



PERSONal INVESTOR

Spring 2008

A Publication for OPERS members participating in the Member-Directed and Combined Plans

> YOUR ACCOUNT

Defined Contribution Plans Celebrate Five Years

In 2003, OPERS launched two new retirement plans from which Ohio's public employees could choose. In addition to the Traditional Pension Plan, an established defined benefit plan, new members could now select between the Member-Directed Plan, a standard defined contribution plan, and the Combined Plan, which has components of both a defined benefit and defined contribution plan. With a few exceptions, all new OPERS members had this choice beginning Jan. 1, 2003.

We now serve 15,332 Member-Directed and Combined Plan participants, as well as approximately 60,000 new members each year who have to make a plan selection. Of the 15,332 total participants, 8,486 participate in the Member-Directed Plan and 6,846 in the Combined Plan.

Each of these members invests in the nine OPERS Investment Options, which include three Pre-Mixed Portfolios each representing risk tolerances and six OPERS Funds each representing a specific asset class. As of Dec. 31, 2007, plan assets total \$235,058,973.78 and the average defined contribution account balance is \$15,331.33. More

than half of the plan assets, 61.35 percent, are invested in the three Pre-Mixed Portfolios, which were designed to automatically rebalance their investment mix on a regular basis making diversification and asset allocation simple.

As we look to the next five years and beyond, OPERS is committed to providing good, long-term retirement options and quality customer service and education for our members. We are always looking at ways to improve the OPERS Investment Options with the goal of helping our members prepare for a comfortable retirement.

> INVESTMENT MANAGER UPDATES

Changes to the OPERS Large Cap Fund and OPERS Small Cap Fund

Investment staff at OPERS have been reviewing and evaluating alternatives for improving the OPERS Large Cap Fund and OPERS Small Cap Fund performance. The most attractive option is to utilize index funds managed by Barclays Global Investors (BGI). BGI is one of the largest investment managers in the financial services industry, managing more than \$2 trillion in assets.

Utilizing index funds offers advantages including providing asset class exposure and extremely low fees. The fees for the Large Cap Fund will drop from 0.21 percent to 0.05 percent for a savings of \$16 per year for every \$1,000 invested. The fees for the Small Cap Fund will drop from 0.24 percent to 0.08 percent for a savings of \$16 per year for every \$1,000 invested.

The three OPERS Pre-Mixed Portfolios will also benefit from these changes, since the Pre-Mixed Portfolios are made-up of a blend of the six OPERS funds. The new lower fees for the three Pre-Mixed Portfolios will be as follows: Conservative—.18 percent (vs. .20 percent currently); Moderate—.14 percent (vs. .18 percent currently); Aggressive—.12 percent (vs. .18 percent currently).

These changes to the OPERS Large Cap Fund, OPERS Small Cap Fund and Pre-Mixed Portfolios will take place during the second quarter of 2008 and will not require action by members.

The OPERS office will be closed in observance of Memorial Day on **Monday, May 26, 2008** and Independence Day, **Friday, July 4, 2008**. Transactions made on these days will be processed the following business day.

> WHAT A DRAG!

Inflation is An Ever-Present Obstacle in Your Quest to Invest for the Future

When you buy a product, you know that you will pay a certain percentage in sales tax. If you sell a house and your real estate broker charges a commission, you can calculate how much will come out of your sales price. But inflation is different. It is a different kind of factor that removes money from your wallet in such a quiet manner that you hardly notice it. That is, until you find yourself asking why that half-gallon of milk costs so much more than it did a few years back.

As you manage your retirement savings, it pays to factor in the effects of inflation. Take the investment returns you see on your quarterly statement and those found on the back of this newsletter. Those numbers have not been adjusted for inflation. To get a truer picture of how much your money is growing for use in retirement savings projections, you need to subtract the average inflation rate from those returns.

Get the Right Numbers

To keep up on the latest inflation figures to use in your planning calculations, visit the U.S. Department of Labor Web site at <http://www.bls.gov/cpi/>

> INVESTMENT PERSPECTIVES

Current Investment Environment

Stock market returns around the world were sharply lower in the first quarter of 2008. The U.S. stock markets returned—9.52 percent and Non-U.S. stock markets returned—9.14 percent. Bonds ended the quarter with a total return of 1.66 percent.

U.S. stock markets experienced their worst quarter in 5 and one half years, driven lower by a host of risks including turmoil in the financial system and bond markets, a slowing economy, weakening employment and rising energy prices. When the first quarter began, financial professionals debated if they thought the U.S. economy would avoid recession—at the end of the quarter the debate is now how long and how deep the downturn will be.

Workshops

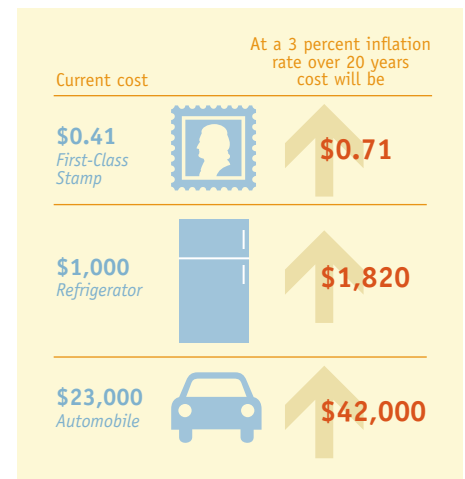
Learn more about investing and managing your account at the new 1-hour format of *Managing Your Individual OPERS Account—A Workshop*.

During the workshop, OPERS education staff will provide investment education and discuss tools and resources available to help Member-Directed and Combined Plan participants manage their individual OPERS account. Participants will learn different ways to help them manage risk in their individual account. Participants will also learn about the nine OPERS Investment Options and how to choose the investment option(s) suitable for their Investor Profile. During

these interactive workshops, participants can also benefit by having their questions answered by OPERS staff, as well by learning from other participants' questions.

In-Person Workshops

- 4:30 pm, Wednesday, May 21, 2008, *Neil V. Toth Auditorium—North Side, OPERS, 277 East Town Street, Columbus, Ohio*. To register, please call the OPERS Member Services Center at 1-800-222-7377 and ask for extension 8-3993 to reserve your spot at this informative interactive workshop.



What Will It Cost?

At a 3 percent inflation rate over 20 years, cost increases like these can affect your lifestyle choices in retirement if your investments aren't keeping up.

For example, if a fund reported an annual total return of 6.5 percent, and the government says the inflation rate is 3 percent, your real return—that is, the additional purchasing power your money has accumulated—is just 3.5 percent ($6.5 - 3 = 3.5$). That's referred to as "the drag of inflation."

By staying aware of the inflation rate, you can try to minimize its effects by selecting an investment portfolio with a focus to return more than the average inflation rate. You can also get a better handle on what today's expenses will cost in the future, which is what every successful retirement strategy needs to consider.

Non-U.S. stock markets were also sharply lower in the first quarter. Economic and financial market challenges in the U.S. left no region of the world untouched. With few exceptions, non-U.S. stock markets are faring as badly as, if not worse than, U.S. stocks. The downturn in non-U.S. markets is in stark contrast with the past five years, when these shares largely out-performed U.S. markets.

Concerns about the U.S. economy and challenges in the financial system also weighed on bond markets. The yield on the 10-year Treasury note, the foundation for long-term interest rates, began the quarter at 4.02 percent and ended the quarter at 3.43 percent. To help stabilize markets, the Federal Reserve took several actions during the quarter including lowering the federal-funds interest rate from 4.25 percent to 2.25 percent.

Target Date Funds to be Introduced

At the February 2008 meeting, the OPERS Board approved a recommendation to add target date funds to the investment lineup for participants in the OPERS Member-Directed and Combined Plans

The risk-based pre-mixed portfolios (OPERS Conservative Portfolio, OPERS Moderate Portfolio, and OPERS Aggressive Portfolio) will be replaced with target date funds. These new funds, which have not yet been named, will be comprised of the same underlying core OPERS investment funds (OPERS Stable Value, OPERS Bond, OPERS Stock Index, OPERS Large Cap, OPERS Small Cap and OPERS Non-US Stock), but the asset allocations in these funds will be automatically adjusted over time.

Implementation of the new OPERS target date funds is planned for the fourth quarter 2008. Watch your mail and upcoming newsletters for more information on these new funds.

> INVESTMENT EDUCATION

Riding Out a Volatile Market

When you're speeding along on a bicycle, it's not such a good idea to focus on every bump in the road. It's better to look ahead rather than watching for every immediate dip and gully. Similarly, when you invest for the long term, it's important to stay focused on your ultimate goal and your strategy to get there.

A down turn in the stock market may make it difficult to stay focused on the future. When the market is on a roller coaster, many people suffer from a bad case of "statement shock" in response to daily market changes. In that situation it's natural to want to take measures to protect your portfolio, but that's when your most prudent strategy is probably to sit tight. Investing for the long term typically means for a period of 10 or more years. In that context, a 10 percent decline in prices (a market correction) becomes less significant. So the best way to weather a volatile market is to ride it out.

If you compare stocks to other investments, you'll see that historically stocks perform much better in the long run*. Whatever the future holds for long-term savers though, the following strategies make sense:

- **Confirm your Investor Profile by completing the short questionnaire at www.opers.org**
 - Make sure your portfolio is diversified and your asset allocation is suitable for your Investor Profile.
 - When the market does have short-term declines don't obsess about your losses.
- **Review your portfolio**
 - Review how your portfolio value has performed over time—look at the last two years or five years—it helps put market downturns into perspective.
- **Think before you make changes**
 - Don't respond emotionally to an erratic market.
 - Take your time when making investment decisions—don't make any moves based on what the market did yesterday or last week.
- **Stick to your plan**
 - Don't try to time the market—investors who do usually end up missing out on the best performing months in the market.
 - Invest for the long-term.

Many investors, who got out of the market after 9/11 and stayed out too long, missed out on the next market recovery. By year-end 2001, a little more than three months after the decline, the Dow had recovered 21 percent.

One never knows when the next downturn or recovery will occur. Rather than trying to predict the market, it's best to stick with your investment plan, and avoid gut reactions and emotional decisions.**

You Can't Predict the Future

If you're reeling from a decline in your account value, don't make the investment changes that you wish you had made last week. History may repeat itself, but last week's market return is no sure-fire predictor of what will happen next.

Market corrections are nearly impossible to forecast and you can't do much to avoid them. It's not wise to invest or decide not to because you expect some particular behavior from the market in the near future. When you try, you're as likely to miss out on gains as to avoid losses. In fact, investors who expect a correction and get out of the market have an even harder time deciding when to get back in and they often miss out on six months or more of investment returns.

The important issue is investing for the long term. When you keep your portfolio mix fairly constant, avoid selling, and, continue to invest, you can be prepared for a correction—and stand ready for the next upturn.

**Historical results are not a guarantee of future performance.*

***Wikipedia, 2008*

> RETIREMENT BOARD NEWS

The OPERS Board re-elected Ken Thomas as chair and Cinthia Sledz as vice chair. Both will serve in these positions until December 2008. Thomas has represented municipal employees on the Board since 1993. Sledz has represented miscellaneous employees on the Board since 2002.

Lennie Wyatt and Eddie Parks were officially sworn in as members of the Ohio PERS Board of Trustees prior to the January meeting. Wyatt, who has served as president of the UFCW Local 1099, is the Governor's appointee and Parks, coordinator-economic development of the Public Utilities Commission of Ohio (PUCO), is the representative of state employees, filling the seat recently vacated by Ron Alexander. Wyatt's term runs through September of this year while Parks' is up Dec. 31, 2010.



OHIO PERS INVESTMENT OPTIONS
Total Returns
March 31, 2008

You should review the "Investment Options Disclosures" document before making any investment decisions.

	Asset Class ¹	Year-to-Date 3/31/08	Last Month 3/31/08	Prior 3 Months 3/31/08	Prior 6 Months 3/31/08	Calendar Years						1-Year Ending 3/31/08	3-Years ⁶ Ending 3/31/08	5-Years ⁶ Ending 3/31/08	Expense Ratio
						2007	2006	2005	2004	2003					
OPERS Pre-Mixed Portfolios															
Conservative	CB	-2.69%	-0.47%	-2.69%	-2.86%	4.66%	8.27%	4.88%	6.95%	13.42%	0.49%	5.11%	7.04%	0.20%	
Moderate	MB	-5.74%	-0.66%	-5.74%	-7.13%	5.20%	11.51%	6.38%	9.28%	21.77%	-2.19%	5.93%	9.76%	0.18%	
Aggressive	AB	-7.82%	-0.81%	-7.82%	-10.00%	5.65%	13.94%	7.42%	10.78%	28.09%	-4.07%	6.54%	11.77%	0.18%	
OPERS Funds															
Stable Value															
Bond	SV	1.02%	0.34%	1.02%	2.14%	4.44%	4.48%	4.23%	4.13%	3.99%	4.35%	4.39%	4.26%	0.23%	
	GB	-0.31%	-0.95%	-0.31%	0.95%	4.14%	4.82%	2.74%	5.24%	6.30%	2.16%	3.98%	4.15%	0.20%	
Stock Index															
Large Cap	SI	-9.47%	-0.55%	-9.47%	-12.47%	5.18%	15.70%	6.15%	11.96%	30.80%	-5.99%	6.13%	12.06%	0.03%	
	LC	-10.10%	-1.02%	-10.10%	-12.75%	3.30%	11.54%	6.32%	9.34%	29.61%	-7.29%	3.80%	10.03%	0.21%	
Small Cap	SC	-9.33%	0.28%	-9.33%	-14.32%	-3.14%	14.88%	7.99%	12.78%	48.45%	-13.81%	4.23%	13.65%	0.24%	
Non-US Stock	NU	-10.06%	-2.11%	-10.06%	-11.97%	17.21%	25.26%	16.08%	17.07%	37.49%	1.26%	15.44%	21.87%	0.32%	
Custom Benchmarks															
Conservative Index ¹	CB	-2.00%	-0.08%	-2.00%	-1.58%	6.11%	8.68%	4.43%	6.33%	12.37%	2.42%	5.88%	7.14%		
Moderate Index ²	MB	-5.22%	-0.39%	-5.22%	-6.18%	6.43%	12.48%	5.92%	9.48%	21.11%	-0.74%	6.73%	10.15%		
Aggressive Index ³	AB	-7.35%	-0.59%	-7.35%	-9.18%	6.52%	15.34%	7.00%	11.99%	27.92%	-3.00%	7.38%	12.44%		
Underlying Benchmarks⁵															
Stable Value Index	SV	0.88%	0.23%	0.88%	1.95%	5.00%	4.85%	3.06%	1.33%	1.15%	4.62%	4.41%	3.18%		
Bond Index	GB	1.66%	0.21%	1.66%	4.38%	6.52%	4.98%	2.73%	4.95%	5.84%	6.59%	5.51%	4.97%		
Stock Index	SI	-9.52%	-0.59%	-9.52%	-12.55%	5.13%	15.74%	6.14%	11.94%	31.04%	-6.07%	6.11%	12.07%		
Large Cap Index	LC	-9.50%	-0.68%	-9.50%	-12.42%	5.77%	15.46%	6.29%	11.38%	29.90%	-5.42%	6.20%	11.86%		
Small Cap Index	SC	-9.90%	0.42%	-9.90%	-14.02%	-1.55%	18.35%	4.56%	18.32%	47.25%	-12.99%	5.06%	14.90%		
Non-US Stock Index	NU	-9.14%	-2.20%	-9.14%	-9.74%	16.66%	26.65%	16.62%	20.90%	40.72%	2.16%	16.02%	23.53%		

OPERS Investment Options inception date was 12-27-02. See the Investment Options Guide for details about investment managers, target allocations, and expected fees. Total returns are net of investment management fees.

1. Custom index of underlying benchmarks with same target allocation as OPERS Conservative Portfolio.
2. Custom index of underlying benchmarks with same target allocation as OPERS Moderate Portfolio.
3. Custom index of underlying benchmarks with same target allocation as OPERS Aggressive Portfolio.
4. Asset Classes suggest which benchmark to compare with each Investment Option. CB—Conservative Balanced, MB—Moderate Balanced, AB—Aggressive Balanced, SI—Stable Value, GB—Global Bond, SV—US Stocks Indexed, LC—Large Cap, SC—Small Cap, NU—Non US Stocks.
5. Stable Value Index—Merrill Lynch 3-Month T-bill, Bond Index—Lehman Brothers Universal, Stock Index—Russell 3000®, Large Cap Index—Russell 1000®, Small Cap Index—Russell 2000®, Non-US Stock Index—MSCI ACWI, U.S.
6. 3-Year and 5-Year investment returns are annualized.

CONTACT INFORMATION: www.opers.org

Benefits questions and personal data changes:
1-800-222-PERS(7377)

Account information and management:
1-866-OPERS-4-U (1-866-673-7748)

This newsletter is intended for the use of plan participants and is not intended to constitute investment advice. Comments on investment strategies or on the performance of various investments or markets in this report are intended to provide general information only. They should not be interpreted as encouraging participants to make any particular investment decision. You should consult a financial advisor or attorney as to how this information affects your particular circumstances.