OPERSource
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Your OPERS source for legislative facts

OPERS' ECONOMIC IMPACT ON OHIO

OPERS continues to be "good for Ohio" in multiple ways economically. To begin, in 2010 OPERS paid $5.5 billion in pension benefits and health care coverage to 179,565 retired Ohioans and beneficiaries. Nearly 90 percent of those retirees live in Ohio. Those regular monthly payments continue to be sent out and spent purchasing goods and services in local communities regardless of Ohio's unemployment rate or job market outlook.

In addition OPERS has $9.62 billion in assets under management with Ohio-qualified investment managers. We also utilize an in-state domestic custodian for $60.4 billion of assets. We paid $20.4 million in fees to those investment managers and custodian.

The 2010 market value of publicly traded equity securities of Ohio companies owned by OPERS is $825 million. Top holdings include companies such as Proctor and Gamble, AEP, Cardinal Health, and Goodyear, among many others.

Top 10 Ohio Holdings

(for the year ended Dec. 31, 2010)

Largest Firms Headquartered in Ohio	Fair Value
Proctor & Gamble Co.	$297,447,060
Eaton Corp.	29,681,524
Parker Hannifin Corp.	27,012,073
American Electric Power Co.	23,028,135
Kroger Co.	19,912,832
Cardinal Health Inc.	18,537,098
Progressive Corp.	18,081,779
Macy's Inc.	17,251,969
FirstEnergy Corp.	15,322,541
Goodyear Tire & Rubber	3,904,018
Total of top 10 Ohio holdings	**$470,179,029**

OPERS' Ohio Economic Impact

OPERS' 2010 pension and health care payments to Ohio participants (90% live in Ohio)	$5.5 Billion
Assets under management with Ohio-qualified investment managers	$9.62 Billion
Fees paid to in-state custodian and to Ohio-qualified investment managers	$20.4 Million
Market value of publicly traded equity securities of Ohio companies owned by OPERS	$825 Million
Utilizes in-state domestic custodian	$60.4 Billion

The Ohio-Midwest Fund is a fund-of-funds that invests in high quality, private equity funds that focus, in whole or in part, on making investments in the Ohio and Midwest regions. OPERS created this regional investment program in 2005 to generate superior returns for its members and encourage business growth within Ohio and the surrounding region.

The Ohio-Midwest Fund has impacted more than 2,800 jobs and generated more than $160 million of investments in Ohio companies. The Fund totals $102 million with $72 million of that money currently invested in 12 private equity funds, all of which have ties to Ohio and the Midwest region.

So, what does this mean? OPERS remains a powerful economic engine for Ohio through direct benefit payments to Ohio public employee retirees, as a customer to Ohio's financial industry, and as a major investor in Ohio's private industry. We provide resources that we strongly encourage the General Assembly to promote and strengthen through its continued oversight and recommended improvements to Ohio's public pension funds.

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HOW THE INVESTMENT RETURN ASSUMPTION IS DEVELOPED

How Does OPERS Determine What is an Appropriate Return on Investment?

Investment return assumptions used by public pension plans have been receiving much attention over the past year. In this edition of the OPERSource, we explain the role this assumption plays in pension finance, how it is developed, and compare it with the actual experience of public pension plans.

How the investment return assumption is developed

The investment return assumption is established through a process in which the Board of Trustees considers factors such as economic and financial criteria, the pension plan's liabilities, and the plan's asset allocation, which reflects the plan's capital market assumptions and its risk tolerance.

Public pension plans employ a process for setting and reviewing their actuarial assumptions, including the expected rate of investment return. OPERS is required by state law to review these assumptions at least every five years. Actuaries and investment experts typically take a leading role in providing recommendations to the Board on the investment return assumption.

After the downturn in the financial markets in 2008, the OPERS Board engaged an investment consultant to undertake an Asset/Liability study for both the Defined Benefit (DB) trust fund and the Health Care (HC) trust fund. The process for establishing and reviewing the investment return assumption involved consideration of various factors, including financial, economic, and market data.

After months of work, the Board approved asset allocation targets with an expected investment return of 8.4 percent for the DB Plan and an expected investment return of 7.7 percent for the HC Plan over the long term (approximately 10 years) with appropriate balanced risk. **OPERS expects to achieve an investment return of 8 percent for the Defined Benefit Fund and an expected investment return of 6.5 percent for the Health Care Fund.** Based on the approved investment portfolios described above this is a conservative model that is achievable over the long term.

Following the 2009 Asset/Liability study for the DB and HC Funds, investment returns improved dramatically from April 2009 through March 2011. Given the realized returns over those two years, OPERS estimates that it must average only 4.33 percent (DB fund) and 2.4 percent (HC fund) over the next eight years to achieve the expected 10-year return for each plan. OPERS Chief Investment Officer, John Lane, remains confident that the investment return goals are reasonable and achievable.

	10 year *Expected* Return (Annualized)	**2 year** *Realized* Return (Annualized)	**8 year** *Required* Return (Annualized)
DEFINED BENEFIT	**8.00%**	**24.00%**	**4.33%**
HEALTH CARE	**6.50%**	**24.61%**	**2.40%**

Why the investment return assumption is important

Public pension actuaries calculate a plan's funding level and costs using assumptions about many future events that have a direct affect on the pension plan, such as the age when participants will retire, their rate of salary growth, how long they'll live after retirement, and how much the plan's investments will earn. Over time, earnings from investments account for a majority of revenues for most public pension plans, in our case, 70 percent or more.

Historical results validate assumptions

Empirical results show that since 1980, a period that has included three economic recessions, OPERS has exceeded the 8 percent assumed rate. **OPERS rolling 30-year mark is 8.98 percent.** Of course, past performance is not an indicator of future results. However, considering that public funds operate over very long timeframes, actuarial assumptions with a long-term focus should also be established and evaluated on similar timeframes. Viewed in this context, OPERS' investment return assumptions have proven to be conservative. In fact, the Ohio Retirement Study Council's independent investment consultant recently described OPERS' assumed rate of return in positive terms, stating, "bottom line, I think 8 percent is reasonable."

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OPERS

The Ohio Public Employees Retirement System (OPERS) is the largest public pension fund in Ohio and the 12th largest public pension fund in the U.S.* In operation since 1935, OPERS serves nearly 954,000 members, including more than 171,500 retirees and beneficiaries.
*Source: *Pensions & Investments*