OPERS *Works*

Ohio's Largest Retirement System Rebuilds a Strong State Economy with Jobs, Investments and Secure Retirement Benefits

OPERS is good for Ohio.

OPERS

Ohio Public Employees Retirement System

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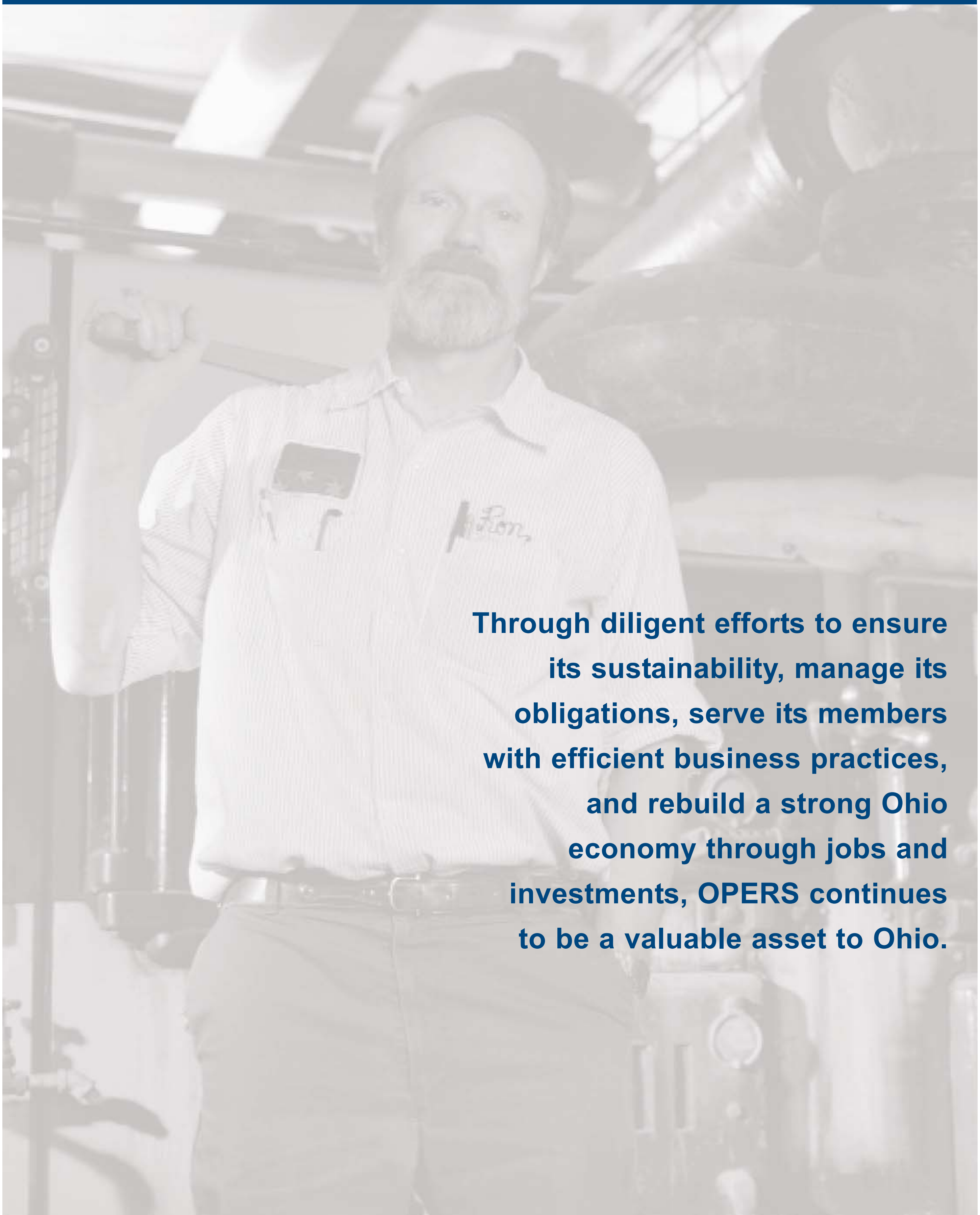

Through diligent efforts to ensure its sustainability, manage its obligations, serve its members with efficient business practices, and rebuild a strong Ohio economy through jobs and investments, OPERS continues to be a valuable asset to Ohio.

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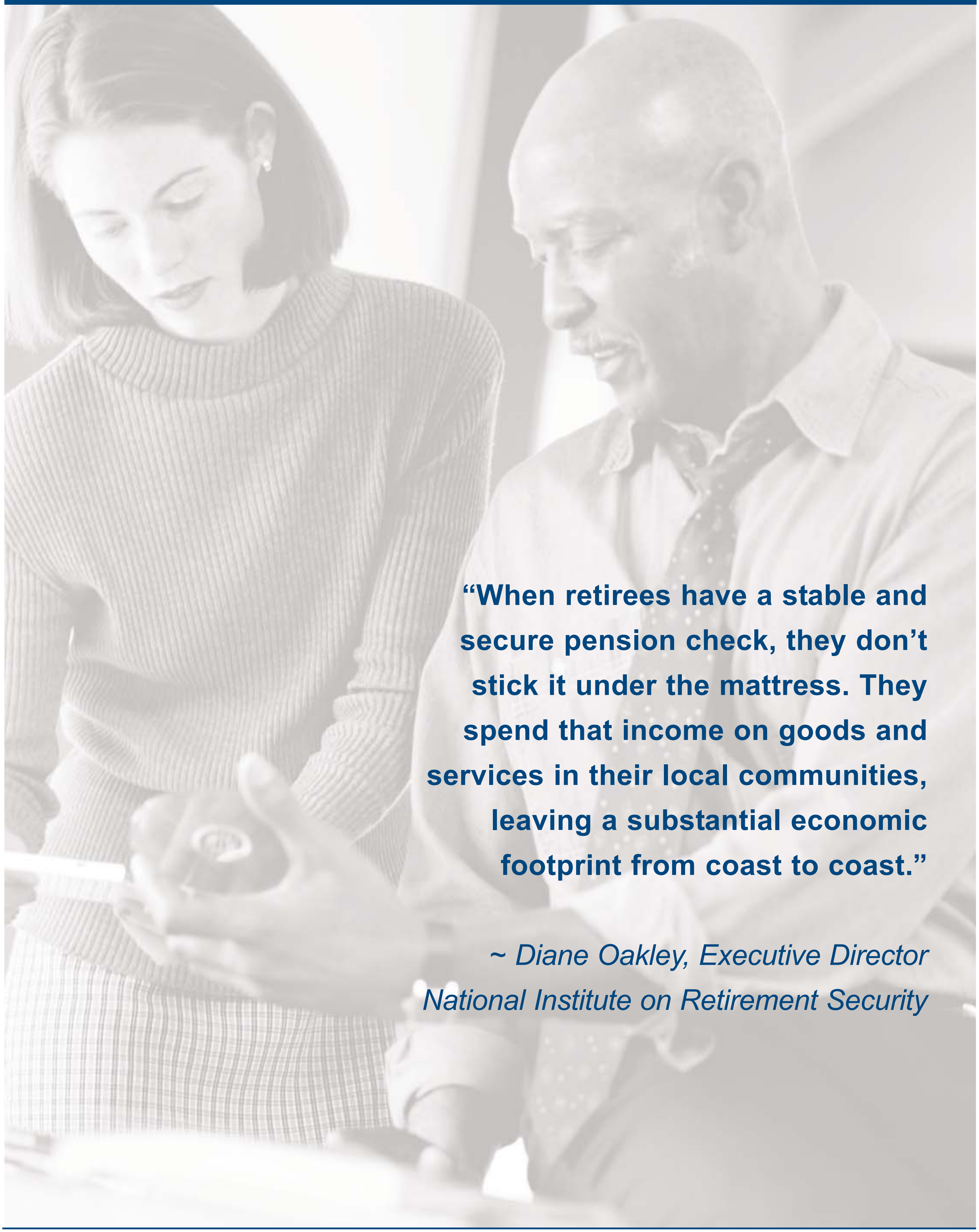


"When retirees have a stable and secure pension check, they don't stick it under the mattress. They spend that income on goods and services in their local communities, leaving a substantial economic footprint from coast to coast."

~ Diane Oakley, Executive Director
National Institute on Retirement Security

Ohio's Largest Retirement System Rebuilds a Strong State Economy with Jobs, Investments and Secure Retirement Benefits

Although the American economy is recovering from one of the most significant financial challenges in our nation's history, unemployment remains high, job creation is meager and consumer spending habits are slow to rebound. Federal resources are limited, so states are challenged to find innovative, entrepreneurial ways to grow their local economies, create jobs and help businesses prosper and workforces succeed. In Ohio, a reform agenda and proposals to streamline operations to improve productivity and competitiveness have been presented as ways to help change the direction of a state that its governor says is "under siege." [1]

To help people cope with the recent recession and cover their basic needs, the federal government has been providing benefit payments, including unemployment benefits, food stamps, Social Security and disability. Hit hard by the economic downturn, Ohio has been especially dependent on these federal assistance programs, which help to generate money for the local economy. However, these benefits are scheduled to expire at year-end.[2] Deep cuts in federal funding for Medicaid are also projected, as part of the budget adopted by the U.S. House for the federal fiscal year beginning in October.

OPERS is the 12th largest public retirement system in the nation and the largest in Ohio, with a 75-year history of proven success in business efficiency and investment know-how.

Lagging job growth and lack of wage gains are preventing people from spending enough to stimulate the economy, which could cause financial conditions to weaken. Moreover, those initial Medicaid cuts are projected to cost $527 million in federal aid, more than 11,000 jobs and over $1 billion in business activity in Ohio, a Families USA study titled *Jobs at Risk: Federal Medicaid Cuts Would Harm State Economies* found.[3] These cuts threaten the state's ability to generate business activity, jobs and consumer spending alike. No wonder the state's financial health is being monitored so carefully.

While reforming public pension obligations has been presented as a way to curb state spending, the benefits that pension funds infuse into the state's economy deserve a closer look. As the 12th largest public retirement system in the nation and the largest in Ohio, with a 75-year history of proven success in business efficiency and investment know-how, the Ohio Public Employees Retirement System (OPERS) is rebuilding a strong Ohio economy with jobs, investments and secure retirement benefits.

By sustaining nearly one million Ohioans and their families, OPERS supports the state's economy in important ways. Pension benefits earned by OPERS members who live in Ohio allow them to spend money on in-state goods and services. Investments, employee contributions and other sources of revenue generate jobs and other economic activity in Ohio. By being a customer to Ohio's financial industry and investing heavily in Ohio's private industry, OPERS is a powerful economic engine for Ohio.

The Defined Benefit Plan Helps Ohioans Achieve Retirement Security

Selecting a retirement plan is a personal decision based on individual needs, such as when a worker expects to begin receiving retirement payments. In addition to offering a traditional defined benefit plan, OPERS provides two other options to members seeking portability and access to competitive, low-fee investment options: a defined contribution (member-directed) plan and a hybrid (combined) pension plan. All three OPERS retirement plans can provide retirees with lifetime payments based on a formula that includes length of career and salary history. While members can choose which plan works best for them, the value of the defined benefit plan provides a dependable level of retirement security that 401(k) plans and other defined contribution plans cannot match.

While some question the sustainability of the traditional pension, many industry observers and financial experts say the defined benefit plan still offers the best in retirement security. Certain core features of public retirement benefits are proven ways to promote retirement security. These include mandatory participation, pooled assets invested in a diversified mix of assets by professionals using a long-term investment horizon, shared costs between employees and employers, and a retirement benefit that cannot be outlived.

In comparing defined benefit plans to defined contribution plans, research has shown that defined benefit plans offer the following advantages:

- Because members receive a lifetime benefit, they are protected from the possibility of depleting their savings and having to rely on taxpayer-funded public assistance programs like Medicaid or food stamps to keep them from experiencing poverty.
- Defined benefit pensions continue to enjoy superior investment returns. Over the past 15 years, about 68 percent of receipts have come from investment earnings, another 11 percent came from employee contributions, and about 21 percent originated from employer contributions. Group pension plans weather financial storms better than other investors.
- A long-term horizon and a diversified investment strategy help a defined benefit plan withstand short-term market volatility.
- A traditional pension plan differs from most individually managed retirement accounts because seasoned investment professionals manage the investment of both member and employer contributions. This helps to ensure that sufficient funds will be available for retirement payments.
- Defined benefit plans are efficient and economical. The National Institute on Retirement Security found that a group pension can achieve the same retirement benefit at about half the cost of a defined contribution account. DB plans also charge one percent less in annual investment fees versus a DC plan.
- Defined benefit pension plans work for employers who are seeking to recruit and retain talent to public service. For positions like public school teachers, firefighters and police officers, pension plans encourage loyalty.

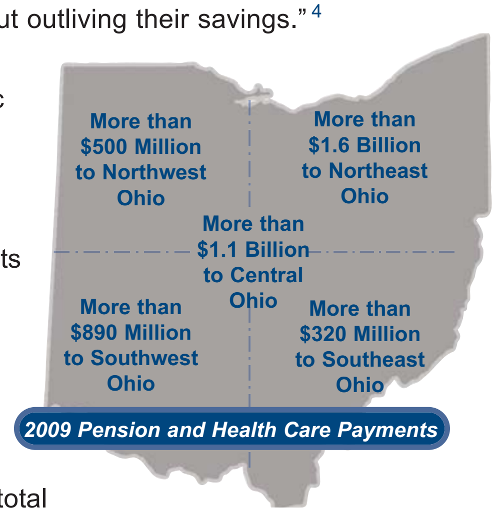
Defined Benefit Plans Have a Consistently Positive Economic Impact on Local Communities

Since a defined benefit plan is economically efficient, pensions offer benefits to taxpayers because they can significantly boost a state's economy.

Retirement checks are a powerful stimulus to new business economy, generation of new jobs, and tax receipts. They are both a financial necessity and a vital source of economic strength for citizens and communities alike.

"When retirees have a stable and secure pension check, they don't stick it under the mattress," Diane Oakley, executive director of the National Institute on Retirement Security (NIRS), said when reflecting on July 12, 2011 testimony in a hearing on "The Power of Pensions: Building a Strong Middle Class and Strong Economy" before the United States Senate Committee on Health, Education, Labor and Pensions. "They spend that income on goods and services in their local communities, leaving a substantial economic footprint from coast to coast. That regular spending is critically important today as the economy struggles to recover. In contrast, retirees without a pension may be fearful to spend given the impact of the market crash on individual retirement accounts or because they worry about outliving their savings." [4]

In 2009, NIRS analyzed the vital role that public pensions play in a local economy. Using U.S. Census Bureau data on state and local government pension plans in Ohio, NIRS assessed the overall economic impact of benefits paid by these plans to retirees. It found that:



- State and local pension funds paid a total of $8.41 billion in benefits to Ohio residents in 2006. Retirees' expenditures from these benefits supported a total of $11.2 billion in total economic output in the state, and $4.7 billion in value added in the state.[5]

- Each dollar paid out in pension benefits to Ohio residents who have earned them supported $1.33 in total economic activity in Ohio. This "multiplier" incorporates the direct, indirect and induced impacts of retiree spending as it spreads throughout the state's economy. [6]

- Each dollar in taxpayer contributions to Ohio's state and local pension plans supports $5.73 in total output in the state.[7]

- Retiree expenditures resulting from the state and local pension plan benefits that they receive supported 79,410 jobs in the state. The total income to state residents supported by pension expenditures was $4.3 billion.[8]

Defined Benefit Plans Have a Consistently Positive Economic Impact on Local Communities

(continued)

OPERS' summary annual financial reports detail how the plan's pension benefits support the local economy.

- The average OPERS retiree has earned an average annual pension benefit of $22,078, with a projected monthly pension benefit of $1,840. That average retiree entered the plan at about 35 years old, was just over 57 years old at retirement, and earned 22 years of average service credit at retirement.[9] The total number of retired OPERS traditional plan members is 179,513; the average age of an OPERS retiree is 69 years.[10]

- More than 90 percent of OPERS retirees and beneficiaries remain in Ohio. In 2010, $3.4 billion in pension benefits were distributed throughout Ohio.[11]

- For every dollar received from employers in 2010, $3.07 was returned to the Ohio economy through pension and health care payments made to retirees. These Ohio residents spend those dollars on groceries, home expenses and purchases of goods and services in local communities.

OPERS Members Work for Ohio

Throughout the state, you'll find people who are helping their fellow Ohioans through public-service jobs. Whatever career path they have chosen, 356,734 active OPERS members provide important support services that improve the lives of every Ohio resident. Through their work for nearly 3,700 employers in the state, they enhance Ohioans' health, safety, commerce opportunities, education and recreational activities. For example, transportation workers keep the state's roads, airports and railways in excellent condition. Health care workers provide disease control, infant wellness care, school nurse services, and life-saving research at Ohio's universities. Most 911 dispatchers are public employees, providing assistance when emergencies strike.

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Ohio's public employers include townships; city governments; state government; state-supported universities; and the judicial/court systems. Some lesser-known public employers include the state's park districts; water and sewer districts; emergency medical services, fire districts, and ambulance districts; transit authorities; port and airport authorities; solid waste authorities; and conservancy districts.

The average active OPERS member is 43 years old, with an average annual wage of $35,848.[12]

OPERS Invests in Ohio

Pension funds are the largest source for funding of venture, private equity and real estate funds. By providing equity capital to the commercial real estate industry and other initiatives, pension funds contribute to a larger economy and more jobs through their investments.

Ohio-qualified investment managers oversee $9.62 billion in assets for OPERS. An Ohio-based company, Fifth Third Bancorp, serves as OPERS' domestic custodian, overseeing $60.4 billion of assets. As of May 2011, OPERS paid $20.4 million in fees to those investment managers and custodian.

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

Since 2006, the Ohio Mid-West Fund has invested in high quality, private equity funds that focus primarily on making investments in Ohio and the Midwest region. Created to generate superior returns for members and to encourage business growth within Ohio and the surrounding region, this regional investment program impacts more than 2,800 jobs and generates 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 that have Ohio and Midwestern ties.

During the period from April 1, 2010 to March 31, 2011, OPERS made the following other new commitments that OPERS made to Ohio in-state programs and investments:

Ohio Real Estate Commercial Debt Program	$125 million
Real estate purchases from Ohio banks	$125 million
Allocation to minority, women and Ohio-owned emerging investment management firms	$250 to $500 million
Allocation to high yield bond manager (firm located in Ohio)	$350 million
Total new in-state allocations in the last 12 months	$950 million to $1.2 billion

OPERS Is A "Solid Performer" in Managing Its Retirement Obligations

Unfunded pension liabilities can emerge, especially in the wake of the economic challenges that continue to face our nation. Some plans might have funding gaps that are the result of recent market conditions; others result from a lack of funding discipline. Today, even states that have done well in keeping up with their pension contributions in the past are facing growing contribution requirements as a result of the recent economic downturn.

Unfunded pension liabilities need to be filled. This year, an unprecedented number of states and cities have redesigned their pension plans and raised employee contribution rates in order to reduce their unfunded liabilities by billions of dollars. Legislatures across the country are carefully examining benefit levels and financing structures to ensure that pension plans will be sustainable. According to the National Conference on State Legislatures, some states are opting to increase employee contributions to their pension funds, while others have changed the way benefits are calculated. Ten states have increased the age and service requirements to receive a pension, while seven have implemented provisions to limit spiking abuses. Changes to post-retirement increases and increases to the time period for vesting are other strategies in play.

According to *The Trillion Dollar Gap: Underfunded State Retirement Systems and the Roads to Reform* (The Pew Center on the States, 2010), Ohio is a national leader in managing its long-term liabilities for both pensions and retiree health care and other benefits. Funding 87 percent of its total pension bill, Ohio has nearly met its actuarially required contribution levels, averaging 95 percent of its total annual bill during the past five years.

The report also indicates that Ohio has also succeeded in keeping its pension contributions consistent from year to year by setting its maximum contribution in statute at 14 percent of payroll, with any extra money being used to fund retiree health care and other non-pension benefits. As a result, Ohio has managed to set aside $16.7 billion, more than 38 percent of its nearly $43.8 billion liability, to cover those long-term costs. As a result, the report labeled Ohio as a "solid performer" in how well it is managing its retirement obligations both for pensions, as well as for health care and other benefits.

OPERS Is Ensuring Its Sustainability with Proposed Plan Design Changes

OPERS has a long history of proactively addressing issues as early as possible, implementing responsible funding and conservative fiscal practices, communicating with members about those issues, and involving members in their retirement planning. Therefore, OPERS carefully considered and crafted its proposed plan design changes, with an eye to finding the right balance and introducing incremental changes over time. The recommended changes will enhance the stability of our retirement system and will help keep OPERS within the required 30-year window to pay off unfunded liabilities. By making small alterations to a number of benefit plan elements, we can ensure the system's long-term fiscal strength.

Proposed plan design changes will affect age and service eligibility, the benefit formula, cost of living adjustments, and final average salary. Other proposed changes introduced by the OPERS board include eliminating subsidization when purchasing service credit, increasing the minimum earnable salary to $1,000 per month, establishing a statute of limitations on membership determinations and granting the Board authority to establish a mitigating rate. Disability program changes and other corrective measures are being introduced.

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OPERS Board of Trustees

The 11-member OPERS Board of Trustees is responsible for the administration and management of OPERS. Seven of the 11 members are elected by the groups that they represent (i.e., college and university non-teaching employees, state, county, municipal, and miscellaneous employees, and retirees); the Director of the Department of Administrative Services for the State of Ohio is a statutory member, and three members are investment experts appointed by the Governor, the Treasurer of State, and jointly by the Speaker of the Ohio House of Representatives and the President of the Ohio Senate.

For a current listing of OPERS Board members, please visit www.opers.org

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