



2011 YEAR IN REVIEW

2011 was a year full of change and opportunity – from JobsOhio 1 to the State Budget to the selection of the independent actuary and policy consultant for the ORSC pension plan design review. We enjoyed meeting with and briefing new and returning members of the General Assembly on issues facing OPERS. We worked with many legislators, their aides and constituents to resolve issues involving OPERS benefits. We continued to advocate for movement of legislation reflecting our Board-approved plan design changes to maintain the financial health of our system and continue access to health care coverage for our retirees. We are grateful for the support we have received from you at a time when a number of other significant issues were demanding your attention.

We also appreciated the opportunity during the state budget debate to discuss the proposed two percent shift in the contribution rates from public employers to employees. We supported the legislature's decision to heed concerns raised by us and several of the state's retirement systems and delay the contribution rate discussion until it could be addressed in the broader context of pension redesign.

Finally, OPERS welcomed a new Executive Director, Karen Carraher, who previously served as our Director of Finance. The transition to Ms. Carraher's leadership has been seamless, as she hit the ground running, managing the nation's 11th largest public retirement system with a team of professionals in place. In November, Director Carraher presented to our Board of Trustees the results of OPERS' five-year review of demographic and economic assumptions. And, we are proud to inform you that, as of the December, OPERS remains within the statutorily-required 30-year amortization period.

Some important facts to reflect on as we look forward to 2012:

- As of September 30, 2011, OPERS had about \$70 billion in net assets held in trust for pension and health-care benefits.
- At the end of last year, we had 974,733 total members, including active public employees, inactive members, and retirees.
- Over the past 30 years our annual investment returns have outpaced the 8% rate of return required to meet our funding obligations. Over the past three decades, the OPERS portfolio has returned an average gain of 8.99%
- Our investments are well-diversified, which are reflected in a comprehensive investment plan of domestic equities, international equities and global bonds, and with lesser amounts in real estate, private equities and cash/short-term investments.
- Retiree pensions are 100% funded at the time the member retires...For those retiring in 2010, 80% of the lifetime pension was funded by employee payroll deductions and investment income.
- For every dollar received from Ohio's taxpayers in 2010, \$3.07 was returned to the state's economy through pension and health care payments made to retirees who remain in Ohio, spending those dollars on groceries, home expenses and buying goods and services in their local communities. In total, OPERS will have contributed more than \$5.5 billion to Ohio's economy in 2011 alone.
- OPERS launched a social media communication plan that helped our members and interested parties connect to us through Facebook, our PERSpective blog and Twitter. Thousands of people have received information through these new communication tools.

OPERS Wishes for the New Year

We will continue our outreach efforts to you and are hopeful for the necessary passage of legislation for the Board-approved plan design changes. We are looking forward to working with PTA/KMS, the actuarial consultants recently selected by the Ohio Retirement Study Council to review our recommendations and other legislative proposals submitted by all five public pension funds. We are optimistic that the proposed timelines for their review are realistic and will allow time for legislative action as soon as possible.

At OPERS, we are working to provide a secure retirement to our members who have dedicated their careers to public service – not just the public employees of yesterday and today, but those of tomorrow as well. Our commitment to maximizing the longevity of the funds that have been entrusted to us has existed for over 76 years. We will continue to work closely with the General Assembly and your staff to respond to constituent needs, answer questions and maintain the excellent standard of accountability and transparency in that you have counted on from OPERS.

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OPERS Remains Transparent and Pleased to Work with Independent Consultant

As we said in our August OPERSource, OPERS does not shy away from the heightened scrutiny paid to public pensions; in fact we consider ourselves a model of transparency. Our system is overseen by a Board of Trustees bound by a statutory fiduciary duty and is subject to both the public records and open meetings laws. We post our Comprehensive Annual Financial Reports (CAFR) on our public website as well as our annual investment plans. We also submit regular actuarial reports and audits to the Ohio Retirement Study Council (ORSC) for review.

Any changes to our pension benefit plan must be reviewed by the ORSC and approved by the Ohio General Assembly, and ultimately, the Governor of Ohio.

Public Retirement Systems Ready to Make Needed Changes

Because we are no stranger to public scrutiny, we look forward to working with PTA/KMS, an independent actuary and policy consulting firm recently selected by the ORSC to review the alternative plan design (APD) proposal submitted by the boards of the five Ohio Retirement Systems. We believe that they will conclude, as our board did in 2009, that OPERS' APD proposal is both reasonable and far-reaching, and represents the best plan for the needs of our members and the long-term solvency of our fund.

Pension Contributions are not Large Cost Drivers

An important fact to remember is that pensions are not the driving force behind state and local government budget shortfalls. Recently the Center on Budget and Policy Priorities determined that pension contributions average just 3.8 percent of state and local budgets. And in fact, in Ohio the majority of pension benefits are funded by employee contributions and investment returns – more than 70% - not tax dollars.

Global Economic Crisis has Hurt Everybody – Retirement Security is Necessary

The reality is that the vast majority of public retirement systems were in a strong financial position before the economic crisis in 2008. Even after the events of 2008, many retirement systems remain well-funded. For example, even though OPERS

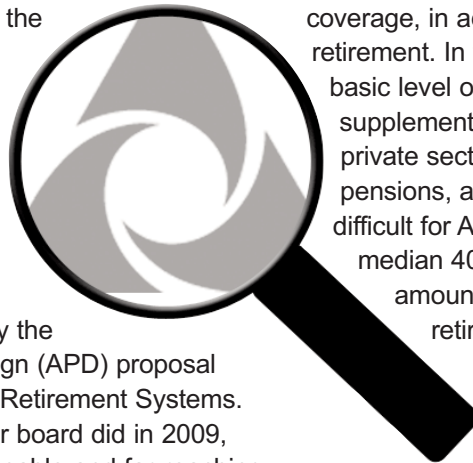
suffered investments losses approaching 27% in 2008, we are still over 76% funded and continue to comply with the statutory 30-year amortization requirement. This is due, in large part, to the fact that OPERS is a long-term institutional investor with a professional investment staff skilled at participating in the global financial marketplace.

OPERS supports providing members with choices when selecting a retirement plan, but also strongly believes in the importance of retirement security. Individuals need not only personal savings, but also a guaranteed benefit, health care coverage, in addition to other investments to ensure a secure retirement. In the private sector, Social Security provides a basic level of income for retirees that should also be supplemented by other retirement income. Unfortunately, the private sector has trended away from defined benefit pensions, and the volatility of the stock market makes it difficult for Americans to protect their nest eggs. Currently, the median 401(k) account balance is nowhere near the amount needed for Americans to be self-sufficient in retirement.

For Ohio's public employees, who are not eligible for Social Security, OPERS is their source for retirement security. A defined contribution plan or a hybrid plan, both offered by OPERS since 2003, can be excellent options for some public workers. But they should not be the only options for retirement.

Changes are Needed Not Only to Protect Pensions, but to Preserve Retiree Health Care

OPERS welcomes meaningful dialogue about its proposed plan design changes and potential alternatives to ensure retirement security for its members. Approval of this plan will not only strengthen the pension trust fund, but it will also allow OPERS to continue to provide health care coverage to our retirees. While we are currently looking at changes to retiree health coverage in response to increasing costs –decisions by our Board on coverage reductions would need to be even more drastic without legislative action to address our pension benefit structure.



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The Ohio Public Employees Retirement System (OPERS) is the largest public pension fund in Ohio and the 11th largest public pension fund in the U.S. In operation since 1935, OPERS serves nearly 954,000 members, including more than 176,000 retirees and beneficiaries.