

2019

**Popular Annual Financial Report**  
*for the year ended* **December 31, 2019**



Ohio Public Employees Retirement System

# Popular Annual Financial Report

(for the year ended December 31, 2019)

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## Responsible Financial Reporting

This *Popular Annual Financial Report* is derived from information contained in the *OPERS 2019 Comprehensive Annual Financial Report* (CAFR), 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 2019 Health Care Report* available at [opers.org](http://opers.org).



**2018 Award for Outstanding Achievement**—For the ninth consecutive year, OPERS has received the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting for its 2018 popular annual financial report. This award is a prestigious national award recognizing conformance with the highest standards of creativity, presentation, understandability, and reader appeal for preparation of governmental popular reports. OPERS has received this award for each year we have produced a popular annual financial report.

## Board of Trustees



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 typically meets monthly and receives no compensation, but is reimbursed for necessary business expenses.

***Stairs, left to right:***

James Tilling, General Assembly Appointed Investment Expert; Matthew Damschroder, Director Department of Administrative Services (Statutory Member); Harold Charles Elliott, Governor-Appointed Investment Expert; Tim Steitz, Representative for Retirees; Lance Osborne, Treasurer-Appointed Investment Expert

***Bottom row, left to right:***

Julie Albers, Representative for County Employees; Chris Mabe, Representative for State Employees and Board Vice Chair; Randy Desposito, Representative for Non-Teaching College/University Employees; Cinthia Sledz, Representative for Miscellaneous Employees; Steve Toth, Representative for Retirees; Ken Thomas, Representative for Municipal Employees and Board Chair

## Leadership Team



***Leadership Team (left to right):*** Eric Harrell, General Counsel; Tonya Brown, Director—Member Operations; Jennifer Starr, Chief Financial Officer; Gordon Gatién, Director—External Relations; Allen Foster, Director—Benefits; Karen Carraher, Executive Director; Chuck Quinlan, Director—Information Technology; Paul Greff—Chief Investment Officer; Caroline Stinziano, Director—Internal Audit; Mindy Bailey, Director—Human Resources

*Images shown on this page are from the 2018 PAFR.*

# From OPERS Leadership\_\_\_\_\_

## Dear Fellow Members:

Together with all OPERS associates, it's our pleasure to present you this *2019 Popular Annual Financial Report (PAFR)*, designed to keep all stakeholders current with the actions taken and accomplishments attained through 2019.

Simply put, 2019 was a good year, delivering strong, much needed, investment returns. Since investment returns provide about 75% of the funding for pensions, it is critical that we are able to achieve our investment return assumption over the long term. Additionally, OPERS pays out more than \$525 million per month in benefits, so investment markets can impact our liquidity needs. Further explanation about the unfunded liability, the financial status of the System and the impact of volatile investment markets can be found throughout this PAFR.

As of December 31, 2019, OPERS was 79.5% funded, which is a small improvement over 2018. The improved pension funding position relates entirely to the strong investment returns of 2019. The funded ratio is a key measure of the System; it shows the assets accumulated to fund the liability for both active and retired members. By law, OPERS is obligated to pay the benefits that have commenced with retirees.

To address the unfunded liability, we must anticipate and proactively address challenges presented in years of both strong and weak returns. In 2019, a significant strategy was initiated that, once approved, will set the course for the System for the next decade. As we address challenges, we remain grounded by five overarching plan goals—designed to help us evolve. Specifically, the goals are:

- Provide a stable pension for all OPERS retirees
- Continue to provide a meaningful retiree health care program
- Minimize drastic plan design changes
- Be financially positioned to react to market volatility
- Maintain intergenerational equity

Highlights of the comprehensive strategy to reduce the unfunded liability include:

- *Cost-of-Living Adjustments*—This component of the plan provides for a two-year freeze on retiree cost-of-living adjustments (COLAs) for 2022 and 2023 and modifying COLAs for new retirees (beginning in 2022). OPERS will need legislative approval to implement these changes.
- *Combined and Member-Directed Plans*—As of January 1, 2022, the Combined Plan (hybrid defined benefit/defined contribution plan) will no longer be an option for new members. Elements of the Member-Directed Plan will be modified including the vesting schedule, COLA, and retiree medical account funding. These changes will impact new members hired beginning January 1, 2022.
- *Health Care Preservation Plan 3.1*— Changes to the health care program will be effective as of 2022. Highlights of the changes include replacing the current group plan for pre-Medicare retirees with a health reimbursement account (HRA) and providing professional assistance to help members select an open-market plan. The HRA model was put in place for the Medicare retirees in 2015, with proven success (for OPERS and retirees).

This strategy is designed to reduce the cost of both the pension plans and the health care program—reductions necessary to adequately fund the pension plans and to extend the health care program. Some portions of the 2019 strategy have already received Board approval. Other components, which are designed to reduce the current pension unfunded liability of \$22.8 billion, require legislative approval.

As always, the System works responsibly and in partnership with members to address the concerns that are inevitable when change is proposed.

**In Closing**

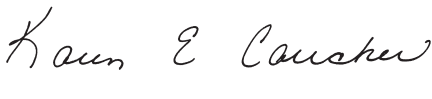
As of this report, the economic climate has drastically changed in 2020 due to the pandemic COVID-19 crisis. The investment market is extremely volatile. While it is too early to predict the impact of the 2020 investment market and other economic factors on the OPERS investment portfolio and funding position, it is important to note the rapid change from the end of 2019. Accordingly, we recommend the 2019 financial results be understood in the context of the potential impact of 2020.

This annual report is designed to provide complete and reliable information for transparent communication and to serve as a resource. We take our fiscal responsibility very seriously. We are effective and diligent managers of the assets held in trust for members of this System. All members and stakeholders are encouraged to review this popular report and the entire *2019 Comprehensive Annual Financial Report*.

This organization is led by a dedicated and diligent Board that works tirelessly with OPERS management and staff to help position us for the future. Each of us has a fiduciary responsibility to make decisions in the best interest of all one million members. As stewards of the trust funds, we must take actions and make the responsible decisions that will carry this organization forward so that we can deliver on an important component of financial retirement security for all generations in our membership.

We embrace our responsibilities of being prudent stewards and to proactively prepare for the anticipated challenges ahead. To wait for negative financial impacts would be irresponsible in the extreme. We are pleased to report that the activities of 2019 strengthened the System and positioned us for the future. We will continue to take responsible actions to position OPERS to be a strong pension system and we will do this working with members, retirees and stakeholders. 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



Jennifer Starr and Karen Carraher standing with 36 years of awards for excellence in financial reporting.

Image shown here is from 2018 PAFR.

**Administering the System**

Some variables ARE controllable. OPERS works to contain administrative costs—costs paid through investment income. By controlling costs, OPERS maximizes the amount of investable assets in the long run.

**\$57** Cost of pension administration per OPERS member

**\$74** Peer average for pensions

Per 2019 CEM annual survey

**Controlling administrative expenses**

As prudent stewards of public trusts, we work to reduce expenses without jeopardizing service:

**2019** \$76.2 million

**2018** \$76.9 million

**2017** \$77.3 million

## 2019 Financial Highlights

To achieve the required funding necessary to provide pension benefits and health care coverage, OPERS collects member and employer contributions and invests those assets. The invested assets are expected to earn a targeted return over the long term.

OPERS is a mature plan—meaning we have almost as many retirees as we have active members. As of the end of 2019, the ratio of working active members to retirees was 1.3 to 1.0 compared to a decade ago of 2.0 to 1.0. Managing a mature system demands we proactively address challenges including:

- Being more impacted by investment market downturns,
- Having to maintain a higher level of liquidity,
- Having fewer active members supporting the unfunded liabilities,
- Having less ability to make changes to active members that will yield meaningful reductions in liabilities, and
- Providing financial support to our members for health care.



**Funded Status:** By law, OPERS is obligated to pay the benefits that have commenced with retirees. As of December 31, 2019, OPERS was 79.5% funded. The funded ratio is a key measure of the System as it reflects what assets the System has accumulated to fund the commitment (liability) for both active and retired members. The 79.5% figure is a combined (active and retired member) ratio. The funded ratio for active members is 44%—also an improvement from 2018, but significantly less than the combined number.

The amortization period reflects how long it will take to fund remaining liabilities based on the current actuarial assumptions. With the 2019 investment results, the OPERS amortization period improved to 23 years—well within the 30-year window required by law.

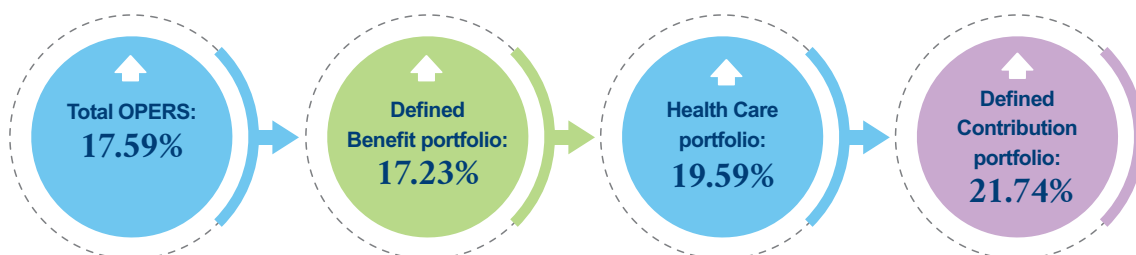
**What this means to members:** OPERS Board and management recognize the challenges of a mature pension system and work to proactively structure solutions to strengthen the System's foundation.

**Investments:** As the System has matured, investment earnings have become the largest source of funding for member benefits.

Overall, 2019 was a very strong year. The total OPERS portfolio for 2019 returned 17.59%, exceeding target actuarial return of 7.20%. While the 2019 return of 17.59% was very positive, it also illustrates the ongoing market volatility when comparing the strong 2019 return to the negative return of 2018 of -3.38% and to the positive return of 2017 of 16.62%.

OPERS' total portfolio is made up of underlying portfolios that fund pension benefits and the health care program. These underlying portfolios have different asset allocations so investment results will vary by portfolio:

## 2019 Investment Returns



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

Here are the assets and liabilities for the years ended December 31, 2019 and 2018. The net position represents the funds OPERS had accumulated by end of year to pay pension benefits for retirees, active and inactive members, as well as health care costs for current and future retirees. The improvement in net position reflects the strong investment returns earned in 2019.

**What this means to members:** One strong year is great to report, but does not completely eradicate the funding shortfall. The System still has an unfunded pension liability of \$22.8 billion and a \$6.2 billion unfunded health care liability. Every year, we work to decrease the level of unfunded liabilities by structuring responsible, incremental changes to both pension and health care. In 2019, we proposed multiple modifications to further enhance the financial foundation (see Letter to Members, page 2).

	2019	2018	Amount Increase/ (Decrease) from 2018 to 2019	Percent Increase/ (Decrease) from 2018 to 2019
<b>Assets</b>				
Cash and Cash Equivalents	\$5,153,032,873	\$3,986,157,970	\$1,166,874,903	29.3%
Receivables	1,023,900,774	888,861,210	135,039,564	15.2
Investments	101,068,997,469	89,977,800,332	11,091,197,137	12.3
Collateral on Loaned Securities	8,338,502,346	8,170,412,140	168,090,206	2.1
Net Capital Assets	127,717,312	127,110,017	607,295	0.5
Prepaid Expenses and Other Assets	2,536,831	2,062,788	474,043	23.0
<b>Total Assets</b>	<b>115,714,687,605</b>	<b>103,152,404,457</b>	<b>12,562,283,148</b>	<b>12.2</b>
<b>Liabilities</b>				
Benefits Payable	115,782,241	120,372,871	(4,590,630)	(3.8)
Investment Commitments Payable	927,267,321	702,901,475	224,365,846	31.9
Obligations Under Securities Lending	8,336,228,643	8,167,622,811	168,605,832	2.1
Other Liabilities	20,483,729	18,449,688	2,034,041	11.0
<b>Total Liabilities</b>	<b>9,399,761,934</b>	<b>9,009,346,845</b>	<b>390,415,089</b>	<b>4.3</b>
<b>Net Position Restricted for Pensions and OPEB*</b>	<b>\$106,314,925,671</b>	<b>\$94,143,057,612</b>	<b>\$12,171,868,059</b>	<b>12.9%</b>

\* Other post-employment benefits such as health care

## Income and Expenses

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

This chart shows OPERS income (additions) and expenses (deductions). In 2019, investment earnings were the main component of income and OPERS posted a gain from investing activity. Expenses (including pension benefit payments, health care coverage payments and account refunds) for 2019 were \$7.7 billion. OPERS paid \$6.3 billion in pension benefits and \$0.8 billion in health care expenses, net of health care receipts, to more than 214,000 retirees and their beneficiaries.

**What this means to members:** OPERS knows that some years will have positive returns, while other years will be neutral or negative. When years are poor, OPERS absorbs the loss and continues to meet its commitment to members. As long-term investors, we work to maximize the availability of investable assets by reducing costs, controlling expenses and structuring long-term solutions to address inequities and non-sustainable programs.

	2019	2018	Amount Increase/ (Decrease) from 2018 to 2019	Percent Increase/ (Decrease) from 2018 to 2019
<b>Additions</b>				
Member Contributions	\$1,516,077,941	\$1,455,771,629	\$60,306,312	4.1%
Employer Contributions	2,121,982,398	2,037,635,971	84,346,427	4.1
Contract and Other Receipts	67,502,046	81,169,718	(13,667,672)	(16.8)
Net Income/(Loss) from Investing Activity	16,100,992,982	(3,350,345,567)	19,451,338,549	>100.0
Other Income, net	696,586	2,844,546	(2,147,960)	(75.5)
Interplan Activity	31,219,619	25,435,260	5,784,359	22.7
<b>Total Additions</b>	<b>19,838,471,572</b>	<b>252,511,557</b>	<b>19,585,960,015</b>	<b>&gt;100.0</b>
<b>Deductions</b>				
Pension Benefits	6,318,731,252	6,109,237,279	209,493,973	3.4
Health Care Expenses	1,019,120,295	1,120,281,938	(101,161,643)	(9.0)
Health Care Receipts	(251,231,366)	(249,997,019)	(1,234,347)	(0.5)
Refunds of Contributions	472,604,688	453,441,020	19,163,668	4.2
Administrative Expenses	76,159,025	76,875,303	(716,278)	(0.9)
Interplan Activity	31,219,619	25,435,260	5,784,359	22.7
<b>Total Deductions</b>	<b>7,666,603,513</b>	<b>7,535,273,781</b>	<b>131,329,732</b>	<b>1.7</b>
<b>Net Increase/(Decrease)</b>	<b>12,171,868,059</b>	<b>(7,282,762,224)</b>	<b>19,454,630,283</b>	<b>&gt;100.0</b>
<b>Net Position Restricted for Pensions and OPEB*, Beginning of Year</b>	<b>94,143,057,612</b>	<b>101,425,819,836</b>	<b>(7,282,762,224)</b>	<b>(7.2)</b>
<b>Net Position Restricted for Pensions and OPEB, End of Year</b>	<b>\$106,314,925,671</b>	<b>\$94,143,057,612</b>	<b>\$12,171,868,059</b>	<b>12.9%</b>

\* Other post-employment benefits such as health care



## 2019 Investment Overview

Investment results are extremely important in any year as investment returns provide approximately two-thirds of the funding for a retiree’s ultimate pension. OPERS’ continuing investment goal is to attain a return over the long term that will provide adequate funding for benefits.

Overall, 2019 was a very strong year. The total OPERS portfolio for 2019 returned 17.59%. The 2019 return exceeded the target actuarial return of 7.20% and was slightly above the benchmark return of 17.40%. While the 2019 return of 17.59% was very positive, it also illustrates the ongoing market volatility when comparing the strong 2019 return to the negative return of 2018 of -3.38% and to the positive return of 2017 of 16.62% (see chart below and on page 8).

OPERS’ total portfolio is made up of underlying portfolios that fund pension benefits and the health care program. These underlying portfolios have different asset allocations; thus, their investment returns will vary.

The underlying investment portfolios are: the Defined Benefit portfolio, the Defined Contribution portfolio, and the Health Care portfolio. By portfolio, the 2019 returns were:

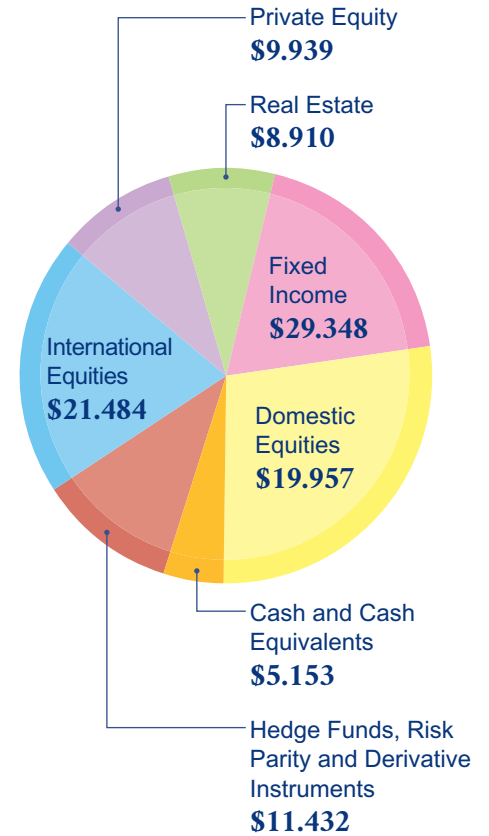
- The Defined Benefit portfolio returned 17.23%, compared to the benchmark return of 17.06%, and the anticipated actuarial funding plan rate of 7.20%.
- The Defined Contribution portfolio returned 21.74%, compared to the benchmark return of 21.66%.
- The Health Care portfolio returned 19.59%, compared to the benchmark return of 19.20%, and the anticipated actuarial funding plan rate of 6.00%.

**What this means to members:** Simply put, the results of every year matter. Throughout 2019, the System faced the challenges of a mature pension plan. Specifically, our challenge is the necessity of generating sufficient investment income to provide funding for benefit payments. The reality is the OPERS Defined Benefit Fund must currently provide approximately \$526 million in benefit payments *each month*. That means if investment income cannot cover the benefit payments, OPERS must sell assets in negative or neutral markets to raise funds for the benefit payments. Selling low erodes our financial foundation; we would rather invest at lower prices to reap the benefits of future strong gains.

Without a doubt, 2019 was a good year and Investment Division staff added value. But one year is not enough to fund the liabilities of OPERS’ growing payout profile.

## Historical Investment Returns (net of fees)

## Total Investment Summary (as of December 31, 2019, \$ in billions)



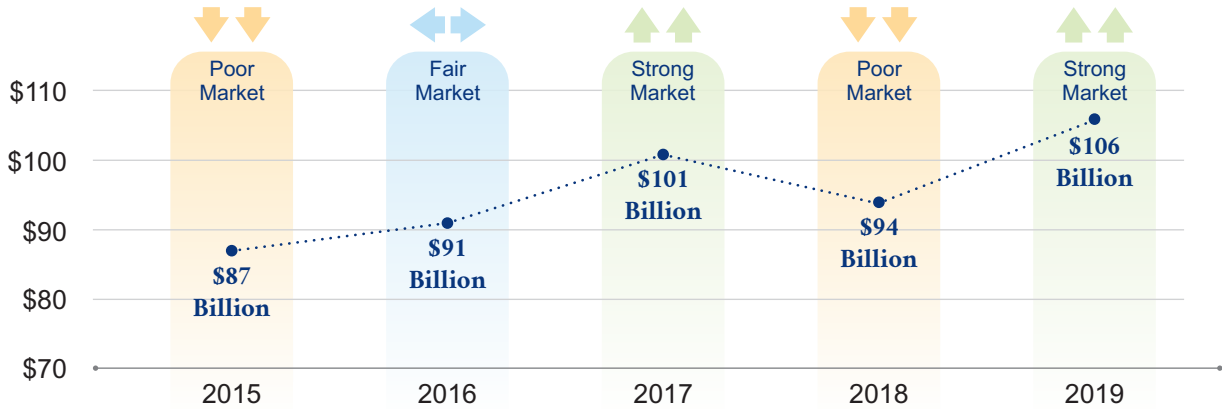
Year	Total Portfolio Return	Total Defined Benefit Return	Total 401(h) Health Care Trust Return	Total 115 Health Care Trust Return (Health Care Portfolio)	Total Defined Contribution Return
2019	17.59%	17.23%		19.59%	21.74%
2018	(3.38)	(2.99)		(5.76)	(6.65)
2017	16.62	16.82		15.25	17.39
2016	8.23	8.31 <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)

<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%. The number disclosed in the 115 Health Care Trust column in 2016, 5.11%, represents the return for the 115 Health Care Trust portfolio assets.

# OPERS Net Position

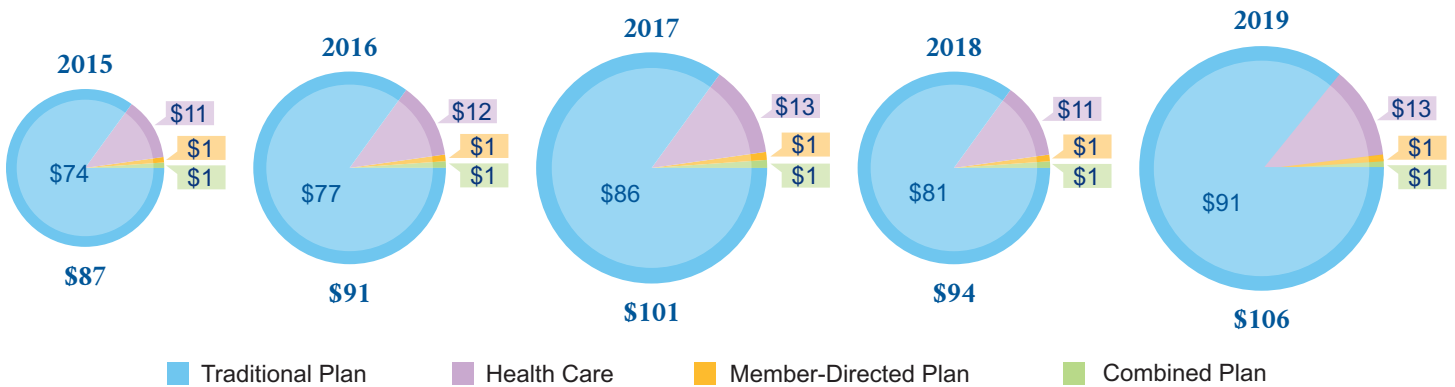
As of December 31, 2019, net position was approximately \$106 billion. Here's the history of OPERS' total net position (or net assets) for the last five years:

## Market Volatility Affects Financial Stability (\$ in billions)



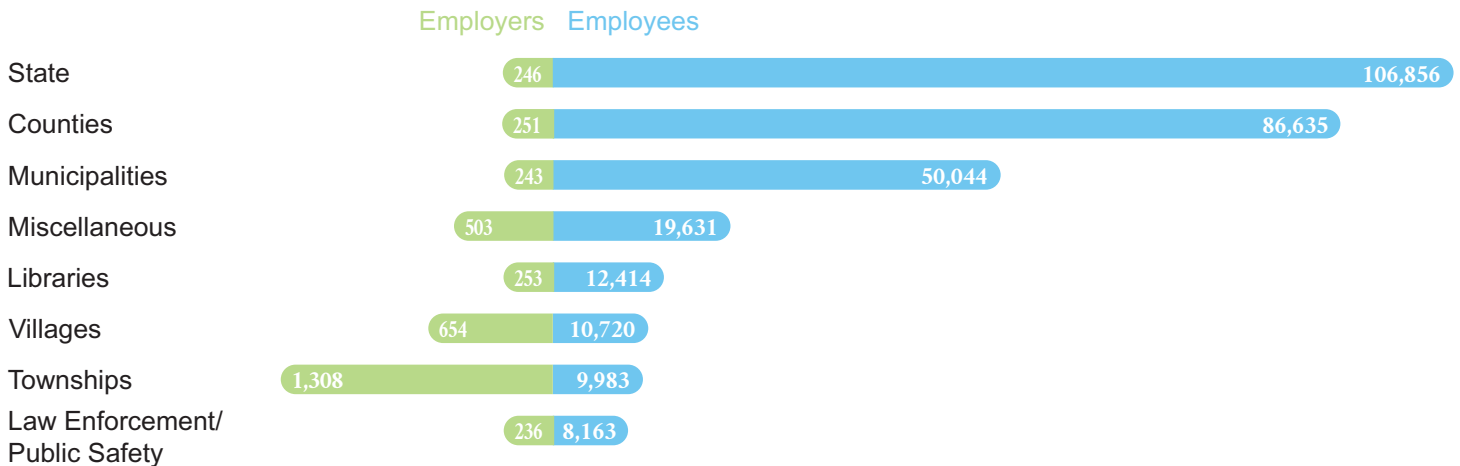
## OPERS Net Position (\$ in billions)

Presented here, funding by plan and trust for the last five years:



## Ohio's Public Employees by Employer Type

OPERS serves more than 304,000 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.



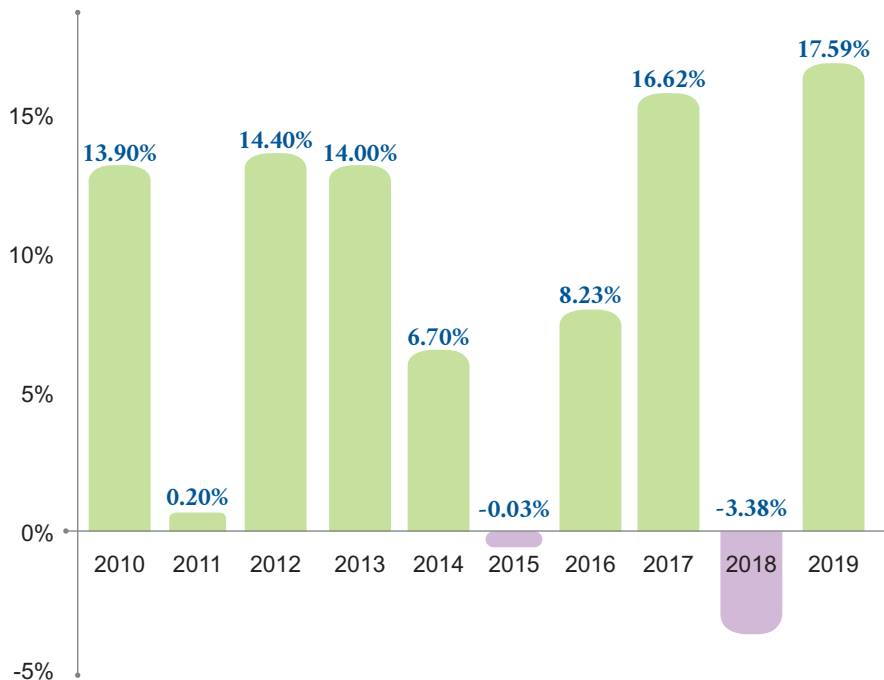
## OPERS Provides Secure Retirement

For more than 85 years, OPERS has consistently provided pension benefits to retirees and beneficiaries. That's more than 1,000 months of payments to each and every generation of retirees.

That's a remarkable statement, especially considering that much of the benefit funding comes from investment returns. How can OPERS deliver on its commitment year after year? Only through responsible actions and the courage to anticipate change. Our ability to anticipate challenges has enabled this System to absorb significant changes in our landscape and still deliver on our commitments. Challenges such as members living longer in retirement than ever before, volatile global markets and an ever-decreasing member-to-retiree ratio have placed deeper-than-expected strains on the OPERS foundation.

Consider some of the challenges OPERS has navigated: The Investment Returns chart shows investment returns over the past decade reflecting the extreme volatility in markets. Compare to the second chart indicating the ongoing increase of pension payments, also in the last 10 years. Pension payments grew 59.5%.

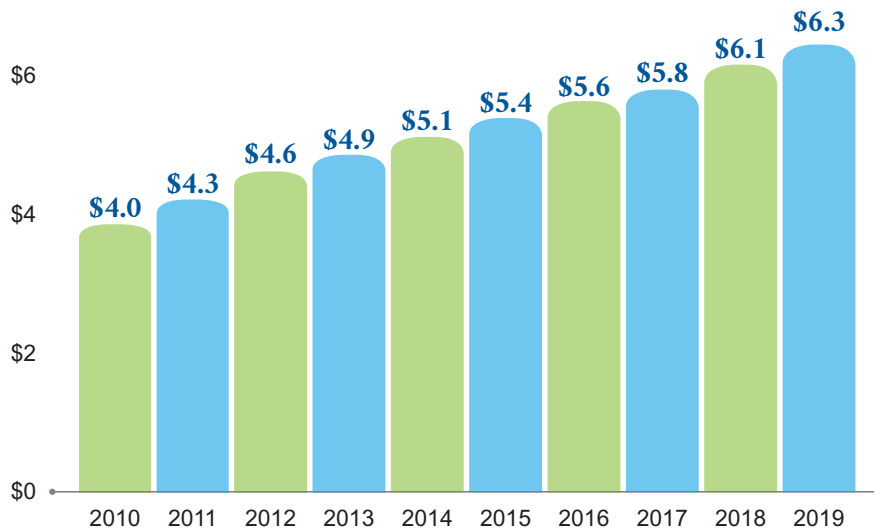
### Investment Returns



### Pension Benefits Paid

(\$ in billions)

**Pension payments up 59.5% since 2010**



# Funding Retiree Pension Benefits (continued)

## Pension Funding Status

Retiree pension benefits are funded by contributions from members and employers and income earned from responsibly investing these funds throughout a member’s career. By law, OPERS must pay the pension benefits when a member retires.

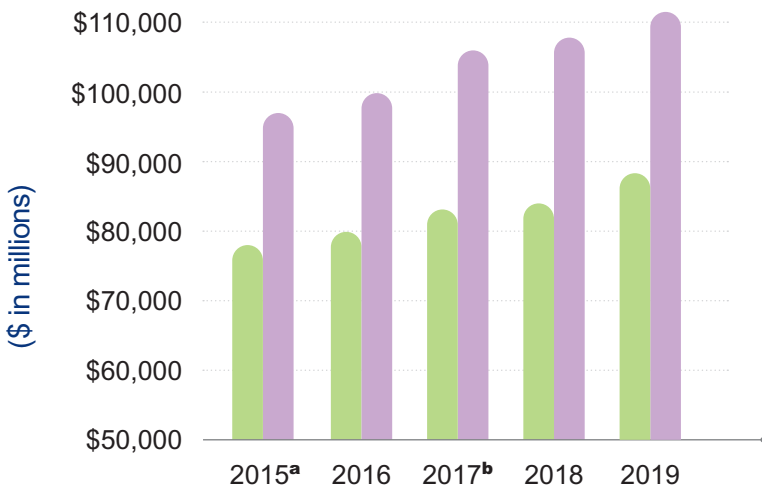
OPERS is also required by law to remain within a 30-year funding window—meaning the System is in the position to fund all pension liabilities within 30 years. Funded status measures the progress of accumulation of the funds necessary to meet future obligations. The December 31, 2019 valuation funded status was 79.5%. The unfunded liability was expected to be funded within 23 years on a funding basis.

**What this means to members:** We are dedicated to maintaining and enhancing the stability of this System. As a result, OPERS is continually making modifications to remain in compliance with the 30-year funding window required by law.

## Our Actions Are Important

As of year-end 2019, OPERS served approximately 1,173,000 members, including 215,000 retirees and beneficiaries. In addition, the System works with approximately 3,700 public employers. With a net asset base of \$106.3 billion, OPERS is the largest public pension system in Ohio and the 12<sup>th</sup> largest public pension system in the nation. These numbers clearly demonstrate OPERS’ importance as an economic driver for the state of Ohio. As always, OPERS must be diligent in making responsible decisions moving forward with the goal of improving funded status.

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

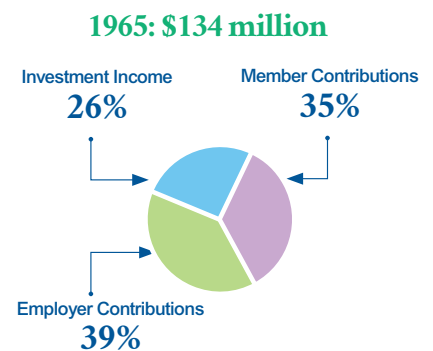
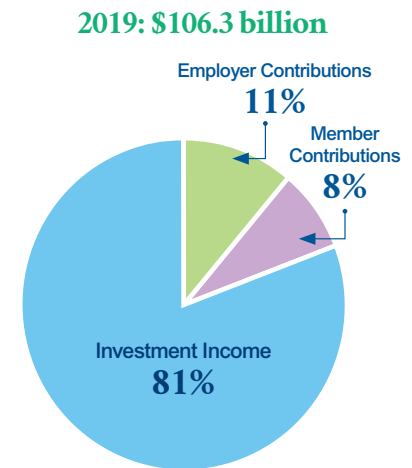


Funded Ratios	80.3%	80.1%	78.5%	77.5%	79.5%
Funding Years	20	19	25	27	23

■ Pension Assets      ■ Accrued Liabilities

<sup>a</sup> Information after completion of the experience study.  
<sup>b</sup> Information after change in discount rate from 7.5% to 7.2%.  
<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.

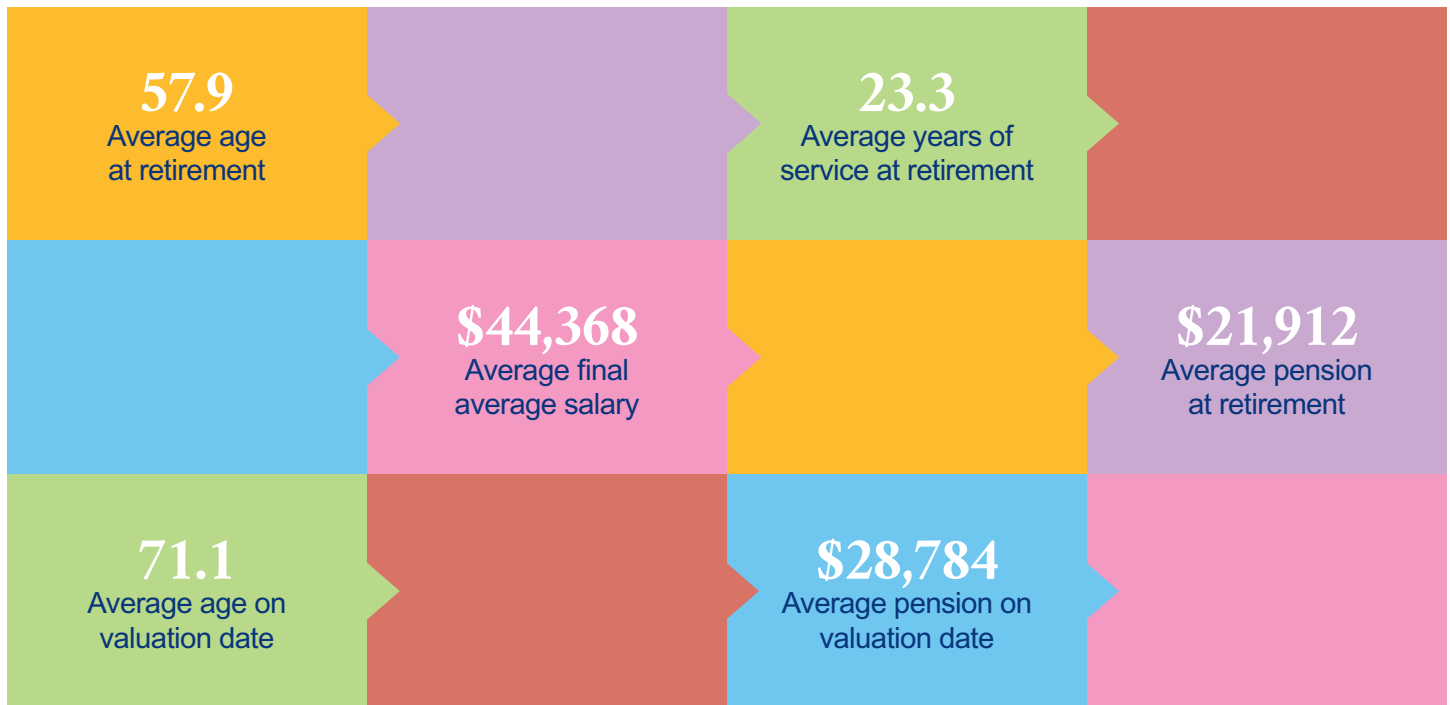
## Where funding comes from—Now and then



2019 Averages At-a-Glance

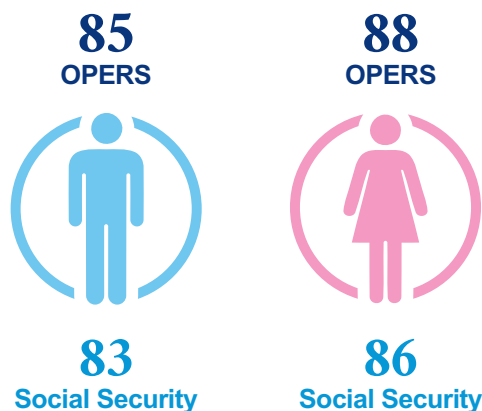
Here are the average benefits paid to retirees receiving a benefit under the Traditional Pension Plan, the System's largest plan. The cost of retirement will continue to increase as new retirees with higher final average salaries replace long-time retirees with lower final average salaries and as members continue to work longer.

Average Defined Benefits Paid to OPERS Retirees  
Traditional Pension Plan—December 31, 2019

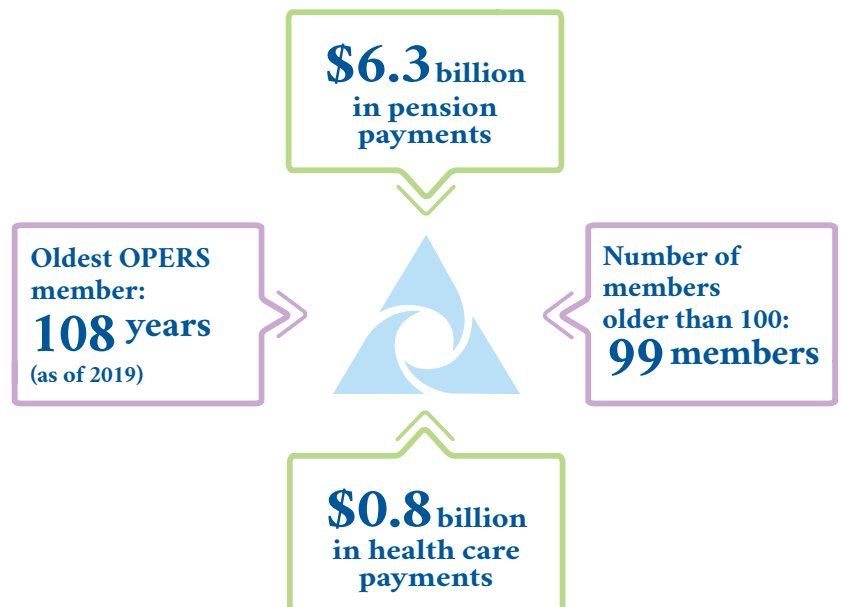


Life Expectancy for OPERS Members

Expected age of death for members of Social Security and OPERS who retired at age 62 in 2019.



2019 Facts



# Pension Benefits by Type

## Meeting Our Commitments

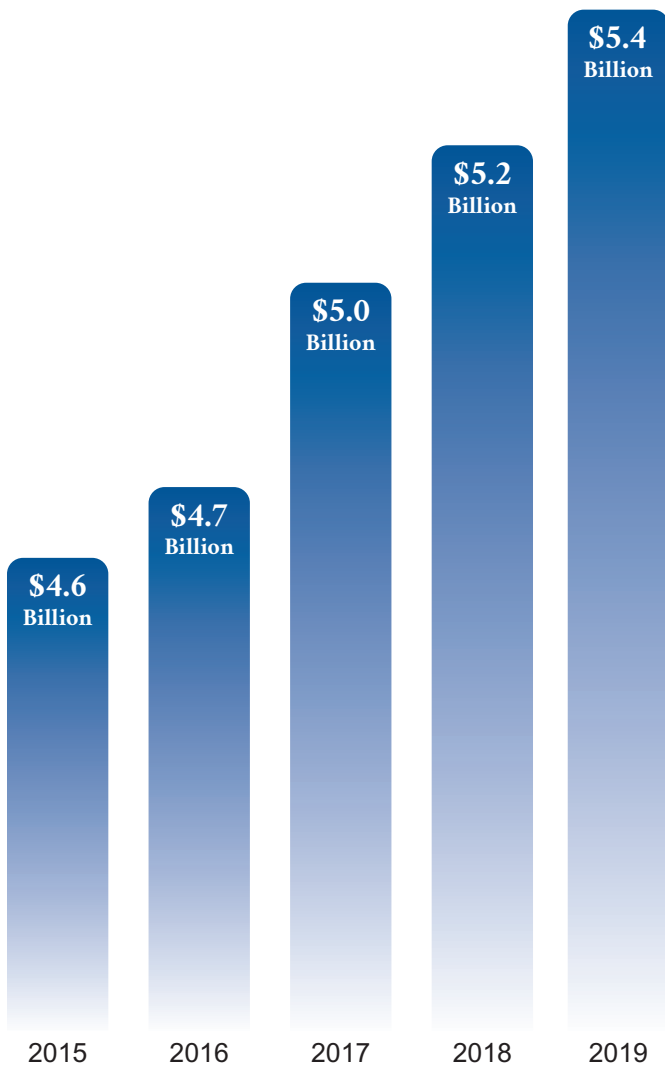
OPERS' mission is to provide financial security for our members in retirement. We do that by accepting contributions throughout an individual's working career. These contributions are then carefully and systematically invested to maximize earnings and the compounding effect of long-term contributions. Each OPERS Board member, management and staff member remains 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 16 for health care costs by type.

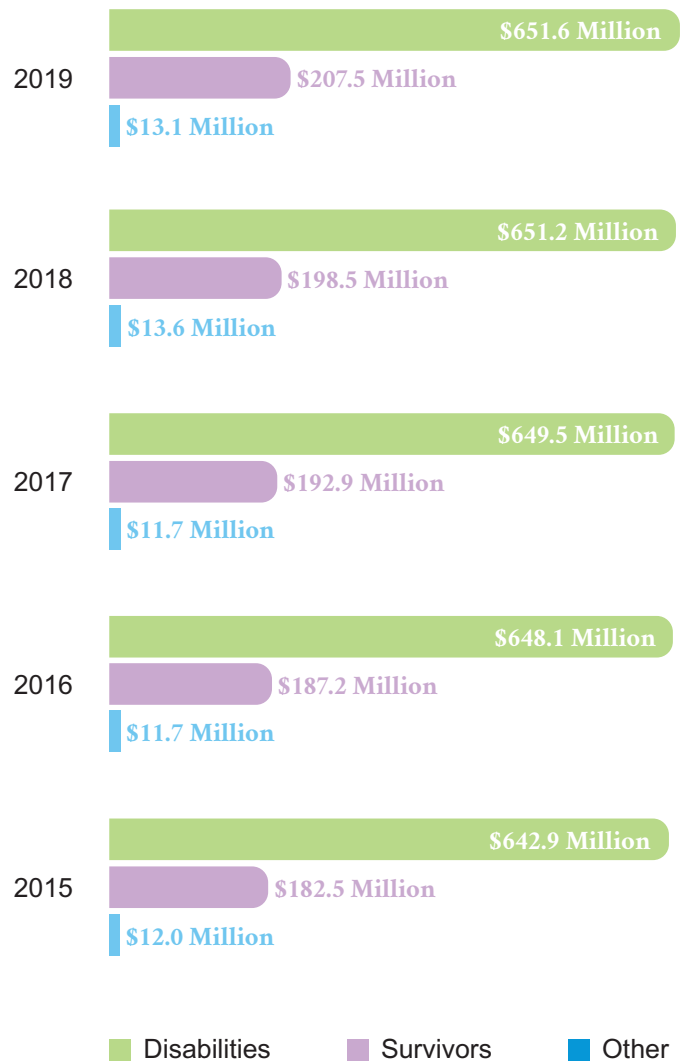
In general, defined benefit pensions (Traditional Pension and Combined plans) are determined by a formula based on the number of years of service and the highest years of salary, multiplied by a factor determined by statute.

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, and Other Payments



## Health Care Funding Status

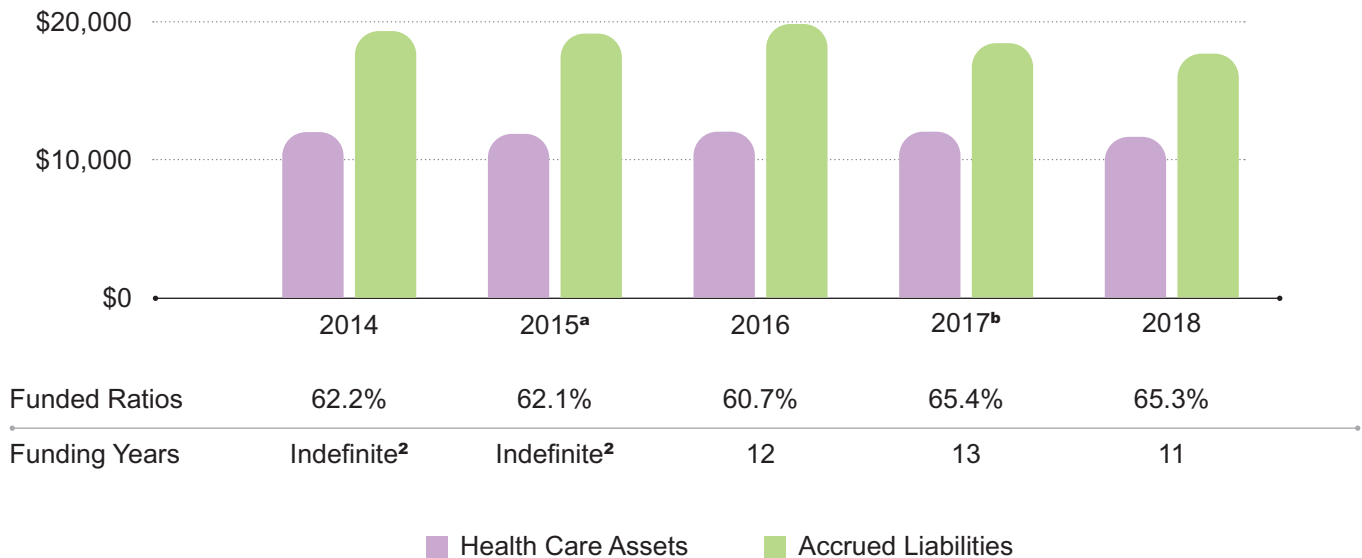
Health care is neither mandated nor guaranteed. The health care trust can only receive contributions if and when pension funding needs are met.

Long before health care became a national priority, OPERS recognized the importance of providing access to meaningful health care. Through the years, we worked to make responsible decisions to help ensure access to health care for all generations of OPERS retirees, present and future. We chose to responsibly pre-fund health care expenses and carefully evaluated and refined the health

care options available—all the while investing funds to maximize growth and minimize risk. However, due to the pension funding needs, we are not able to add new funding to health care. See a more complete discussion on page 14.

**What this means to members:** As of the December 31, 2018 health care actuarial funding valuation (the most recent), OPERS was 65.3% funded. In the absence of employer contributions, the health care fund is expected to become insolvent after 11 years.

Health Care Ratios—Valuation Assets vs. Accrued Liabilities—Funding Basis<sup>1</sup>  
(\$ in millions)



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

<sup>b</sup> Information after change in discount rate from 6.5% to 6.0%.

<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> Funding 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.

## OPERS Recognizes the Importance of Health Care

OPERS works to provide access to meaningful health care. Similar to national trends, OPERS retirees have increased in number and have longer life expectancies than ever before. The changes in demographics, combined with the cost of health care, has resulted in a significant drain on available resources.

Health care coverage is neither required nor guaranteed. OPERS is required to fund pensions, which means that all available funding must be directed to pension funding until the pension funding is adequate. Only when pensions are adequately funded can we direct funding (employer contributions) to health care. As noted previously, OPERS is faced with a significant unfunded pension liability—meaning that pensions are not adequately funded and therefore we cannot fund health care. Without new funding going to the health care fund, the health care trust funding will worsen.

As of the December 31, 2018 health care actuarial funding valuation (the most recent), OPERS health care program was 65.3% funded. Health care funding is measured in solvency years, or the number of years funds are projected to be available to pay health care expenses under the current plan. In the absence of employer contributions, the health care fund is expected to become insolvent after 11 years.

Two major issues combined to create the immediate health care challenge. First, we anticipate that health care expenses will continue to grow as the number—and life expectancies—of our retirees continues to grow. Second, the funding status of the pension requires that all contributions be allocated to improve the pension funding. Thus, until the pension funding improves there is no funding source for health care for the foreseeable future. As a result, we are working with members, retirees and stakeholders to evaluate additional

health care changes to extend the time the current health care trust can fund health care expenditures.

As of December 31, 2018, health care liabilities exceeded the assets accumulated to fund the liabilities by \$6.2 billion. The combination of existing and projected health-care expenditures, coupled with the current restriction that OPERS cannot actively contribute to the health care fund, means that the current health care trust fund is expected to last only approximately 11 years.

**What this means to members:** To address the lack of health care funding, the OPERS Board initiated a review of the health care program beginning in 2018. This project, referred to as Health Care Preservation Plan 3.1 (HCPP 3.1), culminated in recommendations in 2019, and subsequent approval in the first quarter of 2020. These changes are being implemented to be effective in 2022.

Shown below are the number of individuals covered by the OPERS health care program as of December 31, 2018 and 2019.

- 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	2018	2019
<b>Traditional Pension Plan and Combined Plan Covered Lives</b>		
Retirees & Primary Beneficiaries	146,410	142,369
Dependents & Other Beneficiaries	31,670	28,141
<b>Member-Directed Plan Retiree Medical Accounts</b>		
Retiree Recipients	6,660	6,940
<b>Total</b>	<b>184,740</b>	<b>177,450</b>



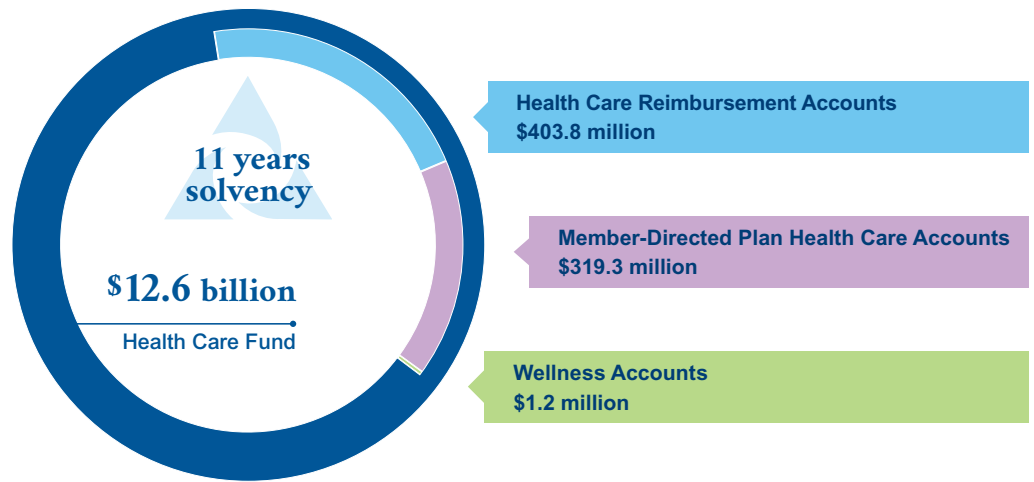
### Health Care Funds by Type

OPERS notionally funds and tracks member balances in health care reimbursement accounts for Medicare-enrolled retirees that qualify to participate in health care. Additionally, OPERS funds Member-Directed Plan health care accounts. The financial statements recognize health care payments as liabilities when claims are incurred by members (currently due and payable).

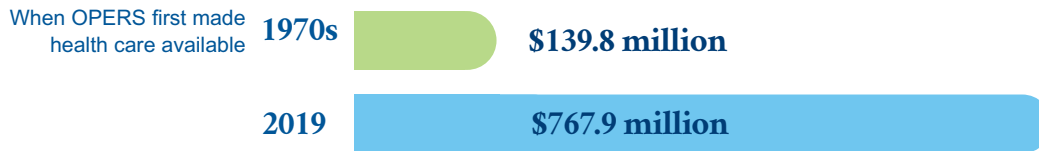
As a result, unspent balances remaining in member health care accounts are not recorded as liabilities in the financial statements. Total funds held in trust restricted for health care costs of all OPERS health care plans were \$12.6 billion as of December 31, 2019.

Included in the \$12.6 billion are restricted member health care account balances in the health care reimbursement accounts, Member-Directed Plan health care accounts, and discontinued Wellness accounts.

### Health Care Funds by Type



### Ever-increasing Cost of Health Care:



### Longer Life Expectancies



# Health Care Costs

Although not required, health care coverage remains available to Traditional Pension Plan and Combined Plan retirees and their dependents. In 2019, disability recipients comprise 9% of the retiree population but represent 17% 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.

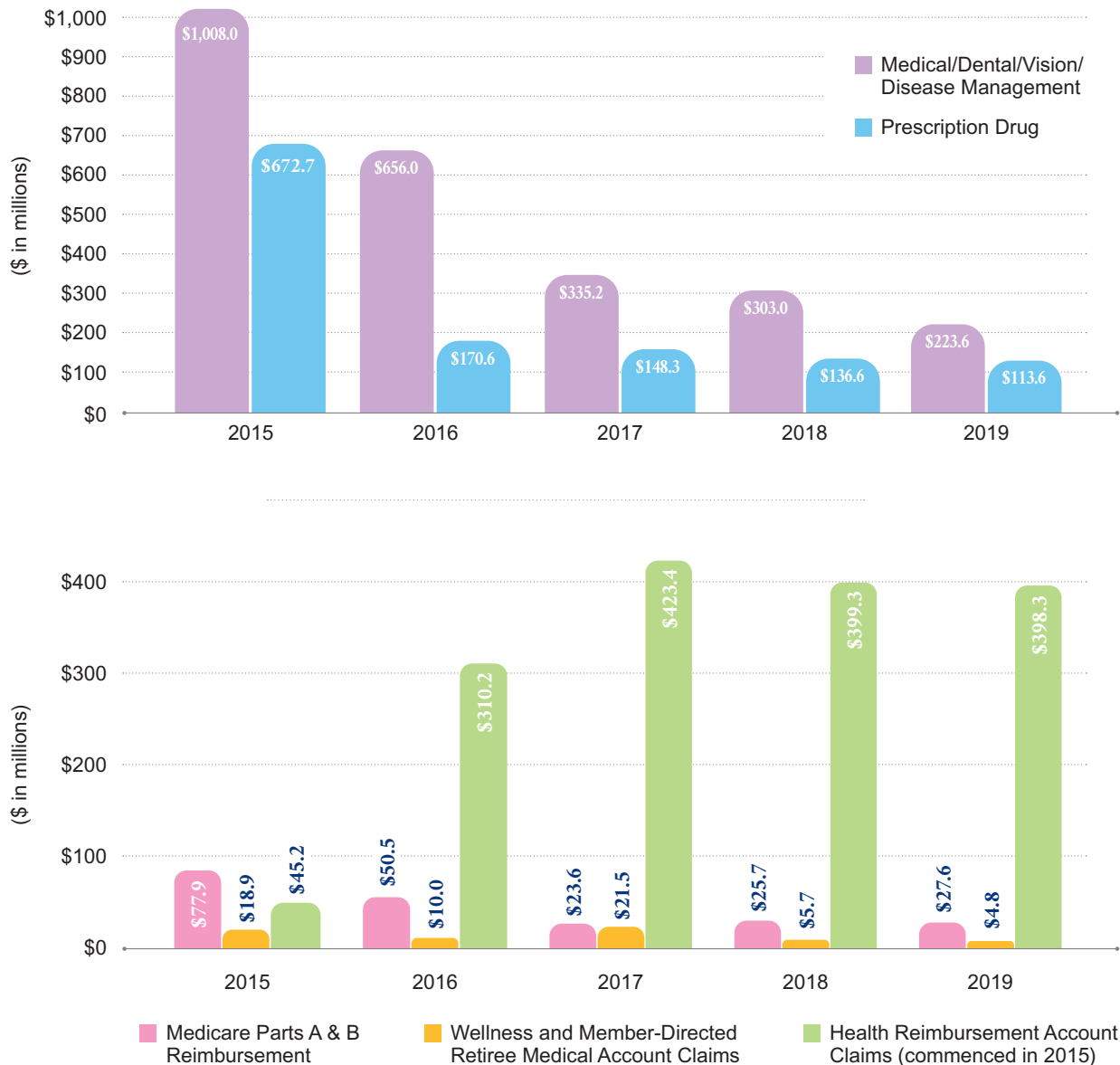
Modifications to the health care program were approved by the OPERS Board in 2020, and will become effective beginning 2022.

Highlights of these modifications include:

- Replacing the current group plan for pre-Medicare retirees with a health reimbursement account (HRA)
- Providing professional assistance to help members select a plan on the open market to maximize the HRA funding
- Amount of HRA allowance would vary based on age at which health care commences and years of service

Note to members: This HRA model was put in place for Medicare retirees in 2015 and has been successful—in terms of member satisfaction, outcomes achieved and cost savings.

## Health Care Costs by Type



## Plan Overviews and Enrollment Figures

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 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, 2019. Inactive members are no longer contributing to OPERS, but have not refunded their accounts and may be eligible to receive a retirement benefit.

	Traditional Pension Plan	Combined Plan	Member-Directed Plan	Total
<b>Active Members</b>	<b>286,496</b>	<b>7,519</b>	<b>10,431</b>	<b>304,446</b>
Average Age	44.3	45.4	45.0	
Average Service Credit (Years)	10.6	9.3	6.5	
<b>Average Final Average Salary</b>	<b>\$41,658</b>	<b>\$53,580</b>	<b>\$53,612</b>	
<b>Inactive Members<sup>1</sup></b>	<b>645,866</b>	<b>2,289</b>	<b>5,504</b>	<b>653,659</b>
Average Age	38.9	41.9	38.4	
Average Service Credit (Years)	1.2	4.6	2.9	
<b>Average Final Average Salary</b>	<b>\$6,249</b>	<b>\$33,792</b>	<b>\$30,676</b>	
<b>Retired Members</b>	<b>214,278</b>	<b>391</b>	<b>316</b>	<b>214,985</b>
Average Age	69.9	68.5	69.5	
Average Service Credit (Years)	22.6	11.1	N/A	
Average Annual Benefit	\$28,993	\$7,892	\$5,297	
<b>Total Members</b>	<b>1,146,640</b>	<b>10,199</b>	<b>16,251</b>	<b>1,173,090</b>

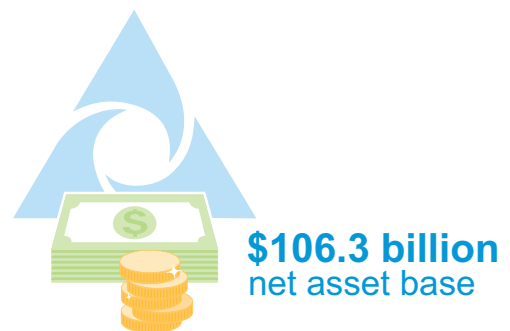
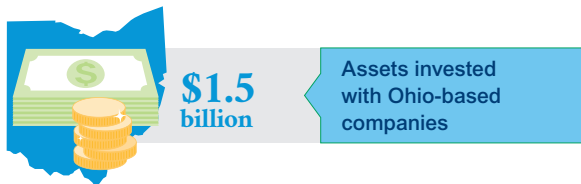
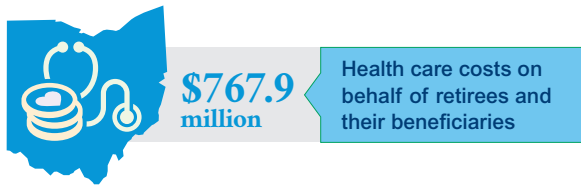
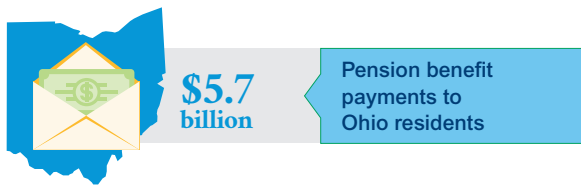
<sup>1</sup> Inactive members no longer contribute, but still have an account that may be activated upon return to public service and may be eligible to receive a retirement benefit.

Pensions Are Good for Ohio, Consider This:

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 2019, \$3.34 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.

Here is some additional activity as of and for the year ended December 31, 2019:



OPERS is an important economic driver for the state of Ohio—we are the largest public pension system in Ohio and the 12<sup>th</sup> largest public pension system in the nation.

Since 1935, OPERS has worked to provide financial security for OHIO public employees in retirement. As of 2019, OPERS served approximately 1,173,000 members and worked with some 3,700 public employers that employed more than 304,000 Ohioans.

Employers and employees make retirement contributions each month throughout each public employee's working career. In total (including earned investment returns), OPERS as of 2019 had a net asset base of \$106.3 billion. Although significant, OPERS must diligently monitor that asset base and make the right decisions to maintain the funding window required by law.

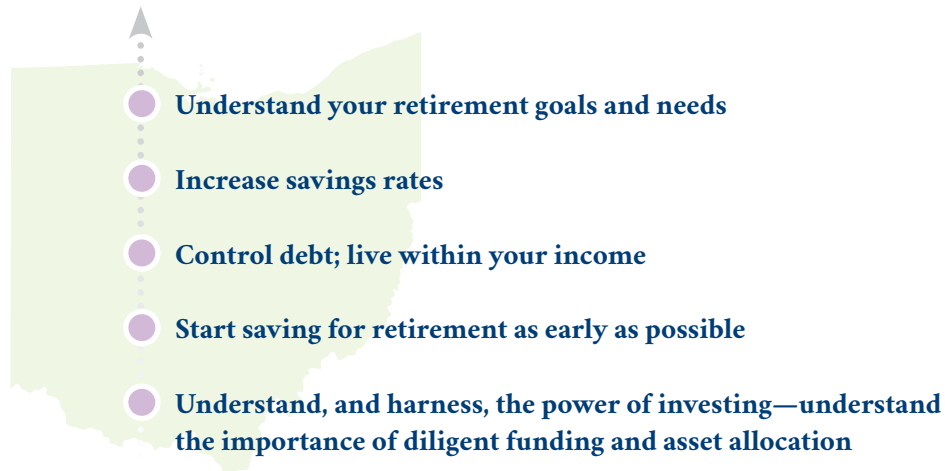


# Financial Security in Retirement

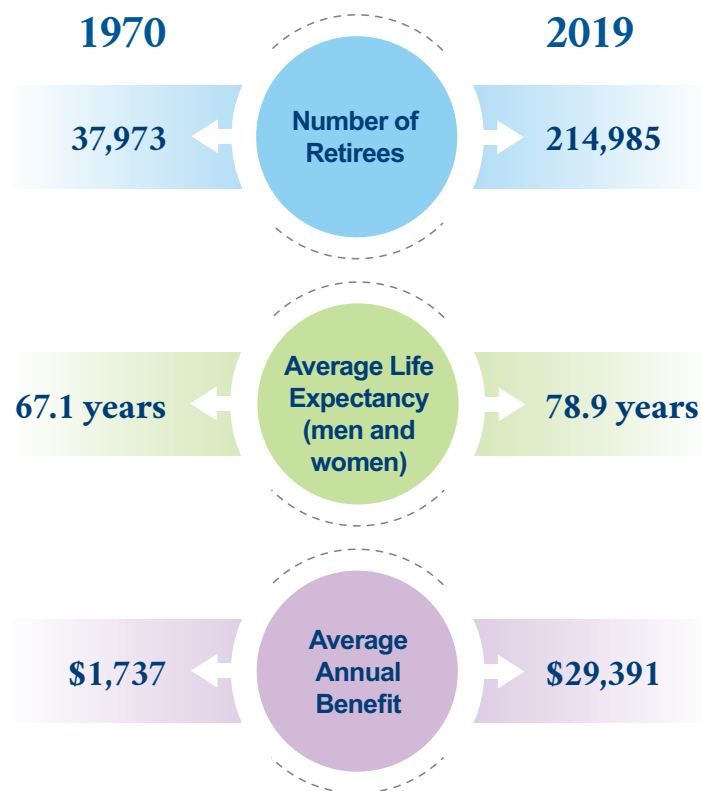
OPERS provides a strong element to secure retirement for members—but members need to augment that retirement with personal savings, healthy lifestyles and responsible decisions. OPERS works to help each member make just the right decisions. Members are encouraged to seek out OPERS-sponsored financial wellness programs. Visit [opers.org](http://opers.org) to learn about educational opportunities available.

Preparing for financial security in retirement takes a lifetime. *All* members, regardless of career cycle, are encouraged to focus on responsible behaviors.

## Responsible financial behaviors:



## Retirement by the Numbers

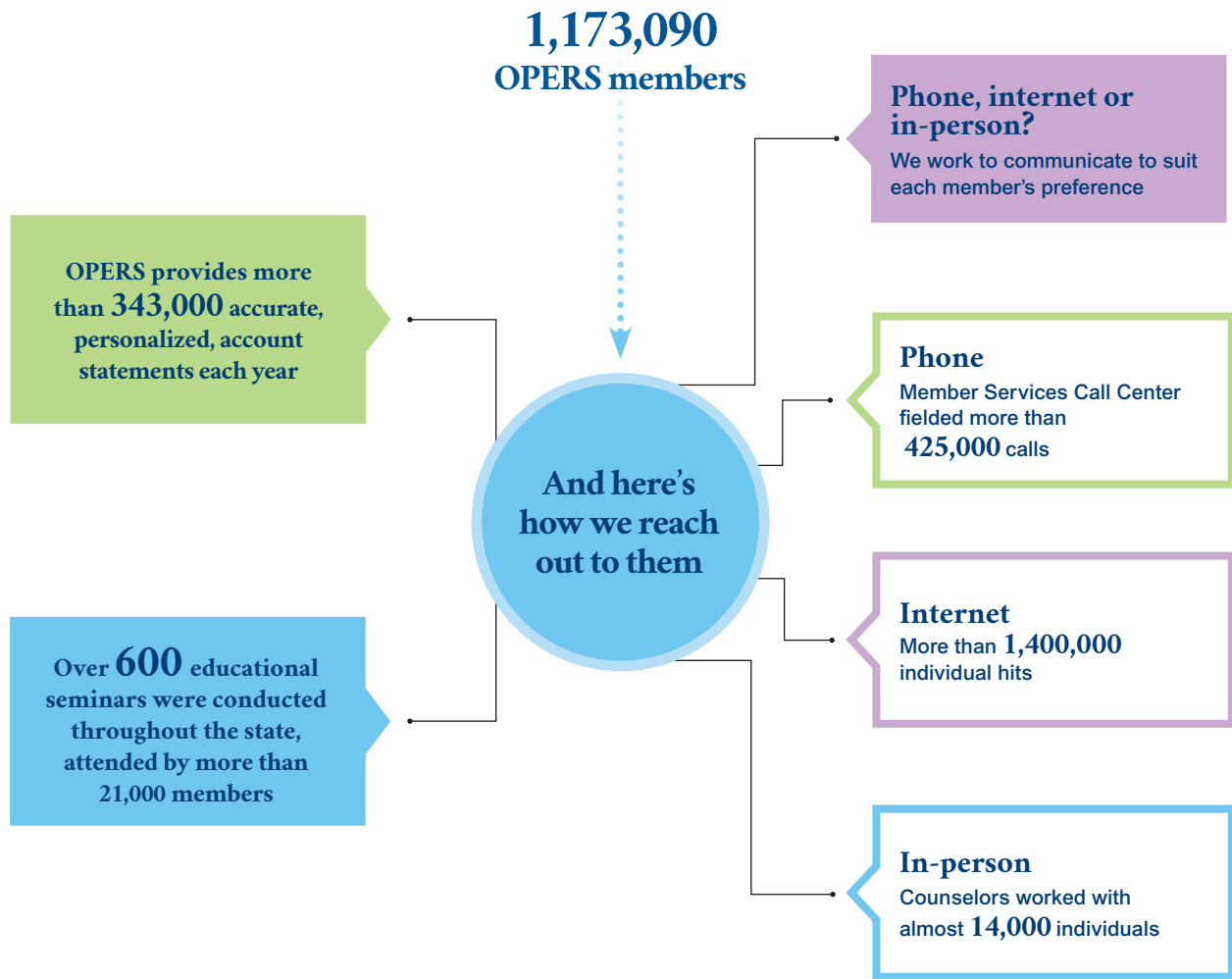


## Healthy lifestyles make a difference:

Studies show that healthy lifestyles can prevent or delay onset of some chronic diseases, such as diabetes and high blood pressure.

In fact, chronic diseases account for 75% of the money our nation spends on health care. Members can improve financial security in retirement by embracing healthy lifestyle habits such as controlling weight, seeking daily exercise and eliminating tobacco use.

- If you smoke, consider this:
  - In 2019, the average cost of a pack of cigarettes was \$6.28. So, one pack each day adds up to \$2,292 per year (in 10 years, that's \$22,920).
  - Smokers have higher health care costs and absorb a significant personal financial impact due to smoking.



Contact Us



**By Phone:**

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



**Online Accounts:**

<https://member.opers.org>



**By Mail:**

Ohio Public Employees Retirement System  
277 E. Town St.  
Columbus, OH 43215-4642



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## Mission

To provide secure retirement benefits for our members.

## Vision

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

