years of service and the highest years of salary, multiplied by a factor determined by statute.

The information below shows the trend in retiree pension benefits for the past five years. The graph tracks upward, and will continue to do so, as the number of retirees increases. In addition, as members continue to work longer, the value of their retirement benefit will continue to grow through wage increases—making the final average salary and service years higher.

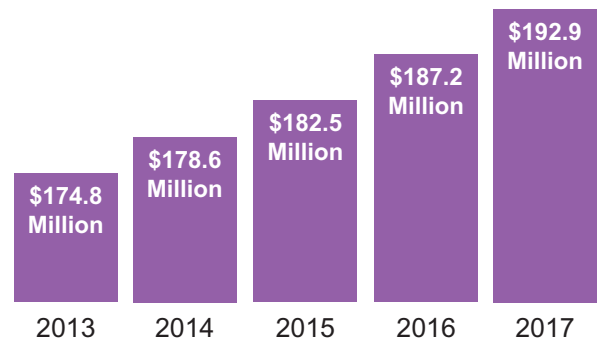
## Annuities and Installment Payments



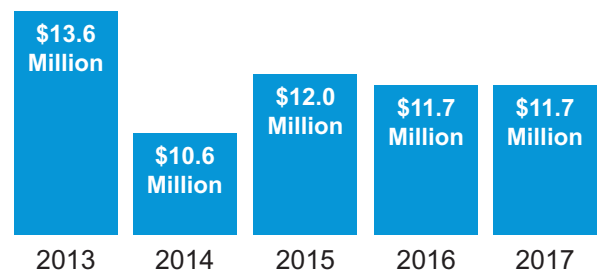
## Disabilities



## Survivors



## Other



# Funding Retiree Health Care Coverage

## Health Care Funding Status

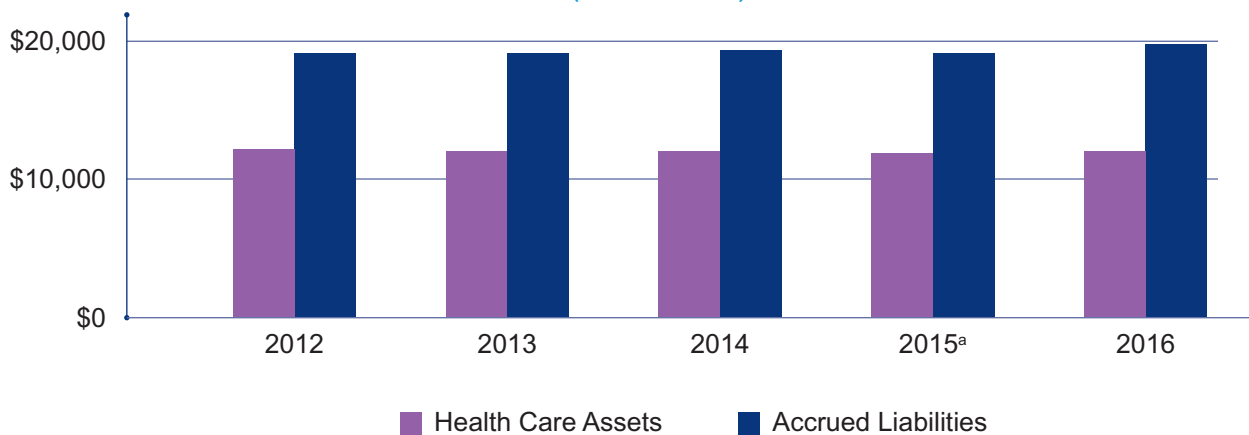
Health care is not statutorily guaranteed and can only be funded if pension funding needs are met. However, providing access to meaningful health care—for future and current retirees—is an important priority for OPERS.

As prudent financial administrators, OPERS has chosen to pre-fund health care expenses. Our commitment to

a conservative program of pre-funding, conscientiously evaluating health care investments and refining the health care options has yielded favorable results in the past. OPERS will continue to balance prudent fiscal management with the strong desire to provide the best possible, yet sustainable, health care programs for both current and future retirees.

## Health Care Ratios—Valuation Assets vs. Accrued Liabilities—Funding Basis<sup>1</sup>

(\$ in millions)



Funded Ratios	63.6%	60.8%	62.2%	62.1%	60.7%
Funding Years	Indefinite <sup>2</sup>	Indefinite <sup>2</sup>	Indefinite <sup>2</sup>	Indefinite <sup>2</sup>	12

<sup>a</sup> Information after completion of experience study.

<sup>1</sup> This table includes the funded ratio and funding years based on actuarial assumptions and includes the smoothing of investment gains and losses over a closed four-year period. Information shown on this funding basis is used to monitor the funding status of OPERS.

<sup>2</sup> Solvency years represent an estimate of the number of years the fund will be able to provide health care under the intermediate actuarial assumptions. Indefinite indicates funds are expected to be sufficient to fund future health care needs.

## Changing demographics



Today, members are living longer in retirement than ever before—a cause for celebration. In fact, some members live longer in retirement than as active, contributing employees. However, because OPERS leaders have traditionally focused forward and worked closely with actuaries and other experts, these changes were anticipated and the System was able to structure the solutions necessary to handle the changing demographics.

**OPERS fact:** Even though health care is not a required or guaranteed benefit, OPERS recognizes the importance of having meaningful access to health care for retirees. To help curb costs, and help ensure retirement years are enjoyable, all members and retirees are encouraged to embrace healthy lifestyles. Small steps can make a big impact over time.

# Funding Retiree Health Care Coverage (continued)

OPERS works to provide access to meaningful health care—a goal that continues to escalate in cost. Similar to national trends, OPERS retirees have increased in number and have longer life expectancies than ever before—a cause for celebration. However, the change in demographics combined with the cost of health care has provided a significant drain on available resources.

OPERS must first meet the pension benefit commitment. Then, to the extent possible, we work to fund post-employment health care. As of December 31, 2016, the date of the latest health care actuarial valuation, the total health care liability was \$19.9 billion. To meet this obligation, OPERS had accumulated \$12.1 billion in assets. This means the System has an unfunded liability of \$7.8 billion, an increase from the 2015 unfunded liability of \$7.3 billion.

The funded ratio was 60.7 percent, compared to a funded ratio of 62.1 percent in 2015. This means the health care program has saved about 61 cents for each dollar in projected health care expenses.

Health care funding is measured in terms of solvency years, or the number of years funds are projected to be available to pay health care expenses under the current plan. As of the date of the latest health care actuarial valuation,

December 31, 2016, health care funding is expected to remain solvent for 12 years before becoming a pay-as-you-go plan.

If the funding status of the pension fund improves, the Board may continue to pre-fund the health care program.

Shown here are the number of individuals covered by the OPERS health care program as of December 31, 2017. Starting in 2016, all health care is funded via the 115 Health Care Trust.

- The total reflects the number of retirees and primary beneficiaries, as well as additional dependents and other beneficiaries, receiving coverage through the Traditional Pension and Combined plans, or with a retiree medical account through the Member-Directed Plan.
- Beyond retirees, the primary beneficiary could include a surviving spouse or beneficiary of a deceased retiree eligible to receive coverage on the retiree's account.
- Member-Directed Plan retirees are not eligible for OPERS health care through the Traditional Pension or Combined plans, but may receive reimbursements for qualified medical expenses through a retiree medical account.

## Health Care Covered Lives

### Traditional Pension Plan and Combined Plan Covered Lives

Retirees & Primary Beneficiaries	169,368
Dependants & Other Beneficiaries	37,072

### Member-Directed Plan Retiree Medical Accounts

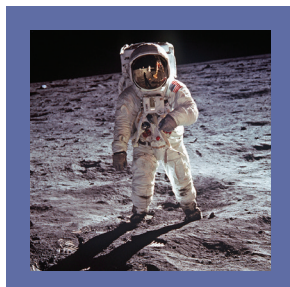
Retiree Recipients	6,203
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<b>Total</b>	<b>212,643</b>
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## Carefully planned success

When Ohioan Neil Armstrong stepped on the moon surface, he commented: That's one small step for a man; one giant leap for mankind. That small step was the result of thousands—maybe millions—of carefully taken small steps, some significant setbacks, and always, always a focus on the mission.

All involved were steadfast and diligent as each focused on the long-term goal of man taking steps on the moon. Similarly, the OPERS investment professionals are steadfast and diligent in working to maximize returns and minimize risk because investment returns generate approximately two-thirds of a member's retirement. The OPERS investment professionals focus on investing member and employer contributions for the long term.



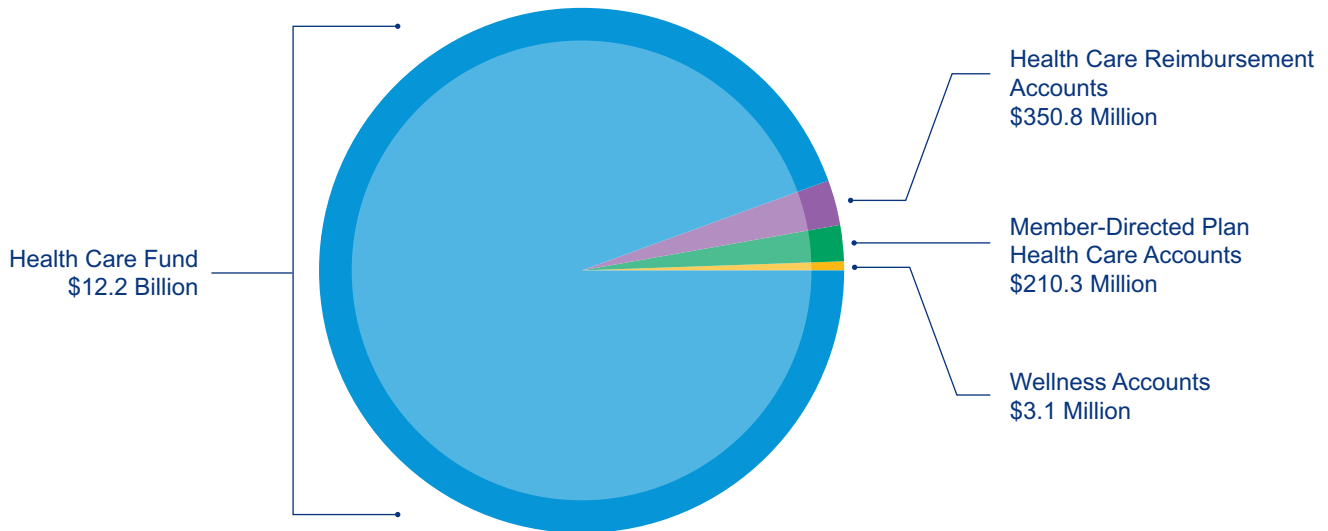
## Funds Restricted for Member Health Care Accounts

OPERS notionally funds and tracks member balances in HRAs, Member-Directed Plan health care accounts and Wellness health care accounts. The financial statements recognize health care payments as liabilities when claims are incurred by members (currently due and payable).

As a result, unspent balances remaining in member health care accounts are not recorded as liabilities in the financial statements. Total funds held in trust restricted for health care costs of all OPERS health care plans was

\$12.8 billion as of December 31, 2017. While OPERS is not required to disclose the funds restricted for health care by individual plans, we do track the funds set aside in member health care accounts. Included in the \$12.8 billion are restricted member health care account balances in the HRAs, Member-Directed Plan health care accounts, and Wellness accounts of \$350.8 million, \$210.3 million, and \$3.1 million, respectively.

Health Care Funds by Type



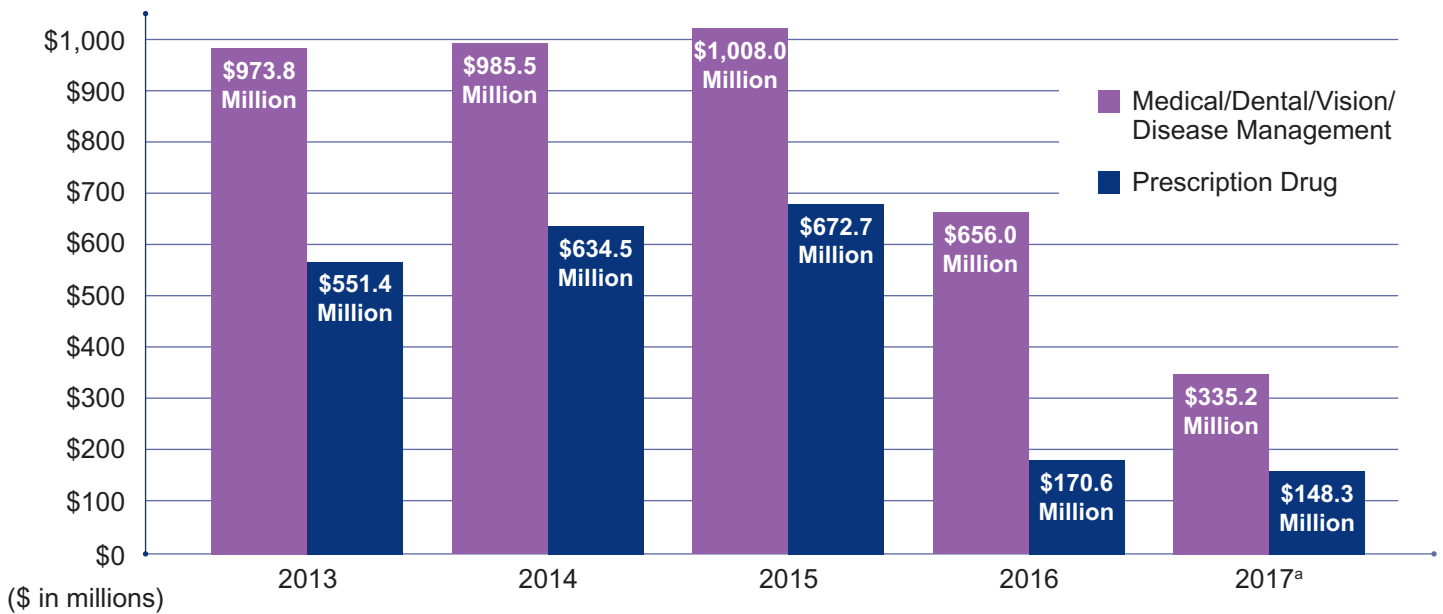
**OPERS fact:** Neil Armstrong taught us to aim high and take all the steps necessary to ensure success. Although not an OPERS retiree, Neil Armstrong shares a very strong link with OPERS retirees. Similar to almost 90 percent of all OPERS retirees, Neil Armstrong lived his retirement years in Ohio.



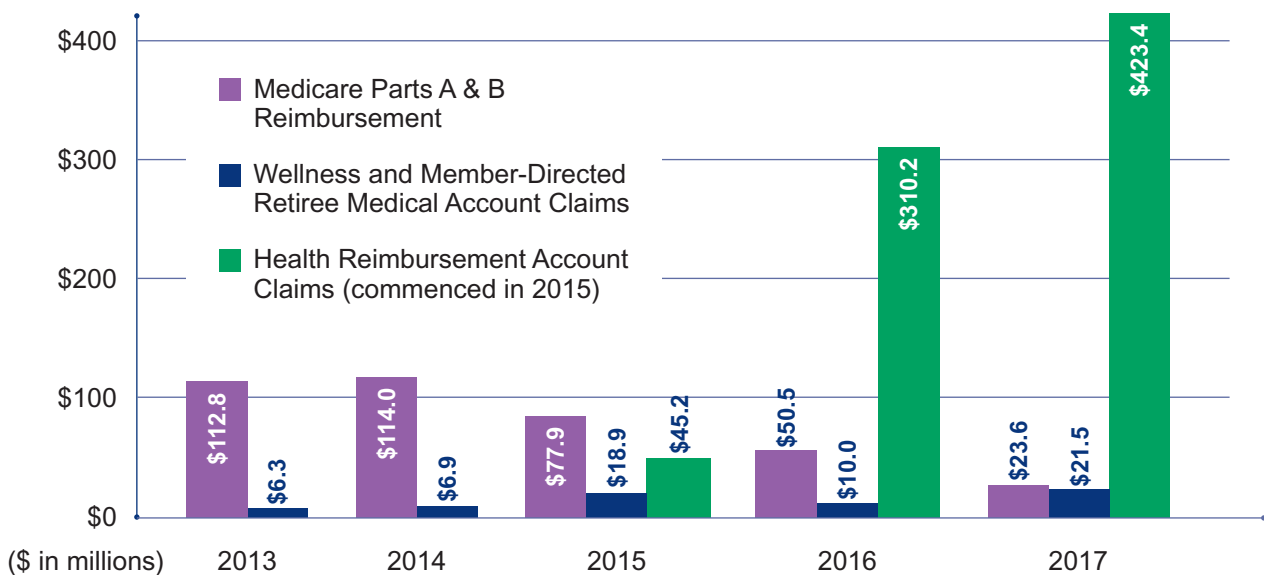
# Health Care by Cost Type

Although not required, health care coverage remains available to Traditional Pension Plan and Combined Plan retirees and their dependents. On average, disability recipients comprise 10 percent of the retiree population but represent 24-27 percent of health care expenses. OPERS periodically reviews and modifies the health care program to maintain the solvency of the health care fund for current and future retirees.

Plan design changes implemented in 2012, with phased-in implementation dates, were designed to strengthen the health care program to preserve access to meaningful health care coverage for both current and future retirees. Changes, such as the 2015 change requiring new retirees to have 20 years of qualifying service credit to receive health care coverage, and the 2016 Connector implementation, help OPERS maintain a meaningful health care program. The following charts show health care costs by type for the past five years.



<sup>a</sup> GASB 74 requires health care expenses be reported net of certain health care receipts. Starting in 2017, upon implementation of this standard, the health care receipts (retiree-paid premiums, federal subsidies and formulary rebates) are netted against medical, dental, and vision expenses.





OPERS offers members three retirement plans—each provides different features designed to accommodate individual member’s knowledge base and risk tolerance. Take a look:

**Traditional Pension Plan:** Retirement benefit is based on a defined benefit formula determined by years of contributing service and final average salary. OPERS handles investments and absorbs all risk. Ideal for those who want security in retirement, have a low risk tolerance and low desire to handle financial transactions.

**Member-Directed Plan:** Retirement benefit is based on member contributions, vested employer contributions and the gains and losses on those contributions. Members choose from a variety of OPERS selected funds—including fixed income and equity funds, target date funds and a self-directed brokerage account. Provides control but significant risk for members.

**Combined Plan:** Hybrid plan where member contributions are deposited into a self-selected account (like Member-Directed Plan) and employer contributions are deposited into the low-risk, guaranteed defined benefit option (like Traditional Pension Plan).

Each person has a different risk tolerance, retirement needs and willingness to handle financial transactions.

The chart below displays the number of active, inactive and retired members in each plan as of December 31, 2017. Inactive members are no longer contributing to OPERS, but have not refunded their account and may be eligible to receive a retirement benefit.

	Traditional Pension Plan	Combined Plan	Member-Directed Plan	Total
<b>Active Members</b>	<b>328,207</b>	<b>7,905</b>	<b>11,618</b>	<b>347,730</b>
Average Age	42.3	43.8	43.0	
Average Service Credit (Years)	9.5	8.0	5.3	
Average Salary (FAS)	\$35,464	\$48,195	\$45,717	
<b>Inactive Members<sup>1</sup></b>	<b>553,393</b>	<b>1,825</b>	<b>4,369</b>	<b>559,587</b>
Average Age	39.4	42.2	38.6	
Average Service Credit (Years)	1.2	4.5	2.8	
Average Salary (FAS)	\$5,937	\$33,822	\$30,179	
<b>Retired Members</b>	<b>210,357</b>	<b>283</b>	<b>242</b>	<b>210,882</b>
Average Age	69.2	67.6	68.6	
Average Service Credit (Years)	22.3	10.3	N/A	
Average Annual Benefit	\$27,371	\$6,775	\$4,849	
<b>Total Members</b>	<b>1,091,957</b>	<b>10,013</b>	<b>16,229</b>	<b>1,118,199</b>

<sup>1</sup> Inactive members no longer contribute, but still have an account that may be activated upon return to public service and may be eligible to receive a retirement benefit.

As the largest public pension system in Ohio, and the 12<sup>th</sup> largest in the U.S., OPERS is a significant economic driver for the state. The majority of our one million members and retirees live and work in Ohio, providing economic stability throughout the state.

For every dollar received by OPERS from public employers in 2017, \$3.41 is returned to the economy through pension and health care payments made to retirees—retirees who spend the majority of retirement proceeds on goods and services within the state.



OPERS' 2017 pension benefit payments to Ohio residents (89 percent of OPERS participants live in Ohio) \$5.3 billion



OPERS' 2017 health care costs on behalf of retirees and their beneficiaries \$1.0 billion (net of \$242.7 million in health care receipts)



Assets invested with Ohio-based companies—\$1.3 billion (as of December 31, 2017)



Assets under management with Ohio-qualified investment managers—\$1.8 billion (as of December 31, 2017)

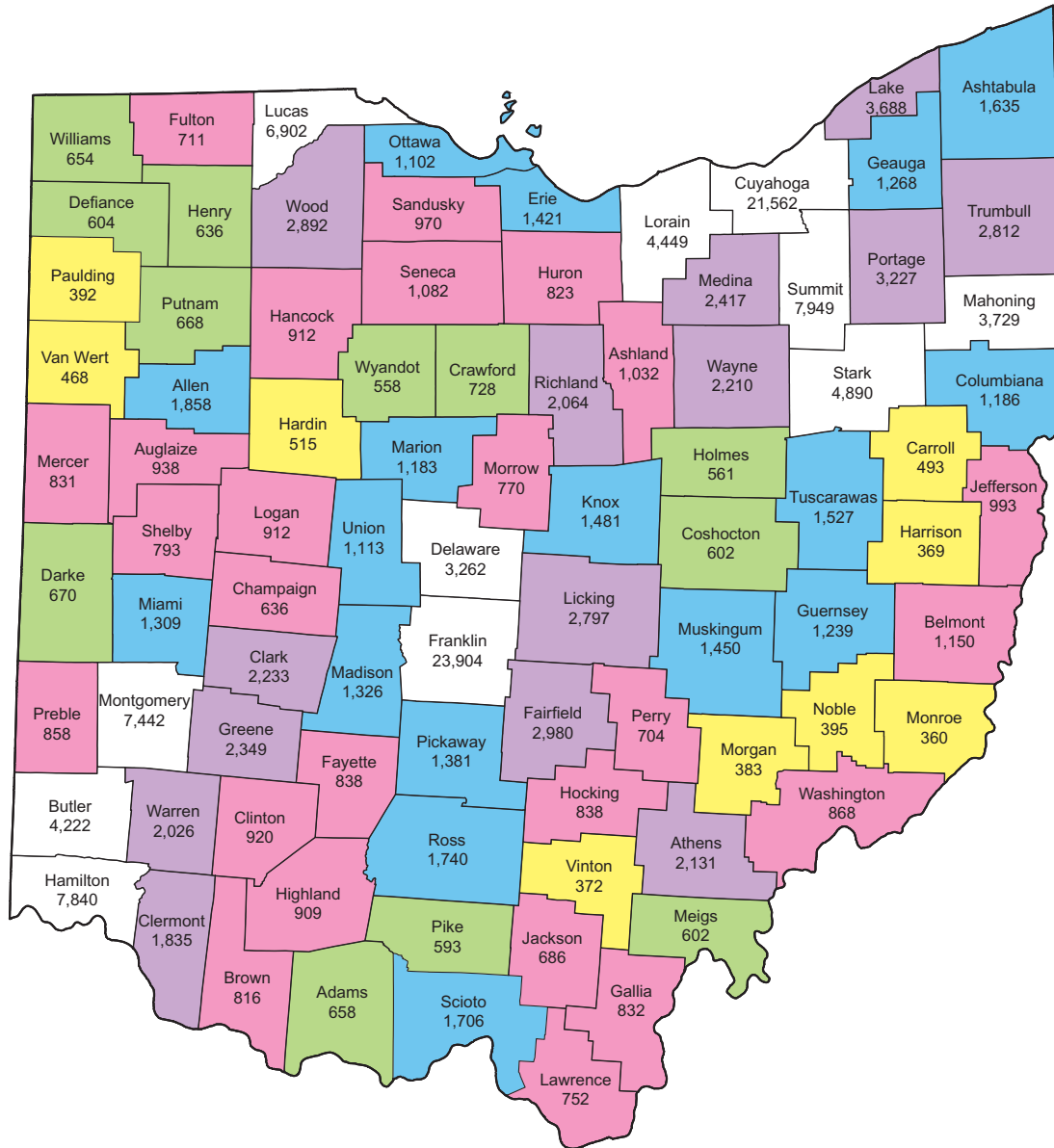


Investment fees paid in 2017 for in-state custodian and to Ohio-qualified investment managers—\$8.8 million

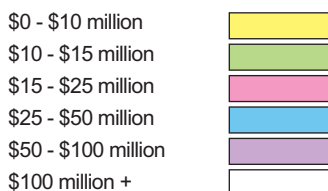


Assets under management by in-state custodian \$99.6 billion (as of December 31, 2017)

## 2017 Pension Benefits and Retirees by Ohio County



### Color Key



- Of the 210,868 retirees in OPERS, 188,592 or 89.4 percent, remained Ohio residents as of December 31, 2017.
- Pension benefit payments of almost \$5.3 billion were distributed throughout Ohio to retirees and their beneficiaries, representing the OPERS impact on the state's economy.

## Facing the future—retirement basics



OPERS provides financial security for Ohio public employees in retirement. When considering the decision to retire, members are encouraged to gather and understand all the numbers that will affect their retirement years. Information is available in a wide variety of formats; consider this:

- Each active member receives personalized account information via an annual account statement to help ensure each understands the status of benefits earned.
- Each year, hundreds of educational seminars are conducted throughout the state of Ohio—in 2017, more than 420 such seminars were held.
- The OPERS website ([opers.org](http://opers.org)) is open 24/7 to help members and the OPERS Member Services Call Center is open during regular business hours. In 2017, the call center fielded more than 350,000 calls and the website attracted more than 1,150,000 individual hits.

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## Moving forward requires a defined starting point



You just can't get there from here—a common phrase when discussing a major undertaking. Of course, almost any destination can be attained when with a clear starting point, detailed instructions, and a defined goal—all broken down into small steps throughout the journey.

When starting in a public position, few are thinking about retirement. Yet, the OPERS professionals provide the many small attainable steps, clearly explained, for all members at all stages of their careers that will take each member closer to his or her retirement destination—a destination that becomes clearer and clearer with each year in employment and each step. We know how to gather the information necessary and light the way so that all members can manage all the steps necessary to attain a secure retirement.

## Gather all the facts to understand retirement needs

Knowing income needs is an important element for all members in determining when they can enter this new and exciting phase of life. Everyone's situation is unique. In 2017, OPERS launched an initiative to help members better understand their retirement planning finances. OPERS' new initiative is working toward educating members in the following general areas:

### Establish and understand a budget

Know where money goes—monthly and seasonally. It's only when how much money will be needed in retirement is understood (for each individual's lifestyle) that retirement planning can be a reality.

### Build up a personal savings account

Unexpected expenses happen to everyone—from needing a new furnace to a refrigerator on the blink—a savings account provides security by ensuring that an unforeseen situation can be handled.

### Eliminate credit card debt

Credit cards are great but manage carefully. Make credit card decisions wisely; choose the best.

Remember simple basics:

- Pay credit cards off every month
- Never exceed 25 percent of credit line (may affect credit score)
- Do not use a credit card to make ends meet—adjust the budget elsewhere

### Look for ways to boost or save income while working

- Choose healthy lifestyles—take a walk rather than drive for a quick errand such as mailing a letter or picking up a few items at the grocery store.
- Eliminate unnecessary expenses—remember public libraries provide books, videos, music, magazines and newspapers for free.
- The state of Ohio sponsors a deferred compensation program. The program is available to all OPERS members and permits them to defer a portion of their salary until future years. The Ohio Deferred Compensation Plan is another great avenue of saving toward a secure retirement.

For more information on retirement basics, financial education, and the Ohio Deferred Compensation program, visit the OPERS website: [opers.org](http://opers.org).

**OPERS fact:** Ohio maintains dozens of lighthouses along its many waterways—more than historic and decorative; many lighthouses still provide safety for mariners traveling at night. Many lighthouses are the property of the Ohio Department of Natural Resources (ODNR). As a state department, ODNR employees are OPERS members. Just one of the many ways OPERS members help keep Ohio moving.



# OPERS Board of Trustees and Leadership

OPERS management and staff work closely with the members of the OPERS Board of Trustees—the governing body of OPERS that is ultimately responsible for the

administration and management of all OPERS activities. This dedicated Board meets monthly and receives no compensation, but is reimbursed for necessary expenses.



**Back row (left to right):**

Seth Metcalf, Treasurer-Appointed Investment Expert; Christopher Mabe, Representative for State Employees and Board Vice Chair; Randy Desposito, Representative for Non-teaching College/ University Employees; Robert Blair, Director, Department of Administrative Services (Statutory Member)

**Middle row (left to right):**

James Tilling, General Assembly Appointed Investment Expert; Steve Toth, Representative for Retirees; Cinthia Sledz, Representative for Miscellaneous Employees

**Front row (left to right):**

Ken Thomas, Representative for Municipal Employees and Board Chair; Julie Albers, Representative for County Employees; Herman Mollmann, Governor-Appointed Investment Expert



**Seated (L-R):** Greg Slone, Interim Director—Internal Audit; Eric Harrell, General Counsel; Allen Foster, Director—Benefits

**Standing (L-R):** Jennifer Starr, Director—Finance; Gordon Gatien, Director—External Relations; Richard Shafer, Chief Investment Officer; Tonya Brown, Director—Member Operations; Chuck Quinlan, Director—Information Technology; Karen Carraher, Executive Director

**Not shown in photo:** Mindy Bailey, Interim Director—Human Resources

This *Popular Annual Financial Report* is derived from information contained in the *OPERS Comprehensive Annual Financial Report (CAFR)* for the year ended December 31, 2017, but does not contain detailed financial information by plan, nor is it presented in a manner to conform to Generally Accepted Accounting Principles (GAAP). For a complete set of financial definitions included in this summary report, please refer to the *OPERS CAFR*, which is prepared in conformity with GAAP and may be obtained by visiting our website, [opers.org](http://opers.org), or by contacting OPERS to request a copy.

Additionally, those interested in learning more about the OPERS health care program are invited to obtain a copy of the *OPERS 2017 Health Care Report*. That report is also available at [opers.org](http://opers.org) as of June 30, 2018.



**By Phone:**

Member Services Center  
1-800-222-PERS (7377)  
8 AM–4:30 PM Monday–Friday



**By Mail:**

Ohio Public Employees Retirement System  
277 E. Town St.  
Columbus, OH 43215



**Online:**

[opers.org](http://opers.org)



**Online Accounts:**

<https://member.opers.org>



**Facebook:**

[facebook.com/ohiopers](https://facebook.com/ohiopers)



**Twitter:**

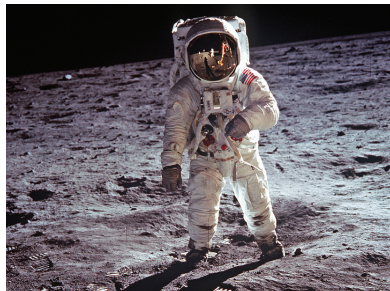
[twitter.com/ohiopers](https://twitter.com/ohiopers)

## Mission

To provide secure retirement benefits for our members.

## Vision

To be your trusted retirement partner delivering responsive high-quality service.



277 East Town Street, Columbus, Ohio 43215-4642  
1-800-222-PERS (7377) • [www.opers.org](http://www.opers.org)