OPERS

Ohio Public Employees Retirement System

The Comprehensive

Annual Financial Report

For the years ended December 31, 2007 and 2006

2007

Prepared by OPERS' Finance Division staff

Positioning OPERS
in a Global Economy

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Plan Statement

Employer Composition and Membership Information

For actuarial purposes, participating employers are divided into state, local government and law enforcement divisions. A complete description of the OPERS membership is contained in the Plan Statement section of this document, beginning on page 142.

Annual Report Organization

This Annual Report is divided into six sections, listed as each appears in this document:

1 **Introductory Section**—with the Letter of Transmittal, organizational chart, and recognition awards garnered in 2007;

2 **Financial Section**—with the Independent Auditor's Report, Management's Discussion and Analysis, the financial statements of the System and Required Supplementary information;

3 **Investment Section**—with a report on investment activity, investment policies, investment results, and various investment schedules;

4 **Actuarial Section**—with the Actuary's Certification Letter, and the most recent results of the annual actuarial valuation;

5 **Statistical Section**—with significant data pertaining to the System, and the

6 **Plan Statement**—with complete membership information and details about the retirement plans offered through OPERS.

Introductory Section

How OPERS Fits in the Global Economy

OPERS is important to Ohio, and Ohio is important to the national and international marketplaces. Few people realize the importance of Ohio commerce within the global economy—and Ohio public employees help fuel that activity. Ohio government offices and facilities such as port authorities help private-sector businesses expand into international markets, a key to success in today's world.

Consider these facts:

- Ranking seventh in export sales, Ohio sends products ranging from fabricated metal to chemicals and electronic equipment to customers in some 200 nations.
- Ohio is the only state in the nation where exports have expanded in each of the past eight years.
- Ohio claims nine ports on Lake Erie and 16 terminals on the Ohio River providing international access to and from the state via the Saint Lawrence Seaway to the Atlantic and via the Port of New Orleans from the Ohio River.
- Facilitating access, Ohio has an outstanding transportation system that includes:
  - About 33,000 trucking companies,
  - The nation's fourth-largest interstate highway system,
  - More than 180 public airports, and
  - Combined total of 36 railways moving people and cargo around the state and beyond.

Public sector employees are critical to Ohio's economy. And, quality employees are attracted to and retained by the public sector by the security of a sound pension system. OPERS is a sound pension system dedicated to serving the public employees and retirees who have contributed so impressively to this global economy.

The OPERS Board of Trustees

Board of Trustees members, as of January 2008

Front row, left to right, seated: Lennie Wyatt, Governor's appointee; Ken Thomas, chair, representing municipal employees; James Tilling, General Assembly appointee; Eddie Parks, representing state employees.

Second row, left to right, standing: Sharon Downs, representing retirees; Hugh Quill, Director of the Ohio Department of Administrative Services; Helen Youngblood, representing county employees; Kimberly Russell, representing college/university employees; John Maurer, representing retirees; Cinthia Sledz, vice chair, representing miscellaneous employees; Vacancy, Treasurer's appointee.

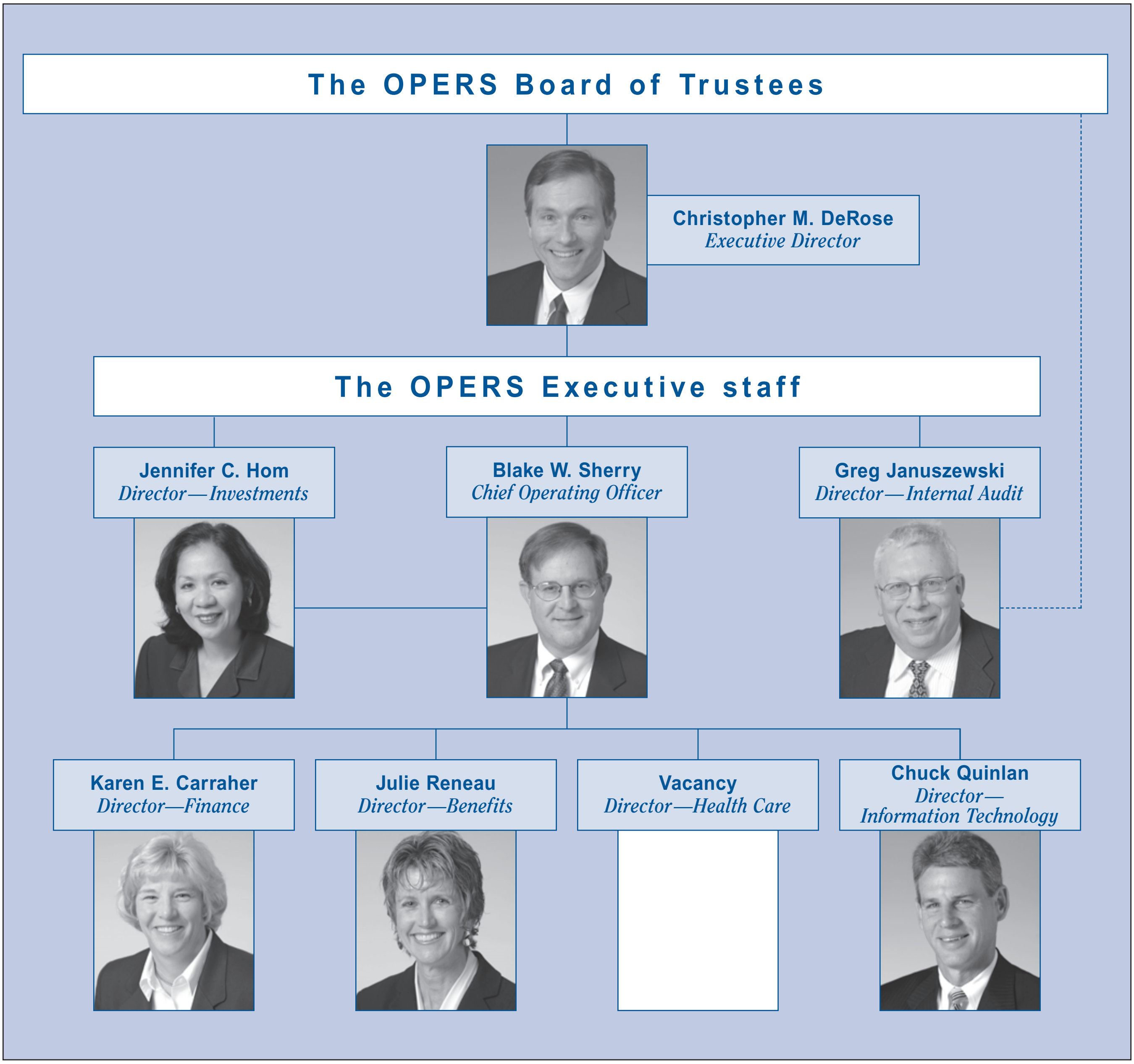
The 11-member Board of Trustees (Board) is the governing body of the Ohio Public Employees Retirement System (referred to as OPERS or the System). The Board is ultimately responsible for the administration and management of all OPERS activities including oversight of investment activities.

The Board is comprised of seven individuals who are elected by the specific stakeholder group each represents: college/university employees, state employees, miscellaneous employees, county employees, municipal employees, and two retiree representatives. Three individuals with investment expertise are appointed by Ohio's Governor, Treasurer, and jointly by the Ohio Legislature. The Board is completed by the Director of the Ohio Department of Administrative Services who serves on the Board by virtue of office.

The OPERS Board of Trustees appoints the Executive Director, an actuary, and other advisors necessary for the transaction of business. By law, the state Treasurer is custodian of OPERS' funds.

The Board meets monthly and receives no compensation, but is reimbursed for necessary expenses.

Organizational Structure



Auditors

Clifton Gunderson
Toledo, Ohio
(under contract with the Auditor of State)

Advisors

Actuary—Gabriel, Roeder, Smith & Company
Southfield, Michigan

Investment Policy Advisors to the Board of Trustees—
Ennis Knupp + Associates (through July 2007)
Chicago, Illinois

Mercer Investment Consultants (July 2007 to present)
Chicago, Illinois

See page 67 for a list of investment consultants and page 83 for a list of external asset managers.

Letter of Transmittal

OPERS **Ohio Public Employees Retirement System**

277 East Town Street Columbus, Ohio 43215-4642 1-800-222-7377 www.opers.org

May 12, 2008

Dear Chairman and Members of the Board of Trustees:

It is our privilege to submit to you the *Comprehensive Annual Financial Report* (Annual Report) for the Ohio Public Employees Retirement System (OPERS or System) for the fiscal years ending December 31, 2007 and 2006.

Over the past decade, the world in which we do business has changed. Technology has made the world a smaller place. Our knowledge of and response to events far and near changes how we think and act. Similarly, the importance of national and international events has affected our marketplace. As the largest retirement system in Ohio, the tenth largest public retirement system in the U.S. and with an asset base of more than $83 billion, OPERS is an important economic engine now moving in and reacting to the global economy. OPERS is a vital element of Ohio's economy and Ohio is an important contributor to the national and international economies. Therefore, it makes sense that OPERS works to actively position itself within the global economy. Recognizing this, the management and staff—with the leadership and at the direction of the Board of Trustees—worked in 2007 to positively position this organization at the local, national and international levels. We believe this report accurately captures the efforts over the past year to do just that.

OPERS was established and exists solely for the purpose of providing retirement, disability and survivor benefits to Ohio's public employees. Additionally, although neither mandated nor guaranteed, OPERS is committed to providing access to and financial assistance with affordable, meaningful health care. As always, the responsibility for the accuracy of the data presented here, as well as the completeness and fairness of the presentation, rests with OPERS management.

A Local Beginning: Serving State Employees

On January 1, 1935, OPERS began providing retirement benefits for employees of the state of Ohio. From 1935 to the present, the System's growth and effective administration has provided benefits and service enhancements for members and retirees. The System has expanded to include employees of counties, municipalities, health departments, park and conservancy districts, elected officials and eligible law enforcement. Survivor benefits were added to the OPERS benefit structure in 1951 and, although not mandated by statute, a subsidy for health care benefits for retirees was added beginning in the 1970s. Legislation enacted in 2000 enhanced benefits for active members and retirees and required the establishment of two new retirement plans. As a result, the Member-Directed Plan and the Combined Plan were implemented in 2003. In 2004, the OPERS Board enacted the Health Care Preservation Plan, a plan design that links the subsidy for health care to years of service and allows future increases in deductibles and cost sharing, changes to eligibility for health care benefits and introduces wellness and prevention programs.

Growing to National Prominence

OPERS strives to continue its status as a top-tier retirement fund providing quality retirement, disability, survivor, and health care benefits and services. OPERS is the prudent steward of the funds paid by Ohio's public employees and their employers into the System during employees' working years. OPERS, in turn, pays benefits to these members throughout their retirement, and to qualified beneficiaries after the member's death. Additional information on available benefits can be found in the Plan Statement section, starting on page 142.

Currently, OPERS serves more than 747,000 members, and provides more than 161,000 retirees and surviving beneficiaries with monthly benefits. In addition, the System works with more than 3,200 public employers. As of December 31, 2007, OPERS managed an asset base of almost $83.6 billion, an increase of $5.2 billion, or 6.6%, from the $78.4 billion asset base reported at year-end 2006.

A Global Presence: 2007 Accomplishments and Initiatives

Recognizing the importance of retaining OPERS' position within a national and international context, in 2007 OPERS began its journey to evolve from a very good organization to a great one. The guiding elements of that transition were established so that strategies directing the future of OPERS could be conceptualized, analyzed, proposed and integrated into the future positioning of the System. This process will culminate in 2008 with the development of a new strategic plan.

The guiding elements of this journey are:

- To ensure that OPERS continually improves its funded status for both pension and health care benefits,
- To work to offer enhanced products and services that meet member needs,
- To articulate to all stakeholders the value of benefits provided, and
- To strive to be one of the best-run pension systems.

The primary element of strengthening the funded status has been and will continue to be the cornerstone of all efforts. OPERS' ability to deliver the promised benefits requires the System's well-funded status be preserved and strengthened. For a pension system, funded status measures the progress of accumulating the funds necessary to meet future obligations. OPERS' most current valuation (December 31, 2006) shows a funded status of 92.6%; a considerable improvement over the prior year's funded status of 87.2%. (Note: The prior year's funded status has been revised from 89.1%, as originally reported, to 87.2%, based on updated actuarial assumptions resulting from a periodic experience study.)

Similarly, based on the last actuarial valuation dated December 31, 2006, OPERS' unfunded actuarial liability of $4.9 billion will be funded, or amortized, in 26 years under current accounting assumptions, which is within the required 30-year limit stipulated in state statute. The Management's Discussion and Analysis, starting on page 20, has a more in-depth discussion of OPERS' funded status.

The System's funded status is enhanced by generating investment income. In fact, 67% of all pension payments come from investment income. In 2007, OPERS had a strong return on investment portfolios. The total investment return was 8.53%, a strong return given a very tough market. A closer look at total return based on the two main underlying portfolios shows that the Defined Benefit Portfolio exceeded its benchmark of 8.7% with an 8.9% return. The Health Care Portfolio had a return of 6.9%, slightly below the benchmark of 7.6%. Investment income added $6.6 billion to assets in 2007. Complete information about OPERS' investment returns, activities and policies governing those activities are more fully explained in the Investment Section, beginning on page 70.

Employer contributions, employee contributions and income from investments provide the reserves needed to finance retirement benefits. OPERS completed the year 2007 with a strong financial performance: Total net assets for the year ended December 31, 2007 were $83.6 billion, a $5.2 billion increase over the prior year.

Expenses for fiscal year 2007 totaled $4.7 billion, an increase of 6.1% over 2006. The increase is primarily due to an increase in the number of benefit recipients. In addition, as is the national trend, retiree health care expenses increased to $50.9 million in 2007, an increase of 4.1%.

OPERS' 2007 administrative expenses, including investment expenses totaling $22.6 million, reflect an increase of $2.0 million, or 2.2%, when compared to fiscal year 2006 expenses. Administrative expenses are detailed in the Financial Section on page 66.

For a complete analysis of the additions and deductions to the Plan Net Assets, please see Management's Discussion and Analysis, beginning on page 20.

In 2008, as part of the strategic plan, OPERS' Board of Trustees and staff will conduct an in-depth review of OPERS' pension products and services. In preparation for this upcoming analysis, the Board continued its work on the health care benefits offered by OPERS. Working to enhance the stability of the Health Care Fund was a major initiative in 2007—and will continue to be in the future. OPERS uses a solvency period to measure its health care funding progress. The solvency period measures how long the current health care funds will last given the expected level of expenditures. Current estimates indicate that OPERS has about 27 years worth of funding for this discretionary benefit. Aimed at strengthening the Health Care Fund, in 2007, three years after the Board approved the plan and after two years of aggressive communications to all stakeholders, the Health Care Preservation Plan (HCPP) was implemented. The plan links the subsidy for health care to years of service and allows variables in deductibles and cost sharing, while introducing nationally recognized best practices in prevention and cost containment.

While the initial HCPP was implemented beginning in 2007, the Board began considering additional changes. In 2007, the Board adopted changes to the plan, referred to as HCPP 2.0. These changes include increasing the overall total health care cost sharing percentage of the member from an average of 9% to 20%, and increasing the age at which a member's spouse is eligible to receive health care to 55. Additional changes in HCPP 2.0 include the development of a pharmacy and health plan purchasing pool, legislative changes to Medicare B reimbursement, and other disease prevention initiatives.

As with the original HCPP, the Board has provided for a deferred implementation on HCPP 2.0 to allow adequate time for communication to our members and appropriate planning on their part. HCPP 2.0 will be effective in varying stages from 2008 to 2012.

In conjunction with HCPP 2.0, the OPERS Board increased the portion of the employer contribution rate set aside to fund health care. The original HCPP increased this funding from 4% to 5.5% over a three-year period. HCPP 2.0 continues this trend and further increases the funding to 7%, beginning in 2008.

These changes help extend the solvency period for the Health Care Fund to 27 years, an increase of nine years from the 2006 solvency period of 18 years. Accordingly, the Board increased the target solvency period from a rolling 15-25 years to a rolling 20-40 years.

OPERS uses the solvency period measure to track the Health Care Fund as an internal measure; however, as required by the GASB, the new accounting standard is used for reporting in the financial statements. OPERS' calculation of the estimated liability for all current and future retirees for the entire amount of health care subsidy OPERS will provide indicates the health care liability is approximately 39% funded—an improvement over the prior year's funded ratio of 35%.

In 2007, OPERS received national recognition for its approach to planning and preparing for providing health care. OPERS was cited as one of the only public retirement systems to pre-fund health care and was recognized as the system with the largest reserve for health care. While OPERS' reserve for health care was $13.3 billion in 2007, the next closest reserve was $2.2 billion; the exact quote from the Pew Report is cited on page 141 of this document.

Think Globally; Act Locally

Although benchmarked against and maneuvering within an international context, OPERS is an important economic engine for Ohio. Indeed, 90% of all retirees retain Ohio residences and therefore provide important economic stability for Ohio. Providing enhanced products and services for members and retirees, and articulating those enhancements, all within a fiscally prudent framework is a guiding element that enjoyed considerable success in 2007.

During 2007, legislation became law that contained many provisions to improve the System's funded status, while enhancing member options. Most significantly, the law allows participants in any of OPERS' retirement plans to contribute voluntarily to a retiree medical account and enhances the Additional Annuity program by providing more competitive interest compounding and payroll deductions, and provides for a variety of other enhanced options for retirees.

In 2007, OPERS paid $4.4 billion in pension benefits and health care coverage to more than 161,000 retired Ohioans and their beneficiaries. Studies indicate that for every $1 of taxpayer funds (via employer contribution) to OPERS, investments and employee contributions plus other sources of revenue return $2.58 back into the Ohio economy. As these dollars ripple through the economy, they generate additional economic activity and have an even greater impact. Articulating the benefits of OPERS to all stakeholders was a priority in 2007, and the efforts have been successful, and lay the groundwork for future success.

OPERS consistently seeks opportunities to improve its funded status by adhering to the guiding element of becoming one of the best-run systems in the world. To further realize the cost savings and enhancements of global technology, OPERS has been methodically investing in developing an infrastructure that minimizes the staff required to service the growing retiree population—a population that will grow exponentially as the baby-boom generation passes through retirement. Recognizing that small savings can grow exponentially with the System's infinite time horizon, OPERS has been diligent in:

- Working to manage the administrative budget,
- Seeking to control health care expenses, and
- Working to ensure the cost of pension benefits is equal so that no group is subsidizing another group.

Investments

The Board of Trustees has recommended, implemented and directs ongoing adherence to an asset allocation strategy that has helped OPERS weather market downturns and positively position the System to take advantage of strong markets. Simply put, the OPERS asset allocation strategy requires a prudent diversification of investments enabling OPERS to manage overall risk, while targeting an adequate rate of return for the fund over the long term. A summary of the Asset Allocation Strategy can be found beginning on page 93 of this report. Please see the Investment Section, starting on page 70, for a more comprehensive discussion of OPERS' investment program.

Internal Controls, Accounting System and Reports

The management of OPERS is responsible for and has implemented systems of internal accounting controls. These controls are designed to assure the safeguarding of assets and the reliability of financial records. We believe that the internal accounting controls currently in place are adequate to meet the purpose for which they were intended. We also believe the financial statements, supporting schedules and statistical tables to be fairly presented in all material respects.

The accrual basis of accounting is used in recording financial transactions. Expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Interest earned is accrued on a monthly basis. Accounts receivable at year end, in addition to accrued interest receivable, reflect accrued member and employer charges and investment proceeds due on sales that have not yet settled. Investments are recorded at fair value. Fixed assets are listed at cost less accumulated depreciation. Under our cash management program, receipts are immediately deposited and are recorded as undistributed deposits until they are allocated to member contributions, employer receivables, employer contributions, and investment income.

Professional Services

Professional services are provided to OPERS by consultants appointed by the Board of Trustees. Actuarial services are provided by Gabriel, Roeder, Smith & Company; Southfield, Michigan. The investment advisor, for all the plans, to the Board of Trustees was Ennis Knupp + Associates; Chicago, Illinois, until July 2007, at which time Mercer Investment Consulting became the Board's investment advisor. The financial records of the System were audited by Clifton Gunderson, Certified Public Accountants; Toledo, Ohio, under contract with the Auditor of the state of Ohio. In addition, both the Real Estate and Private Equity Portfolios within the Investment Division have retained the services of consultants Pacific Corporate Group, Hamilton Lane, and The Townsend Group.

Positioning in a Global Marketplace

To attain the goal of becoming one of the best-run systems in the world, OPERS must continue on its path of innovative, strategic planning now. As the beneficiary of methodical improvements for decades, OPERS has a foundation of financial stability. To continue the path of moving from a very good organization to a great organization, all stakeholders must embrace the common vision of the guiding elements to ensure OPERS is constantly positioned and repositioned within the global marketplace so that we can fulfill our mandate of providing a secure retirement to Ohio's public employees. As with any organization, the accomplishments OPERS reports are possible only through the ongoing efforts of management, staff and the Board of Trustee's direction. As with any organization, our employees are the critical difference—the people behind the numbers and initiatives reported here.

Awards

Our vision and commitment to our members can only be accomplished by vigilant adherence to the highest possible fiscal standards. In 2007, OPERS was honored to have been recognized for its achievements:

2007 Certificate of Achievement

For 24 consecutive years, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to OPERS for its 2006 CAFR.

2007 Distinguished Budget Presentation Award

OPERS was again recognized with GFOA's Distinguished Budget Presentation Award in 2007.

Acknowledgments

The preparation of this report reflects the combined efforts of the System's staff under the direction of the Board of Trustees. Our sincere appreciation is extended to all who assisted in and contributed toward the completion of this document.

The purpose of this report is to provide complete and reliable information as a basis for making management decisions as a means for determining compliance with the legal provisions, and as a means for determining responsible stewardship over the assets held in trust for the members of this System. We sincerely hope we have accomplished those goals.

Respectfully submitted,

Christopher M. DeRose	Karen E. Carraher, CPA	Blake W. Sherry
Executive Director	*Director—Finance*	*Chief Operating Officer*

Karen E. Carraher, CPA
Director—Finance

Christopher M. DeRose
Executive Director

Blake W. Sherry
Chief Operating Officer

Fiduciary Responsibilities

The Board of Trustees and executive management of OPERS are fiduciaries of the pension trust funds. Fiduciaries are charged with the responsibility of assuring that the assets of OPERS are used exclusively for the benefit of plan participants and their beneficiaries.

Request for Information

This financial report is designed to provide the Board of Trustees, our membership, taxpayers, investment managers, and creditors with an overview of OPERS' finances and accountability for the money received. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Ohio Public Employees
Retirement System
Director—Finance
277 East Town Street
Columbus, Ohio 43215-4642

Awards and Recognition

Certificate of Achievement for Excellence in Financial Reporting

Distinguished Budget Presentation Award

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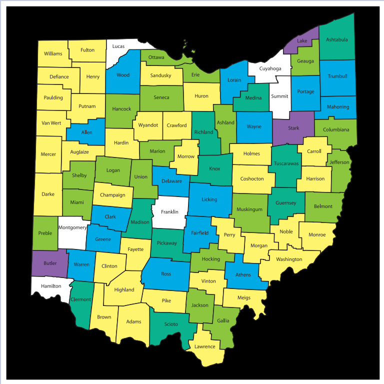
OPERS

Financial Section



Importance of OPERS to Ohio's Economy

OPERS is important to the Ohio economy. Many OPERS retirees stay in the state, providing purchasing power, a seasoned workforce available for reemployment opportunities and, ultimately, stability for Ohio's economy. In fact, almost 90% of all OPERS retirees and beneficiaries choose to remain Ohio residents.

What does that mean to the Ohio economy?

Well, pension benefit payments of more than $3 billion each year are distributed to Ohio residents—creating a significant and positive impact on Ohio's economy. When combined with the health care payments OPERS provides, that figure jumps to $4.4 billion. In addition, OPERS is an employer that creates jobs and that supports Ohio's economy.

OPERS provides significant intangible benefits as well:

- With its tradition of stability, OPERS provides peace of mind to hundreds of thousands of public employees who are currently employed in the public sector, and who will receive pension benefits at some point in the future.
- The OPERS tradition of providing a secure retirement for public employees is a valuable asset for thousands of public employers, enabling employers to attract and retain quality employees to the public sector.

Independent Auditor's Report

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditors' Report

Board of Trustees
The Ohio Public Employees Retirement System and
The Honorable Mary Taylor, CPA
Auditor of State

We have audited the accompanying combining statements of fiduciary net assets of the Ohio Public Employees Retirement System (OPERS) as of December 31, 2007 and 2006, and the related combining statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of OPERS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OPERS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OPERS' as of December 31, 2007 and 2006 and the changes in its fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Audit Standards*, we have also issued a report dated May 12, 2008, on our consideration of OPERS' internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 20 through 33 and the schedules of funding progress and employer contributions and related notes on pages 60 through 65 are not a required part of the combining financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the combining financial statements taken as a whole. The supplementary information included on pages 66 through 67 is for the purpose of additional analysis and is not a required part of the combining financial statements, and, in our opinion, is fairly stated in all material respects in relation to the combining financial statements taken as a whole.

The introductory section on pages 2 through 16, the investment section on pages 70 through 100, the actuarial section on pages 102 through 112, the statistical section on pages 114 through 140 and the Plan Statement on pages 142 through 150 have not been subjected to the auditing procedures applied in the audit of combining financial statements, and accordingly, we express no opinion on them.

Clifton Gunderson LLP

Toledo, Ohio
May 12, 2008

Management's Discussion and Analysis (unaudited)

The management of the Ohio Public Employees Retirement System (OPERS) offers readers of the System's financial statements this narrative overview of the financial activities of OPERS for the years ended December 31, 2007 and 2006. This narrative is intended to supplement the System's financial statements. Readers are encouraged to consider the information presented here in conjunction with the financial statements that begin on page 34.

Overview of the Financial Statements

The following discussion and analysis are intended to serve as an introduction to OPERS' financial statements. The basic financial statements include:

1. Combining Statements of Fiduciary Net Assets
2. Combining Statements of Changes in Fiduciary Net Assets
3. Notes to Combining Financial Statements

As mandated, this *Comprehensive Annual Financial Report* (CAFR or Annual Report) also contains the following schedules, referred to as Required Supplementary Information:

1. Schedules of Funding Progress
2. Schedules of Employer Contributions—Pension
3. Schedules of Contributions from Employers and Other Contributing Entities—Post-employment Health Care
4. Notes to Required Supplementary Information

Expenses associated with administering the System are presented immediately following the Notes to the Required Supplementary Information in the following Additional Information schedules:

1. Administrative Expenses
2. Schedule of Investment Expenses
3. Schedule of Payments to Consultants
4. Schedule of External Asset Managers' Fees

The financial statements contained in this Annual Report disclose financial data for each of the benefit plans described below. These plans are established as separate legal entities in accordance with Internal Revenue Service regulations and Ohio law.

The Traditional Plan

The Traditional Plan is a defined benefit plan in which a member's retirement benefits are calculated on a formula that considers years of service and final average salary.

The Combined Plan

The Combined Plan is a defined benefit plan with elements of a defined contribution plan. Under the Combined Plan, members earn a formula benefit similar to, but at a factor less than, the Traditional Plan benefit level. This defined benefit is funded by employer contributions and associated investment earnings. Additionally, member contributions are deposited into a defined contribution account in which the member self-directs the investment. Upon retirement or termination, the member may choose a defined contribution retirement distribution that is equal in amount to the member's contributions to the plan and investment earnings on those contributions.

The Member-Directed Plan

The Member-Directed Plan is a defined contribution plan in which members self-direct the investment of both member and employer contributions. The retirement distribution under this plan is equal to the sum of member and vested employer contributions, plus investment earnings on those contributions. Employer contributions and associated investment earnings vest over a five-year period at a rate of 20% per year.

Post-employment Health Care Plan

The Post-employment Health Care Plan is a legal plan established under Section 401(h) of the Internal Revenue Code. This plan holds the portion of employer contributions made to the Traditional and Combined Plans that are set aside for funding retiree health care. The health care portion of the employer contribution rate is the same for the Traditional and Combined Plans, and the same benefits are provided to participants in both plans.

Voluntary Employees' Beneficiary Association (VEBA)

The Voluntary Employees' Beneficiary Association (VEBA) is established under Section 501(c) of the Internal Revenue Code, and functions in a manner similar to a Retiree Medical Account (RMA). The VEBA holds the portion of employer contributions made to the Member-Directed Plan that is set aside for funding retiree health care. Contributions and interest vest over a 10-year period and may only be used for eligible health care expenses.

Financial activity for each of these plans is reported in the basic combining financial statements described below:

Combining Statements of Fiduciary Net Assets

The Combining Statements of Fiduciary Net Assets is a point-in-time snapshot of plan fund balances at fiscal year end. It reports the assets available to pay future benefits to retirees, and any liabilities that are owed as of the statement date. The resulting Net Asset Value (Assets – Liabilities = Net Assets) represents the value of assets held in trust for pension and post-employment health care benefits. (See Combining Statements of Fiduciary Net Assets for years ended December 31, 2007 and 2006 on pages 34-35 of this report.)

Combining Statements of Changes in Fiduciary Net Assets

The Combining Statements of Changes in Fiduciary Net Assets displays the effect of financial transactions that occurred during the fiscal year, where Additions – Deductions = Net Increase (or Net Decrease) in Net Assets. This net increase (or net decrease) in net assets reflects the change in the value of Fiduciary Net Assets that occurred between the current and prior year. (See Combining Statements of Changes in Fiduciary Net Assets for years ended December 31, 2007 and 2006 on pages 36-37 of this report.)

Notes to Combining Financial Statements

The Notes to Combining Financial Statements are an integral part of the financial statements and provide additional information that is essential for a comprehensive understanding of the data provided in the financial statements. These notes describe the accounting and administrative policies under which OPERS operates, and provide additional levels of detail for selected financial statement items. (See Notes to the Combining Financial Statements, December 31, 2007 and 2006 on pages 38-59 of this report.)

OPERS implemented GASB Statements 43 and 45 in 2006 and GASB Statement 50 in 2007. These statements expand the note disclosures to include information regarding the funding status of the defined benefit pension plans and post-employment health care plan, and the actuarial methods and assumptions used.

The financial statements described above are prepared in compliance with Governmental Accounting Standard Board (GASB) Pronouncements.

Because of the long-term nature of most pension plans, financial statements alone cannot provide sufficient information to properly reflect the ongoing plan perspective. Therefore, in addition to the financial statements explained above, this report includes two additional Required Supplementary Information schedules and required notes. Each schedule includes historical trend information.

Schedules of Funding Progress

The Schedules of Funding Progress (pages 60-61) includes actuarial information about the status of the defined benefit pension plans from an ongoing, long-term perspective, and the progress made in accumulating sufficient assets to pay pension benefits under these plans when due. Valuation Assets in excess of Actuarial Accrued Liabilities indicate that sufficient assets exist to fund the future defined pension benefits of the current members and benefit recipients. Actuarial Accrued Liabilities in excess of Valuation Assets reflect an Unfunded Actuarial Accrued Liability (UAAL). The UAAL represents the value, in current dollars, that would need to be accumulated to fund the pensions of all active and retired members as of the date represented in the schedule. For OPERS, the UAAL is being systematically funded over 26 years.

Similarly, the Schedule of Funding Progress for the Post-employment Health Care Plan (page 61) includes actuarial information about the status of the health care fund from an ongoing, long-term perspective, and the progress made in accumulating sufficient assets to pay future health care benefits. However unlike pensions, health care benefits are not a statutorily guaranteed benefit and may be changed to ensure the long-term solvency of the fund and OPERS ability to provide future benefits. Actuarial accrued liabilities are determined based on the current plan, and do not reflect potential changes until approved by the Board of Trustees.

Schedules of Employer Contributions and Schedule of Contributions from Employers and Other Contributing Entities

The Schedules of Employer Contributions (page 62) present historical trend information regarding the value of total annual contributions required to be paid by employers for the employees participating in each defined benefit plan, and the actual performance of employers in meeting this requirement. The information contained in these schedules reflects the required contributions based on the contribution rates approved by the Board of Trustees.

Similarly, the Schedule of Contributions from Employers and Other Contributing Entities (page 63) presents information regarding the value of total annual contributions required to fund the health care plan, and the total portion of the employers' contributions applied toward this funding. This schedule is a new requirement in accordance with GASB 43, which OPERS implemented in 2006. Accordingly, historical information prior to 2006 is not available.

Notes to Required Supplementary Information

The Notes to Required Supplementary Information (pages 64-65) provide background information, a summary of the actuarial assumptions used for valuation of the pension and post-employment health care plans, and explanatory detail to help in understanding the required supplementary schedules.

The following schedules are provided as Additional Information regarding the expenses associated with administering the System:

Administrative Expenses

The Administrative Expenses schedule displays the total operating costs of managing the System, by major categories of expense (page 66).

Schedule of Investment Expenses

The Schedule of Investment Expenses summarizes the costs incurred by the Investment Division in managing the investment assets of the System (page 67). These costs are reported as Investment Administrative Expenses in the Combining Statements of Changes in Fiduciary Net Assets, and are reflected as a reduction in Net Investment Income.

Schedule of Payments to Consultants

The Schedule of Payments to Consultants represents payments made to investment consultants for market analyses, performance statistics, etc. These payments are included in the Schedule of Investment Expenses, and provide a more detailed listing of the major investment service providers utilized by the System (page 67).

Schedule of External Asset Managers' Fees

The Schedule of External Asset Managers' Fees reports fees paid to external portfolio managers based on the value of assets managed (page 67). These External Asset Management Fees are not accounted for in OPERS administrative expenses, but are netted against investment income in the Combining Statements of Changes in Fiduciary Net Assets.

Financial Highlights

- The OPERS investment portfolio reported a total return of 8.5% for the year ended December 31, 2007, as compared to 15.1% in 2006.
- Plan net assets increased by $5.2 billion in 2007, or 6.6% over 2006 values, primarily due to investment returns. Plan net assets increased by $8.7 billion or 12.5% during 2006 also due to favorable investment returns in a very strong investment market.

Management's Discussion and Analysis

- The year ended December 31, 2007 closed five consecutive years of investment returns in excess of the actuarial assumed return of 8%, following three straight years of market declines (2000-2002). Returns in excess of the actuarial assumption create an environment in which OPERS actuarial accrued liabilities can be paid down at an accelerated rate. As of December 31, 2006, the date of the most recent actuarial valuation, OPERS' actuarial accrued liabilities for its two defined benefit pension plans exceeded its actuarial value of assets for an unfunded actuarial liability of $4.9 billion. This represents a reduction of nearly $3.2 billion from the revised unfunded actuarial liability of $8.0 billion at December 31, 2005.
- During 2007, an actuarial experience study was performed comparing actual experience for the past five years to the assumptions used in the actuarial valuation. This experience study resulted in changes to the mortality tables used in both the pension and health care valuations. Implementation of these recommendations resulted in a change in the projected actuarial accrued liabilities, unfunded actuarial liability (UAAL), and funding years for the year ended December 31, 2005. The original 2005 valuation UAAL of $6.7 billion was revised upwards to $8.0 billion, with a corresponding reduction in funded ratio from 89% to 87%.
- OPERS' funding objective is to meet long-term benefit obligations and, to the extent possible, fund health care benefits. As of December 31, 2006, the date of the latest actuarial valuation, OPERS' funded ratio was 93%. In general, this means that for each dollar's worth of future pension liability, OPERS has accumulated nearly $0.93 to meet that obligation. The latest actuarial report indicates that if future activity proceeds according to assumptions, OPERS will accumulate sufficient assets to pay all pension liabilities for active members and retirees within 26 years. This represents an improvement in the funding status of the pension liability over that of the preceding year. As of December 31, 2005, the revised valuation indicated an OPERS' funded ratio of 87%, with a funding year requirement of 28 years.
- Fiscal year 2006 marked the first year of reporting OPERS' long-term health care obligation and the corresponding assets set aside to pay that obligation in accordance with the new accounting standard, GASB 43. As of December 31, 2006, the date of the latest actuarial valuation, OPERS' liability for health care benefits was $30.7 billion and the System had accumulated assets for that obligation of $12.0 billion. Although OPERS had an unfunded actuarial liability of $18.7 billion, this represented a reduction of $1.5 billion from the valuation as of December 31, 2005, and an improvement in the funding ratio from 35% to 39%. OPERS is one of only a handful of retirement systems around the country that pre-funds any portion of health care, as the accounting requirements do not mandate pre-funding health care benefits.
- Revenues (additions to plan net assets) for the year 2007 were $9.9 billion, which includes member and employer contributions of $3.1 billion, net gains from investment activities of $6.6 billion, and other income totaling nearly $216.4 million. Other income is comprised of purchased service agreements, employer interest and penalty charges, vendor performance guarantees and rebates, Medicare Part D reimbursements, litigation settlements, interplan activity, and miscellaneous other income. Interplan activity represents transactions between plans that are additions to plan assets. Additions to plan net assets for the year 2006 totaled $13.2 billion, comprised of $2.8 billion in contribution revenues, $10.0 billion in net income from investment activities, and $282.2 million in other income.

- Expenses (deductions to plan net assets) increased from $4.4 billion during 2006 to $4.7 billion in 2007, or 6.1%. The increase relates primarily to pension benefits and health care payments which comprise $4.4 billion of the 2007 expenditures. Refunds of member contributions, including interest and additional payments on withdrawal where required by statute, decreased by $14.1 million or 6.0 % from 2006 to 2007. Administrative expenses increased by 6.4% over the prior year, but represent less than 1.5% of the total expenses. The remaining expenses are comprised of inter-plan activity transactions representing deductions to plan assets.

Analysis of Financial Activities

OPERS' funding objective is to meet long-term benefit obligations with investment income and contributions. Accordingly, the collection of employer and member contributions and the income generated from investment activities provide the reserves needed to finance future retirement and health care benefits. The discussion below provides an analysis of the current year's financial activities in relation to the current member population and relevant economic conditions. Where appropriate, comparative data from the prior year is also presented. (Please refer to Table 3 for relevant membership statistics.)

Additions to Fiduciary Net Assets (Revenues) (Refer to Table 2)

As noted, the reserves needed to finance retirement benefits are accumulated primarily through the collection of member and employer contributions, and through investment income (net of investment expense). Revenues for the year ended December 31, 2007, totaled $9.9 billion, of which $6.6 billion, or 66.5%, resulted from net earnings on investments. For 2006, net investment income in the amount of $10.0 billion accounted for 76.2% of the $13.2 billion in total revenues. The 2006 investment returns represented a significant increase over the 2005 net investment income of $5.7 billion. Net investment income in 2005 comprised 67.4% of the $8.5 billion in total revenues.

Net Assets (as of December 31, 2007, 2006 and 2005) **Table 1**

	2007	2006	2005	Amount Increase/ (Decrease) from 2006 to 2007	Percent Increase/ (Decrease) from 2006 to 2007
Current and other assets	$1,029,607,934	$1,427,899,707	$840,574,773	$(398,291,773)	(27.9)%
Cash and investments at fair value	96,191,475,646	90,592,897,799	80,279,862,945	5,598,577,847	6.2
Capital assets	120,859,724	120,156,097	120,588,673	703,627	0.6
Total assets	97,341,943,304	92,140,953,603	81,241,026,391	5,200,989,701	5.6
Total liabilities	13,781,315,575	13,779,685,826	11,590,719,815	1,629,749	–
Net assets, end of year	**$83,560,627,729**	**$78,361,267,777**	**$69,650,306,576**	**$5,199,359,952**	**6.6%**
Net assets, beginning of year	78,361,267,777	69,650,306,576	65,248,450,856	8,710,961,201	12.5
Net increase in net assets	5,199,359,952	8,710,961,201	4,401,855,720	(3,511,601,249)	(40.3)

Revenues for 2007 decreased by $3.2 billion, or 24.6%, compared to the prior year, due to a softening of the 2007 investment market and the global economy. It's important however, to put this decrease in the proper perspective. In 2007, OPERS earned an 8.5% return despite a weakened investment market. By comparison, the returns for 2006 and 2005 were 14.7% and 9.0%, respectively. In the five years since the market declines of 2000-2002, OPERS has earned a total of $41.4 billion in net investment income, averaging nearly 74% of total revenues during this five-year period. In each of these years, market returns have exceeded the long-term actuarial assumption rate of 8%. The Investment Section of this report summarizes the results of investment activity for the year ended December 31, 2007.

Member and employer contributions for 2007 increased by over $260 million compared to 2006, or 9.2%. This increase reflects both a change in the contribution rates, and an increase in the average salary of contributing members. The contributing member population itself remained at a relatively stable level consistent with 2006 and 2005. Effective January 1, 2006, OPERS implemented a schedule of incremental increases in both the member and employer contribution rates designed to gradually increase the contribution rates up to the statutory maximums. While not guaranteed, it is anticipated that these contribution rate increases will be used to fund the cost of providing health care benefits.

Member contribution rates for state and local employees increased by 0.5% each year in 2006 and 2007, with a final increase of 0.5% anticipated in 2008 up to the statutory maximum of 10%. Employer contribution rates for state and local employees also increased incrementally over the two-year period 2006-2007, with the final increase to the statutory maximum of 14% scheduled in 2008. The employer contribution rates for law enforcement and public safety employers will increase incrementally up to the statutory maximum of 18.1% by 2011. These rate increases represent the first change in contribution rates in over 27 years, and account for over 6% of the total growth in member and employer contribution revenues. The remaining portion of the increase in contribution revenues reflects the growth in the average salary of contributing members, and retiree contributions for health care. The salary trend for wages in the Midwest averaged a 2.9% growth from the December 2006 levels. Similarly, the CPI salary trend for 2006 was an average increase of 2.8% over 2005.

Additions to Fiduciary Net Assets (Revenues) (for the years ended December 31, 2007, 2006 and 2005) — Table 2

	2007	2006	2005	Amount Increase/ (Decrease) from 2006 to 2007	Percent Increase/ (Decrease) from 2006 to 2007
Member contributions	$1,306,554,058	$1,171,079,333	$1,055,269,202	$135,474,725	11.6%
Employer contributions	1,798,305,461	1,673,479,701	1,599,401,084	124,825,760	7.5
Contract and other receipts	151,494,844	216,390,457	120,057,761	(64,895,613)	(30.0)
Medicare Part D reimbursements	59,075,120	58,987,181	–	87,939	0.1
Other miscellaneous income	110,559	1,501,275	980,539	(1,390,716)	(92.6)
Interplan activity	5,730,846	5,286,335	2,457,816	444,511	8.4
Net income from investing activities	6,594,053,702	10,028,554,662	5,740,076,574	(3,434,500,960)	(34.2)
Total additions	**$9,915,324,590**	**$13,155,278,944**	**$8,518,242,976**	**$(3,239,954,354)**	**(24.6)%**

Member and employer contributions for 2006 increased by $189.9 million over 2005, or 7.2%. This increase reflects the first installment of the member and employer contribution rate increases discussed above, as well as an increase in the average salary of contributing members.

Member contributions also include amounts paid by retirees for their share of the cost of health care coverage for their spouse and dependents. In 2007, these contributions totaled nearly $79.2 million, compared to $71.7 million in 2006, or a 10.5% increase. This increase reflects both the rising cost of health care benefits and an increase in the retiree population. The number of retirees increased 2.7% over 2006, with a corresponding increase in the number of recipients eligible for health care coverage.

The 2007 retiree contributions for health care also reflect the first year of implementation of the Health Care Preservation Plan (HCPP), and the impact of cost-sharing and cost-containment efforts incorporated in these plan changes. By comparison, pre-HCPP 2006 retiree contributions for health care increased 13.0% over the 2005 level of $63.4 million, representing a 3.4% increase in the number of retirees.

Contracts and other receipts totaled approximately $151.5 million in 2007, reflecting a 30.0% decrease over the prior year. Nearly 26% of this total reflects negotiated vendor agreements focused on cost containment. In 2007, OPERS recognized over $39.2 million in formulary rebates and performance guarantees, compared to $87.4 million in 2006. The reduction in vendor receipts is primarily related to a change in accounting practice and system improvements implemented in 2006 that permit a more accurate accrual of revenues pending receipt at year end. Nearly half of the 2006 receipts represented rebates and performance guarantees accruing to health care claims activity that occurred in 2005 or prior, payment for which was received in 2006. Beginning in 2006, this revenue is recognized when it can be reasonably estimated, resulting in a one-time growth in revenues. By comparison, the cash basis receipts in 2005 totaled $4 million.

The remaining 74%, or $112.3 million, of contract and other receipts represents payments for the purchase of service credit and other similar arrangements. These additions are comparable to similar activity in 2006, with $129.0 million, and in 2005, with $116.1 million, and reflect fluctuations related to employer elected early retirement incentive programs.

Fiscal year 2006 marked the first year the new Medicare law permitted a federal subsidy for employers that offer a high-quality prescription drug program for retirees and their dependents. The subsidy, which reflects a reimbursement of approximately 25-28% of eligible retiree prescription drug costs, represented approximately $59 million in revenue for OPERS in both 2007 and 2006.

Membership (as of December 31, 2007, 2006 and 2005) **Table 3**

	2007	2006	2005
Active contributing	382,177	381,464	381,413
Inactive	364,823	346,697	327,864
Benefit recipients	161,348	156,747	151,758
Total membership	**908,348**	**884,908**	**861,035**

Other miscellaneous income results from the gain or loss on disposal of OPERS' fixed assets, gifts and bequests, the cancellation of prior year's warrants, and litigation settlements. This activity represents significantly less than 1/10 of 1% of the System's total revenue, totaling $0.1 million in 2007, $1.5 million in 2006, and less than $1.0 million in 2005.

Interplan activity reflects transfers between the plans to settle up for activity occurring between the plans. This activity includes members changing from one plan to another, in addition to the repayment of initial plan start-up costs. Interplan activity in 2007 resulted in a net inflow of $5.7 million, compared to $5.3 million in 2006 and $2.5 million in 2005. Since this activity represents one plan paying another plan, there is a corresponding interplan expense activity of the same amount in each year. (Refer also to the Deductions from Fiduciary Net Assets discussion below.)

Deductions from Fiduciary Net Assets (Expenses) (Refer to Table 4)

OPERS was created to provide retirement, survivor, and disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, elective refunds of contributions to employees who terminate employment with a participating employer, and the cost of administering the System.

Expenses for the year ended December 31, 2007 totaled $4.7 billion, an increase of 6.1% over 2006. Expenses for 2006 also increased by 8.0% when compared to 2005, from $4.1 billion in 2005 to $4.4 billion in 2006. Approximately 93% to 94% of the expenses reported in each of these years relate to pension and post-employment health care benefits paid on behalf of current retirees and their beneficiaries.

Pension benefits increased by $230.1 million over the 2006 level, or 7.9%. This increase reflects the combination of a net growth of 2.9% in the number of retirees and beneficiaries receiving benefits, coupled with an overall increase in the final average salary for new retirees and the changing demographics of the retiree population. Defined benefit pension payments are based on a formula determined by the years of contributing service and the average of the three highest years of earnable salary (or final average salary). The final average of salaries for new retirees in 2007 is approximately 6.6% higher than those who retired in 2006. As the number of new retirees increases as a percentage of the total retiree population, the cost of these pension payments will continue to rise as the percentage of recent retirees with higher final average salaries exceeds the population of

Deductions in Fiduciary Net Assets (Expenses) (for the years ended December 31, 2007, 2006 and 2005) **Table 4**

	2007	2006	2005	Amount Increase/ (Decrease) from 2006 to 2007	Percent Increase/ (Decrease) from 2006 to 2007
Benefits	$4,419,825,053	$4,138,742,001	$3,832,028,461	$281,083,052	6.8%
Refunds	221,092,748	235,136,633	220,236,000	(14,043,885)	(6.0)
Administrative expenses	69,305,991	65,152,774	61,664,979	4,153,217	6.4
Interplan activity	5,730,846	5,286,335	2,457,816	444,511	8.4
Total deductions	**$4,715,954,638**	**$4,444,317,743**	**$4,116,387,256**	**$271,636,895**	**6.1%**

benefit recipients who retired years ago when salaries were significantly lower than those paid for comparable positions today. Pension benefits for 2006 reflect similar increases, rising $227.8 million, or 8.5% over 2005 levels.

The increase in health care benefits also reflects the expanding retiree population and the nation-wide trend in health care inflation that continues to be well in excess of general inflation. However, the expenses incurred by OPERS in 2007 also reflect the impacts of the combination of significant plan design changes, cost-sharing changes and extensive cost containment efforts. As mentioned previously, 2007 represented the first year of implementation for the Health Care Preservation Plan (HCPP). The goal of HCPP was to extend the period of time the health care assets were expected to last. The plan included significant changes to the health care plan design by linking the amount of health care subsidy to years of service and allowed for variables in deductibles and cost containment efforts. Based on the relatively low growth in the health care expenses in 2007, the plan was successful. Health care expenses rose from $1.2 billion in 2006 to $1.3 billion in 2007, or a modest 4.1%. By comparison, health care expenses increased 6.8% between 2005 and 2006.

These expenses are comprised of medical and prescription drug costs, as well as reimbursements to retirees for Medicare Part B premiums. The majority of the $50.9 million increase in total health care expense in 2007 occurred primarily in medical expenses, which increased $37.7 million, or 5.3%. Increases in prescription drug expenses accounted for $3.3 million of the overall increase and the increase in Medicare Part B accounted for $6.9 million of the total increase. Although higher, the overall breakdown of the $78.9 million increase in 2006 health care expenses over the 2005 levels was similar with medical expenses accounting for $41.8 million of the total increase, prescription drug expenses accounting for $25.0 million of the total, and finally, Medicare Part B accounting for $12.2 million of the total increase.

Retirees must enroll in Medicare Part B when they become eligible, and OPERS reimburses them the cost of the basic premium. During 2007, Medicare Part B reimbursements represented $99.2 million of the total health care expenses, rising 7.5% over 2006 levels. Similarly, Medicare B reimbursements in 2006 totaled $92.3 million, or 15.2% higher than 2005 levels. These trends are indicative of the aging retiree population and increases in Federal Medicare premium costs paid by retirees.

As noted above, 2007 represents the first year of implementation of the HCPP. The plan provides monthly allowances for health care coverage for retirees and their dependents to be used for the purchase of medical and pharmacy coverage. Members may select from three levels of coverage with varying costs, co-pays, deductibles, and out-of-pocket maximums. Monthly allowances that exceed the cost of coverage are deposited to a Retiree Medical Account (RMA). The retiree may use the funds in the RMA to pay for health care expenses not covered by the plan, and balances in the RMA vest with the member. Accordingly, OPERS recognizes an expense when funds are deposited into the retiree's RMA and does not recognize expenses associated with the use of those funds. Allowances paid to RMAs in 2007 totaled $3.0 million, and the balances remaining in these accounts at year end are reported as a liability on the Combining Statements of Fiduciary Net Assets.

Refunds of member accounts are at the discretion of the member, and vary from year to year. In 2007, member elected refunds totaled $221.1 million, a decrease of 6.0% over the 2006 value of $235.2 million, but comparable to the 2005 level of $220.2 million. OPERS has consistently managed its Administrative Expense budget with no material variances between planned and actual expenditures in either 2007 or 2006. Administrative expenses including investment expenses for 2007 totaled $91.9 million, up approximately 2.2% from 2006 expenditures of $89.9 million.

Reserves (Refer to Tables 5 and 6)

OPERS' reserves are established from member and employer contributions and the accumulation of investment and other income, net of deductions for benefit payments, refunds of member accounts, and administrative expenses. Chapter 145 of the Ohio Revised Code (ORC) requires that the reserves be maintained in separate funds defined by statute. Table 5 displays the statutory funds that OPERS maintains.

These statutory funds are further subdivided to accumulate reserves by benefit plan. Table 6 displays the values in the statutory funds that comprise the net asset values held in trust for each benefit plan included in the financial statements for 2007 and 2006. The discussion below presents those statutory requirements that govern the transactions recorded in each fund.

OPERS is required to fully fund the Annuity and Pension Reserve Fund and the Survivors' Benefit Fund each year. These two funds hold reserves set aside to pay formula-based defined benefits to retired members and their survivors. This requirement ensures that priority is first given to setting aside funds necessary to pay non-health care pension and survivor benefits to those who have already retired, and to their beneficiaries. Once these pension obligations have been met, reserves are accumulated to fund the future pension benefits of active members.

The Employees' Savings Fund and Employers' Accumulation Fund hold the reserves accumulated from member and employer contributions for those members participating in a defined benefit plan, who have not yet retired. The Defined Contribution Fund reflects the balances accumulated from member and employer contributions and investment earnings for the defined contribution plans. This balance includes the portion of the employer contribution set aside for the VEBA.

As of December 31, 2006, the date of the latest actuarial valuation, OPERS had not only accumulated sufficient assets to fund 100% of the benefits for retirees and their beneficiaries, but had also provided more than 86% of the reserves necessary to fund pensions for active members, based on service credit earned through year-end 2006. As of year-end 2005 OPERS had accumulated 76.5% of the reserves needed to fund pensions for active members. Changes in the funding status of a retirement system provide insights into the progress the system is making in building the reserves necessary to meet future pension and health care obligations.

Reserves (as of December 31, 2007, 2006 and 2005) — Table 5

	2007	2006	2005
Employees' Savings Fund	$10,815,159,012	$10,374,480,725	$9,810,364,125
Employers' Accumulation Fund—Pension/Health Care	40,336,757,059	38,641,822,117	33,061,020,982
Annuity and Pension Reserve Fund	30,699,027,425	27,770,522,547	25,377,301,101
Survivors' Benefit Fund	1,373,512,884	1,313,109,826	1,209,472,794
Defined Contribution Fund—Retirement/Health Care	234,047,349	165,336,652	102,223,154
Income Fund	99,627,634	95,995,910	87,484,700
Expense Fund	2,496,366	0	2,439,720
Total fund balance	**$83,560,627,729**	**$78,361,267,777**	**$69,650,306,576**

Reserves by Plan (as of December 31, 2007 and 2006) **Table 6**

	Traditional Pension Plan	Post-employment Health Care	Combined Plan	Member-Directed Plan	Voluntary Employees' Beneficiary Association	2007
Employees' Savings Fund	$10,814,646,533		$512,479			$10,815,159,012
Employers' Accumulation Fund—Pension/Health Care	26,970,418,583	$13,282,947,482	83,391,067	(73)		40,336,757,059
Annuity and Pension Reserve Fund	30,698,939,078		60,804	27,543		30,699,027,425
Survivors' Benefit Fund	1,373,512,884					1,373,512,884
Defined Contribution Fund—Retirement/Health Care			72,900,216	$123,919,448	$37,227,685	234,047,349
Income Fund	99,627,634					99,627,634
Expense Fund	2,496,366					2,496,366
Total Fund Balance	**$69,959,641,078**	**$13,282,947,482**	**$156,864,566**	**$123,946,918**	**$37,227,685**	**$83,560,627,729**

	Traditional Pension Plan	Post-employment Health Care	Combined Plan	Member-Directed Plan	Voluntary Employees' Beneficiary Association	2006
Employees' Savings Fund	$10,374,152,385		$328,340			$10,374,480,725
Employers' Accumulation Fund—Pension/Health Care	25,743,571,669	$12,838,059,079	60,191,369			38,641,822,117
Annuity and Pension Reserve Fund	27,770,523,103		(556)			27,770,522,547
Survivors' Benefit Fund	1,313,109,826					1,313,109,826
Defined Contribution Fund—Retirement/Health Care			53,479,881	$86,524,882	$25,331,889	165,336,652
Income Fund	95,995,910					95,995,910
Expense Fund						
Total Fund Balance	**$65,297,352,893**	**$12,838,059,079**	**$113,999,034**	**$86,524,882**	**$25,331,889**	**$78,361,267,777**

Funding Status

As previously noted, OPERS total net investment income for the year ended December 31, 2007 totaled $6.6 billion, a return of 8.5% on the total OPERS portfolio. Net investment income for the defined benefit plans comprise $5.7 billion of this total, with a return of 8.9%. This gain continues a five-year period in which investment income has exceeded the actuarial funding requirement of 8.0%. As with all mature retirement systems, OPERS' primary means of funding benefit payments in the future will be through investment income. Ultimately, investment income will provide 80-90% of the funds necessary to pay retirement benefits. Therefore, the long-term rate of investment return is critical to the funding status of the System.

To fully understand the funding status of a retirement system, it is often advisable to view actuarial data in conjunction with financial data. The actuarial value of assets used to calculate funded status is not based on year-end fair value (market value) as of the valuation date. Market gains and losses for actuarial funding purposes are smoothed over a rolling four-year period. This smoothing of actuarial gains and loss mitigates the need to constantly increase or lower contribution rates because volatile market conditions can be recognized (smoothed in) over several years.

The reality of actuarial smoothing techniques is that the fair value (market value) of assets may be significantly different from funding value (actuarial value) of assets at a given point in time. This means that in periods of extended market decline the fair value of assets will usually be less than the funding, or actuarial value of assets. This was the case with OPERS during the extended down market from 2000 to 2002. At December 31, 2006, the date of our latest actuarial evaluation, the actuarial value of net assets set aside to pay defined benefit pension benefits (non-health care assets) was $61.3 billion. The fair value of these assets at December 31, 2006, included in the Traditional and Combined Plans on the financial statements of OPERS was $65.4 billion. Therefore, when viewing actuarial funding status, the market value of assets would provide a superior funding position to the actuarial value of assets as of December 31, 2006. This was also true in 2005. However, as a point of comparison, at the end of 2002 the actuarial value of pension assets exceeded the market value of pension assets, making OPERS appear better-funded than actual market values would have indicated.

In order to ensure that the funding value of assets and the market value of assets remain within a logical proximity of each other, the OPERS Board of Trustees instituted a policy that prohibits the actuarial funding value from varying by more than 12% from the market value of assets. This policy, instituted in 2001, is known as the Market Value Corridor and ensures that the funding value of assets is neither lower than 88% nor higher than 112% of market value. The unfunded actuarial accrued liability (the amount by which the actuarial value of liabilities exceeds the actuarial value of assets) at year-end 2006 makes the System appear less well-funded than it actually is.

It is important to understand how these smoothing techniques affect funded status when reviewing the actuarial related data contained within this Annual Report. Based upon our latest actuarial valuation for the year ended December 31, 2006, the System's actuarial value of liabilities for defined pension benefits exceeded its actuarial value of assets by $4.9 billion. Actuarial projections indicate that the $4.9 billion in unfunded liabilities will be amortized and funded over a 26-year period, which is within generally acceptable funding guidelines. However, based on the actuarial smoothing techniques, OPERS has a $4.1 billion unrealized gain yet to recognize over the next three years. Assuming the System is able to earn a minimum of the actuarial rate of return of 8% each year on the investment portfolio, the System could be close to fully funded within the next five years. By comparison, the 2005 actuarial valuation updated for the changes from the experience study reflected an unfunded actuarial liability of $8.0 billion and a 28-year funding period.

Other Post-employment Benefits (OPEB)

Beginning in fiscal year 2006, the Governmental Accounting Standards Board (GASB) required retirement systems to estimate their liability for health care benefits similar to the manner in which pension liabilities are estimated. However, unlike pensions, the health care benefits OPERS provides (with the exception of Medicare B reimbursement) are not a guaranteed benefit. For 2006, OPERS has estimated a liability for future health care to be $30.7 billion. OPERS is one of a relatively few retirement systems that has systematically set aside assets to fund health care. As of December 31, 2006, OPERS has $12.0 billion in assets as stated on a funding basis (actuarially smoothed over a four-year period in the same manner as pensions), leaving an unfunded liability of $18.7 billion. Simply put, OPERS has accumulated 39.1% of the assets necessary to pay these benefits. Similar to pensions, the market value of the health care assets is $12.8 billion and exceeds the actuarial or funding value of assets of $12.0 billion. By comparison, the health care liability as of December 31, 2005 was $31.8 billion compared to the actuarial value of assets of $11.1 billion, leaving an unfunded liability of $20.7 billion and a funded ratio of 34.8%.

OPERS continues to make changes to the plan design of the health care benefits in addition to increasing the funding to the health care plan. The combination of these changes has increased the period of the time that the accumulated assets will be able to provide benefits, known as the solvency period, to 27 years as of December 31, 2006. OPERS anticipates that the changes already adopted coupled with future changes will continue to extend the solvency period of the fund to the outer edge of the 20-40 year solvency period target.

Financial Analysis Summary

Net assets may serve over time as a useful indication of OPERS' financial position (Please refer to Table 1). At the close of calendar years 2007 and 2006, the net assets of OPERS totaled $83.6 billion and $78.4 billion, respectively. These net assets are available to meet OPERS' ongoing obligations to plan participants and their beneficiaries, and to the extent possible, OPERS post-employment health care benefits.

The market turnaround that began in 2003 and continued through 2007 greatly boosted OPERS' funding position. However, in spite of the investment gains recorded, rising health care costs continue to represent a challenge to funding retirement health care. As previously discussed, member and employer contribution rates will continue to increase to the maximum levels allowed under state law over the next year. If favorable investment returns continue and pension funding remains strong, it is anticipated that these contribution rate increases will continue to be used to increase the percentage of employer contributions used to fund post-employment health care benefits. However, OPERS' first priority remains to be in the position of adequately funding pension benefits.

Capital Assets

As of December 31, 2007, OPERS' investment in capital assets totaled $120.9 million (net of accumulated depreciation and amortization). This investment in capital assets includes equipment, furniture, the office complex and construction in progress. As of December 31, 2006, the investment in capital assets totaled $120.2 million (net of accumulated depreciation and amortization).

OPERS invested a net $11.1 million in capital assets during 2007, compared to an investment of $7.8 million in 2006. The majority of this increase relates to a number of significant information system projects including an imaging project ($1.2 million), a health care preservation plan project ($2.2 million) and mainframe upgrades ($1.3 million). These projects relate to the development of information technology systems necessary to support ongoing operations.

Refer to Note 2c (page 46) in the Notes to Combining Financial Statements for information regarding OPERS' capital asset policies and asset activity.

Combining Statements of Fiduciary Net Assets (as of December 31, 2007 and 2006)

2007

	Traditional Pension Plan	Post-employment Health Care	Combined Plan	Member-Directed Plan	Voluntary Employees' Beneficiary Association
Assets:					
Cash and short-term investments	$858,481,646	$166,407,166	$2,725,143	$3,064,085	$265,568
Receivables:					
Members' and employers' contributions	244,628,880	107,187,056	4,494,759	5,066,218	1,533,363
Retirement incentive plan	7,559,025	676,337	0	0	0
Contract and other receivables	0	36,025,605	0	0	0
Investment sales proceeds	236,936,107	33,489,810	406,904	201,824	121,598
Accrued interest and dividends	239,404,887	64,843,050	362,870	129,772	122,865
Due from other plans	46,029,835	0	0	0	0
Total receivables	774,558,734	242,221,858	5,264,533	5,397,814	1,777,826
Investments, at fair value:					
Bonds	16,719,056,140	6,581,396,111	46,409,890	40,205,777	8,579,391
Domestic Equities	29,420,200,491	4,186,123,350	84,152,612	76,716,346	15,098,700
Real Estate	4,687,879,196	0	5,452,452	1,851	2,405,860
Private Equities	2,342,443,916	0	2,724,486	925	1,202,162
International Equities	15,433,224,552	2,282,909,655	33,354,772	23,669,171	7,920,464
Total investments	68,602,804,295	13,050,429,116	172,094,212	140,594,070	35,206,577
Collateral on loaned securities	11,069,869,796	2,072,493,713	11,788,022	171,375	5,080,862
Capital assets:					
Land	3,069,419	665,394	0	0	0
Building and building improvements	91,908,623	19,852,388	0	0	0
Furniture and equipment	46,594,095	14,941,722	2,067,943	1,652,648	685,811
Total capital assets	141,572,137	35,459,504	2,067,943	1,652,648	685,811
Accumulated depreciation	(47,603,036)	(8,853,297)	(1,998,968)	(1,597,524)	(525,494)
Net capital assets	93,969,101	26,606,207	68,975	55,124	160,317
Prepaid expenses and other assets	387,169	0	0	0	0
TOTAL ASSETS	**81,400,070,741**	**15,558,158,060**	**191,940,885**	**149,282,468**	**42,491,150**
Liabilities:					
Undistributed deposits	1,006,808	8,385	0	0	0
Medical benefits payable	0	142,701,327	0	0	0
Investment commitments payable	355,806,425	57,017,727	1,205,858	1,216,779	182,603
Accounts payable and other liabilities	13,746,634	569,998	0	0	0
Accounts payable RMA claims	0	2,419,428	0	0	0
Due to other plans	0	0	22,082,439	23,947,396	0
Obligations under securities lending	11,069,869,796	2,072,493,713	11,788,022	171,375	5,080,862
TOTAL LIABILITIES	**11,440,429,663**	**2,275,210,578**	**35,076,319**	**25,335,550**	**5,263,465**
Net assets held in trust for pension and post-employment health care benefits	**$69,959,641,078**	**$13,282,947,482**	**$156,864,566**	**$123,946,918**	**$37,227,685**

See Notes to Combining Financial Statements, beginning on page 38. An unaudited Schedule of Funding Progress is presented on pages 60-61.

Combining Statements of Fiduciary Net Assets (continued)

	2006					
2007 Total All Plans	Traditional Pension Plan	Post-employment Health Care	Combined Plan	Member-Directed Plan	Voluntary Employees' Beneficiary Association	2006 Total All Plans
$1,030,943,608	$1,070,224,554	$322,120,585	$1,375,582	$1,644,348	$453,541	$1,395,818,610
362,910,276	243,356,453	82,850,806	4,081,362	3,735,104	1,310,673	335,334,398
8,235,362	9,297,501	762,533	0	0	0	10,060,034
36,025,605	0	34,882,853	0	0	0	34,882,853
271,156,243	437,013,525	80,471,902	508,274	141,400	177,319	518,312,420
304,863,444	207,812,005	67,341,496	264,222	100,587	84,320	275,602,630
46,029,835	39,858,341	0	0	0	0	39,858,341
1,029,220,765	937,337,825	266,309,590	4,853,858	3,977,091	1,572,312	1,214,050,676
23,395,647,309	15,378,955,989	6,116,700,706	31,651,869	28,925,599	3,754,876	21,559,989,039
33,782,291,499	29,564,298,523	4,388,937,986	67,570,979	58,702,156	11,995,795	34,091,505,439
4,695,739,359	3,669,667,684	0	3,466,141	0	1,488,978	3,674,622,803
2,346,371,489	1,331,840,179	0	1,257,974	0	540,398	1,333,638,551
17,781,078,614	13,774,386,824	1,973,897,814	23,570,815	15,636,163	5,588,995	15,793,080,611
82,001,128,270	63,719,149,199	12,479,536,506	127,517,778	103,263,918	23,369,042	76,452,836,443
13,159,403,768	10,710,884,709	2,015,624,266	10,888,345	3,077,000	3,768,426	12,744,242,746
3,734,813	3,069,419	665,394	0	0	0	3,734,813
111,761,011	91,064,352	19,679,465	0	0	0	110,743,817
65,942,219	40,107,800	11,420,812	2,109,036	1,606,366	621,749	55,865,763
181,438,043	134,241,571	31,765,671	2,109,036	1,606,366	621,749	170,344,393
(60,578,319)	(39,513,397)	(7,340,277)	(1,671,182)	(1,272,872)	(390,568)	(50,188,296)
120,859,724	94,728,174	24,425,394	437,854	333,494	231,181	120,156,097
387,169	213,849,031	0	0	0	0	213,849,031
97,341,943,304	**76,746,173,492**	**15,108,016,341**	**145,073,417**	**112,295,851**	**29,394,502**	**92,140,953,603**
1,015,193	1,929,191	0	0	0	0	1,929,191
142,701,327	0	145,895,911	0	0	0	145,895,911
415,429,392	725,040,155	108,410,835	1,626,857	1,394,809	294,187	836,766,843
14,316,632	10,966,544	26,250	0	0	0	10,992,794
2,419,428	0	0	0	0	0	0
46,029,835	0	0	18,559,181	21,299,160	0	39,858,341
13,159,403,768	10,710,884,709	2,015,624,266	10,888,345	3,077,000	3,768,426	12,744,242,746
13,781,315,575	**11,448,820,599**	**2,269,957,262**	**31,074,383**	**25,770,969**	**4,062,613**	**13,779,685,826**
$83,560,627,729	**$65,297,352,893**	**$12,838,059,079**	**$113,999,034**	**$86,524,882**	**$25,331,889**	**$78,361,267,777**

Combining Statements of Changes in Fiduciary Net Assets (for the years ended December 31, 2007 and 2006)

2007

	Traditional Pension Plan	Post-employment Health Care	Combined Plan	Member-Directed Plan	Voluntary Employees' Beneficiary Association
Additions:					
Members' contributions	$1,183,959,051	$79,198,959	$21,907,704	$21,478,344	$0
Employers' contributions	1,051,808,289	695,967,837	19,241,579	21,048,014	10,239,742
Contract and other receipts	105,157,859	45,534,017	347,280	453,716	1,972
Medicare Part D reimbursements	0	59,075,120	0	0	0
Other income, net	40,061	70,498	0	0	0
Interplan activity	4,969,740	0	411,764	278,478	70,864
Total non-investment income	**2,345,935,000**	**879,846,431**	**41,908,327**	**43,258,552**	**10,312,578**
Income from investing activities:					
Net appreciation in fair value	2,978,595,633	479,748,239	5,106,084	3,011,755	1,356,363
Bond interest	1,129,992,693	211,556,481	2,068,604	1,327,507	518,632
Dividends	858,434,727	160,715,579	2,115,341	1,831,840	393,995
Real estate operating income, net	323,118,149	0	340,815	66	148,301
International income	53,310	9,981	56	0	24
Other investment income	514,290,677	13,229,442	547,149	7,206	236,044
External asset management fees	(109,715,953)	(10,491,258)	(255,534)	(219,648)	(50,357)
Net investment income	5,694,769,236	854,768,464	9,922,515	5,958,726	2,603,002
From securities lending activity:					
Security lending income	641,598,796	120,699,574	654,204	173,204	230,115
Security lending expenses	(600,710,408)	(113,044,477)	(610,663)	(172,571)	(211,348)
Net security lending income	40,888,388	7,655,097	43,541	633	18,767
Investment administrative expenses	(18,546,598)	(3,809,128)	(99,818)	(98,543)	(20,580)
Net income from investing activity	**5,717,111,026**	**858,614,433**	**9,866,238**	**5,860,816**	**2,601,189**
TOTAL ADDITIONS	**8,063,046,026**	**1,738,460,864**	**51,774,565**	**49,119,368**	**12,913,767**
Deductions:					
Benefits	3,136,978,910	1,282,776,044	5,451	10,836	53,812
Refunds of contributions	213,007,451	0	2,707,630	5,377,667	0
Administrative expenses	50,053,260	10,796,417	3,890,828	3,601,327	964,159
Interplan activity	718,220	0	2,305,124	2,707,502	0
TOTAL DEDUCTIONS	**3,400,757,841**	**1,293,572,461**	**8,909,033**	**11,697,332**	**1,017,971**
Net increase	4,662,288,185	444,888,403	42,865,532	37,422,036	11,895,796
Net assets held in trust for pension and post-employment health care benefits					
Balance, beginning of year	65,297,352,893	12,838,059,079	113,999,034	86,524,882	25,331,889
Balance, end of year	**$69,959,641,078**	**$13,282,947,482**	**$156,864,566**	**$123,946,918**	**$37,227,685**

See Notes to Combining Financial Statements, beginning on page 38. An unaudited Schedule of Funding Progress is presented on pages 60-61.

Combining Statements of Changes in Fiduciary Net Assets (continued)

	2006					
2007 Total All Plans	Traditional Pension Plan	Post-employment Health Care	Combined Plan	Member-Directed Plan	Voluntary Employees' Beneficiary Association	2006 Total All Plans
$1,306,544,058	$1,065,862,778	$71,718,182	$17,367,629	$16,130,744	$0	$1,171,079,333
1,798,305,461	1,092,998,459	538,312,995	17,689,420	16,363,129	8,115,698	1,673,479,701
151,494,844	122,076,019	93,724,104	427,966	161,894	474	216,390,457
59,075,120	0	58,987,181	0	0	0	58,987,181
110,559	194,492	1,306,783	0	0	0	1,501,275
5,730,846	4,520,387	0	420,198	345,750	0	5,286,335
3,321,260,888	**2,285,625,135**	**764,049,245**	**35,905,213**	**33,001,517**	**8,116,172**	**3,126,724,282**
3,467,818,074	5,715,524,973	1,048,846,038	10,833,636	9,180,809	2,010,876	6,786,396,332
1,345,463,917	955,280,926	179,769,220	1,493,804	1,058,868	336,094	1,137,938,912
1,023,491,482	564,064,821	106,148,349	858,743	590,259	198,453	671,860,625
323,607,331	468,776,390	0	386,802	0	164,928	469,328,120
63,371	763,344,058	143,649,645	629,859	0	268,566	907,892,128
528,310,518	169,343,537	2,829,179	144,707	7,467	59,579	172,384,469
(120,732,750)	(110,641,497)	(10,797,650)	(231,640)	(212,876)	(38,927)	(121,922,590)
6,568,021,943	8,525,693,208	1,470,444,781	14,115,911	10,624,527	2,999,569	10,023,877,996
763,355,893	501,542,742	94,382,644	509,852	144,082	176,459	596,755,779
(714,749,467)	(476,803,625)	(89,727,122)	(484,703)	(136,975)	(167,755)	(567,320,180)
48,606,426	24,739,117	4,655,522	25,149	7,107	8,704	29,435,599
(22,574,667)	(20,496,402)	(4,040,472)	(99,190)	(102,468)	(20,401)	(24,758,933)
6,594,053,702	**8,529,935,923**	**1,471,059,831**	**14,041,870**	**10,529,166**	**2,987,872**	**10,028,554,662**
9,915,314,590	**10,815,588,058**	**2,235,109,076**	**49,947,083**	**43,530,683**	**11,104,044**	**13,155,278,944**
4,419,825,053	2,906,857,436	1,231,870,038	552	1,125	12,850	4,138,742,001
221,092,748	228,034,617	0	1,910,107	5,191,909	0	235,136,633
69,305,991	44,854,241	10,892,971	4,510,803	3,882,917	1,011,842	65,152,774
5,730,846	703,612	0	2,026,194	2,431,876	124,653	5,286,335
4,715,954,638	**3,180,449,906**	**1,242,763,009**	**8,447,656**	**11,507,827**	**1,149,345**	**4,444,317,743**
5,199,359,952	7,635,138,152	992,346,067	41,499,427	32,022,856	9,954,699	8,710,961,201
78,361,267,777	57,662,214,741	11,845,713,012	72,499,607	54,502,026	15,377,190	69,650,306,576
$83,560,627,729	**$65,297,352,893**	**$12,838,059,079**	**$113,999,034**	**$86,524,882**	**$25,331,889**	**$78,361,267,777**

1. Description of OPERS

a. **Organization**—The Ohio Public Employees Retirement System (OPERS, or the System) is a cost-sharing multiple-employer public employee retirement system comprised of three separate pension plans: the Traditional Plan—a defined benefit plan; the Combined Plan—a combination defined benefit/defined contribution plan; and the Member-Directed Plan—a defined contribution plan. All public employees in Ohio except those covered by one of the other state or local retirement systems in Ohio, are members of OPERS. New public employees (those who establish membership in OPERS on or after January 1, 2003) have 180 days from the commencement of employment to select membership in one of the three plans. Contributions to OPERS are effective with the first day of the employee's employment. Contributions made prior to the employee's plan selection are maintained in the Traditional Plan and later transferred, as appropriate.

OPERS maintains two health care related plans: a cost-sharing multiple employer health care plan and a Voluntary Employees' Beneficiary Association (VEBA). The cost-sharing plan provides health care coverage to Traditional and Combined Plan retirees and their beneficiaries. This plan is reported as an Other Post-employment Benefit Plan (OPEB) based on the criteria established by the Government Accounting Standards Board (GASB). Periodically, OPERS alters the health care plan design to protect the ongoing solvency of the plan, but generally, 10 or more years of service is required to qualify for benefits under this plan. The VEBA plan provides Member-Directed Plan participants with a medical spending account option.

OPERS is administered in accordance with Chapter 145 of the Ohio Revised Code (ORC). The accompanying financial statements comply with the provisions of GASB Statement 14, *The Financial Reporting Entity,* and with the provisions of GASB Statement 39, *Determining Whether Certain Organizations Are Component Units,* which subsequently amended portions of Statement 14. These statements require that financial statements of the reporting entity include all of the organizations, activities, functions and component units for which the reporting entity is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board of directors and either (1) the reporting entity's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the reporting entity. OPERS does not have financial accountability over any entities.

OPERS is not part of the state of Ohio financial reporting entity, nor is OPERS a component unit of the state of Ohio. Responsibility for the organization is vested in the System's Board of Trustees, and there is no financial interdependency with the state of Ohio. The Board of Trustees is the governing body of OPERS, with responsibility for administration and management. New legislation enacted in 2004 changed the composition of the Board of Trustees and increased the number of Board of Trustees members. Seven members are elected by the group they represent: the retirees (two representatives); employees of the state, employees of counties, employees of municipalities, non-teaching employees of state colleges and universities and miscellaneous employees. The remaining four members are appointed or designated by position. The governor, general assembly and treasurer of state each appoint a representative. The director of the Ohio Department of Administrative Services completes the Board of Trustees.

The Board of Trustees appoints the executive director, an actuary, and other consultants necessary for the transaction of business. The Board of Trustees meets monthly and receives no compensation, but is reimbursed for necessary expenses.

Employer, employee and retiree data as of December 31, 2007 and 2006 follows:

Employer, Employee and Retiree Data (as of December 31, 2007 and 2006)

Year	2007	2006
Employer units		
State group	273	276
Local government group	3,196	3,187
Law enforcement and public safety group	245	244
Employees, members and retirees—pension		
Traditional Plan retirees and beneficiaries currently receiving benefits	161,342	156,745
Combined and Member-Directed Plan retirees and beneficiaries currently receiving benefits	6	2
Traditional and Combined Plan terminated employees not yet receiving benefits	110,896	104,821
Employees, members and retirees—post-employment health care		
Retirees and beneficiaries currently receiving benefits—OPEB (Traditional and Combined Plan)	204,514	200,494
Retirees and beneficiaries currently receiving benefits—VEBA (Member-Directed Plan)	176	293
Traditional and Combined Plan terminated employees not yet receiving benefits	12,904	12,753
Active employees (all plans)		
State group	124,460	122,049
Local government group	249,304	251,156
Law enforcement and public safety group	8,413	8,259

All public employees, except those covered by another state retirement system in Ohio or the Cincinnati Retirement System, are required to become contributing members of OPERS when they begin public employment unless they are exempted or excluded as defined by the ORC. For actuarial purposes, employees who have earned sufficient service credit (five years or 60 contributing months) are entitled to a future benefit from OPERS.

b. **Benefits**—All benefits of the System, and any benefit increases are established by the legislature pursuant to ORC Chapter 145. The Board of Trustees, pursuant to Chapter 145 of the ORC, has elected to maintain funds to provide health care benefits to Traditional and Combined plan retirees and survivors of members. Health care benefits do not vest and are not a required benefit under ORC 145. As a result they may be reduced or eliminated at the discretion of the Board of Trustees.

- ***Age-and-Service Defined Benefits***—Benefits in the Traditional Plan for state and local members are calculated on the basis of age, final average salary, and service credit. Members are eligible for retirement benefits at age 60 with five years or 60 contributing months of service credit, at age 55 with 25 or more years of service credit, or at any age with 30 or more years of service credit. The annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. Members retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment.

  Effective January 1, 2001, HB 416 divided the OPERS law enforcement program into two separate divisions: Law Enforcement and Public Safety. Both groups of members, as defined in ORC Chapter 145, are eligible for special retirement options under the Traditional Plan and are not eligible to participate in the Member-Directed or Combined Plans. Law enforcement officers may file an application for retirement benefits at age 48 or older with 25 or more years of credited service. Those members classified within the public safety group are eligible for retirement at age 52 with 25 or more years of credited service. Annual benefits under both divisions are calculated by multiplying 2.5% of final average salary by the actual years of service for the first 25 years of service credit, and 2.1% of final average salary for each year of service over 25 years. These options also permit early retirement under qualifying circumstances as early as age 48.

  Prior to 2000, payments to OPERS' benefit recipients were limited under Section 415(b) of the Internal Revenue Code (IRC). OPERS entered into a Qualified Excess Benefit Arrangement (QEBA) with the Internal Revenue Service to allow OPERS benefit recipients to receive their full statutory benefit even when the benefit exceeds IRC 415(b) limitations. Monthly QEBA payments start when the total amount of benefits received by the recipients exceed the IRC limit. The portion of the benefit in excess of the 415(b) limit is paid out of the QEBA and taxed as normal payroll.

  Benefits in the Combined Plan consist of both an age-and-service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, final average salary and years of service. Members are eligible for retirement benefits at age 60 with five years or 60 contributing months of service credit, at age 55 with 25 or more years of service credit, or at any age with 30 or more years of service credit. The annual benefit is based on 1.0% of final average salary multiplied by the years of service in the Combined Plan rather than the 2.2% used in the Traditional Plan. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions plus or minus any investment gains or losses on those contributions.

- ***Defined Contribution Benefits***—Member-Directed and Combined Plan members who have met the retirement eligibility requirements may apply for retirement benefits. A variety of payout options are available to members eligible for these benefits. The amount available for defined contribution benefits in the Combined Plan consists of the members' contributions plus-or-minus the investment gains-or-losses resulting from the members' investment selections. Combined Plan members wishing to receive benefits must meet the requirements for both types—the defined benefit and defined contribution plans. Member-Directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the Member-Directed Plan consists of the members' contributions; vested employer contributions and gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period at a rate of 20% a year.

- ***Early Retirement Incentive Plan***—Employers under OPERS may establish an early retirement incentive plan utilizing the purchase of service credit. To be eligible, employees must be able to retire under existing plan provisions after the purchase of the additional credit. Electing employers must contribute all such additional costs as are actuarially determined to fund the benefit. Such a plan, if adopted by an employer, must be offered to a minimum of 5% of covered employees, and may provide for the purchase of up to five years service credit, limited to a maximum of 20% of the member's total service credit.

- ***Disability Benefits***—OPERS administers two disability plans for participants in the Traditional and Combined Plans. Members in the plan as of July 29, 1992, could elect, by April 7, 1993, coverage under either the original plan or the revised plan. All members who entered the System after July 29, 1992, are automatically covered under the revised plan. Under the original plan, a member who becomes disabled before age 60 and has completed 60 contributing months is eligible for a disability benefit. Benefits are funded by the employee and employer contributions and terminate if the member is able to return to work. The revised plan differs in that a member who becomes disabled at any age with 60 contributing months will be eligible for disability benefits until a determined age. After the disability benefit ends, the member has an opportunity to apply for a service retirement benefit or a refund of contributions, which are not reduced by the amount of disability benefits received. Law enforcement officers are immediately eligible for disability benefits if disabled by an on-duty illness or injury. Members of the Member-Directed Plan are not eligible for disability benefits.

- ***Survivor Benefits***—Dependents of deceased members who participated in either the Traditional or the Combined Plans may qualify for survivor benefits if the deceased employee had at least 18 months of service credit with the plan, and at least three months of credit within the two and one-half years immediately preceding death. ORC Chapter 145 specifies the dependents and the conditions under which they qualify for survivor benefits.

- ***Health Care Benefits***—The ORC permits, but does not require, OPERS to offer post-employment health care benefits (OPEB). The ORC allows a portion of the employers' contributions to be used to fund health care benefits. OPERS maintains a Health Care Fund to provide benefits to the retirees and beneficiaries of the Traditional and Combined plans. The System currently provides comprehensive health care benefits to retirees with 10 or more years of qualifying service credit and offers coverage to their dependents on a premium deduction basis. Coverage includes hospitalization, medical expenses, prescription drugs, and reimbursement of monthly Medicare premiums. The System determines the amount, if any, of the associated health care costs that will be absorbed by the System and attempts to control costs by utilizing managed care, HMOs, case management, disease management, and other programs.

Effective January 1, 2007, OPERS implemented the first phase of the Health Care Preservation Plan (HCPP) to improve the long-term solvency of the Health Care Fund. The plan provides monthly allowances for health care coverage for retirees and their dependents based on the retiree's years of service. The monthly allowances must be used for the purchase of medical and pharmacy coverage. Three levels of coverage are offered with varying costs, co-pays, deductibles, and out of pocket maximums. If the cost of the coverage level selected exceeds the retiree's monthly allowance, the difference is billed to the retiree. Monthly allowances that exceed the cost of coverage are deposited to a Retiree Medical Account (RMA). The retiree may use the funds in the RMA to pay for health care expenses not covered by the plan. Recipients with household income below 150% of the poverty level may apply for a 30% reduction in the cost of premiums.

Participants in the Member-Directed plan are not eligible for health care benefits under the OPEB plan. A portion of employer contributions is placed in a Voluntary Employees' Beneficiary Association (VEBA or RMA) on behalf of members in the Member-Directed Plan. Terminated members and retirees may be reimbursed for qualified medical expenses from their VEBA funds.

- ***Other Benefits***—Once a benefit recipient retiring under the Traditional Plan has received benefits for 12 months, an annual 3% cost-of-living adjustment is provided on the member's base benefit. Members retiring under the Combined Plan receive a 3% cost-of-living adjustment on the defined benefit portion of their benefit. A death benefit of $500-$2,500, determined by number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Traditional and Combined Plans. Death benefits are not available to beneficiaries of Member-Directed Plan participants.

- ***Money Purchase Annuity***—OPERS' age-and-service retirees who become re-employed in an OPERS-covered position must contribute to the System. All re-employed retirees are required to contribute toward a money purchase annuity. The money purchase annuity calculation is based on the accumulated contributions of the retiree for the period of re-employment, and an amount of the employer contributions determined by the Board of Trustees. Upon termination of service, the member can elect to receive a lump sum payout or a monthly annuity.

- ***Refunds***—Members who have terminated service in OPERS-covered employment may file an application for refund of their account. The ORC requires a three-month waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's rights and benefits in OPERS.

  Refunds processed for Traditional Plan members include the member's accumulated contributions, interest and any qualifying employer funds. A Combined Plan member's refund may consist of qualifying employer funds plus the value of their account in the defined contribution plan, which consists of member contributions adjusted by the gains or losses incurred based on their investment selections. Refunds paid to members in the Member-Directed plan include member contributions and vested employer contributions adjusted by the gains or losses incurred based on their investment selections.

c. **Contributions**—OPERS' funding policy provides for periodic employee and employer contributions to all three plans (Traditional, Combined and Member-Directed Plans) at rates established by the Board of Trustees. The rates established for member and employer contributions were approved based upon the recommendations of the System's actuary. All contribution rates were within the limits authorized by the Ohio Revised Code.

Member and employer contribution rates, as a percent of covered payroll, were the same across all three plans for the year ended December 31, 2007. Within the Traditional Plan, member and employer contributions (employer contributions only for the Combined Plan) and an actuarially determined rate of return are adequate to accumulate sufficient assets to pay defined benefits when due. Employee contributions within the Combined Plan are not used to fund the defined benefit retirement allowance. Employer contribution rates as a level percent of payroll dollars are determined using the entry age normal actuarial funding method. This formula determines the amount of contributions necessary to fund: (1) the current service cost, which represents the estimated amount necessary to pay for defined benefits earned by the employees during the current service year; and (2) the prior service cost for service earned prior to the current year and subsequent benefit increases. These contributions represent the amount necessary to fund accrued liabilities for retirement allowances and survivor benefits over a period of time. The annual employer contributions reported for the Traditional Plan for 2007 and 2006 were $1,051,808,289 and $1,092,998,459, respectively. Employer contributions for the Combined Plan for 2007 and 2006 were $19,241,579 and $17,689,420, respectively. Employers satisfied 100% of the contributions requirements.

The following table displays the employee and employer contribution rates as a percent of covered payroll for each division for 2007, 2006, and 2005. Based upon the recommendation of the System's actuary, a portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care benefits. The portion of Traditional and Combined Plan employer contributions allocated to health care was 5.0% from January 1 through June 30, 2007, and 6.0% from July 1 through December 31, 2007, as compared to 4.5% for the entire year in 2006. The employer contribution as a percent of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2007 and 2006 was 4.5%.

Board of Trustees-Approved Contribution Rates—All Plans

	Employee Rate			Employer Rate		
	2007	2006	2005	2007	2006	2005
State group	9.50%	9.00%	8.50%	13.77%	13.54%	13.31%
Local government group	9.50	9.00	8.50	13.85	13.70	13.55
Law enforcement group	10.10	10.10	10.10	17.17	16.93	16.70
Public safety group	9.75	9.00	9.00	17.17	16.93	16.70

The Ohio Revised Code authorized maximum rates are 14.0% for state and local employers and 18.1% for public safety and law enforcement employers. The employee authorized maximum contribution rates are 10.0% for employees in the state and local divisions and 10.1% for members in the law division. The employee public safety rate is established by the Board and has no maximum rate established by the Ohio Revised Code.

ORC Chapter 145 assigns authority to the Board of Trustees to amend the funding policy. As of December 31, 2007, the Board of Trustees adopted the contribution rates that were recommended by the actuary.

As of December 31, 2006, the date of the last actuarial study, the funding period was 26 years. The funding period for the actuarial study performed for the year ended December 31, 2005, was 21 years. However, changes in actuarial assumptions related to mortality based on an experience study performed in 2007, increased this period to 28 years.

d. **Commitments and Contingencies**—OPERS has committed to fund various private equity investments totaling approximately $1.7 billion and $1.3 billion at December 31, 2007, and December 31, 2006, respectively. The expected funding dates for these commitments extend through 2016. OPERS is a party in various lawsuits relating to plan benefits. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material adverse effect on OPERS' financial position.

2. Summary of Significant Accounting Policies

The following are the significant accounting policies followed by OPERS for all of its pension and health care plans:

a. **Basis of Accounting**—The financial statements are prepared using the accrual basis of accounting under which deductions are recorded when the liability is incurred. Pension benefit payments are due the first day of the month following the retirement of a member, and the first of each month thereafter. Refunds, for any member who makes a written application to withdraw their contributions, are payable three months after the member's termination of OPERS-covered employment. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Additions to the plans consist of contributions (member and employer), health care reimbursements, other contract receipts, interplan activities, net investment income, and other miscellaneous income. Contributions are recorded in the period the related salaries are earned and become measurable pursuant to formal commitments, statutory or contractual requirements. Accordingly, both member and employer contributions for the years ended December 31, 2007 and 2006 include year-end accruals based upon estimates derived from subsequent payment activity and historical payment patterns. Member and employer contributions, which are based on members' salaries, are due 30 days after the month in which salaries are earned. Health care reimbursements are recognized when they become measurable and due OPERS based on contractual requirements. Therefore, health care reimbursements contain estimates based on information received from health care vendors and other sources. Plan changes, settlement activity and other interplan activity are recorded as an addition or deduction, based on the nature of the transaction, when the transactions occur. Investment purchases and sales are recorded as of their trade date.

The accounting and reporting policies of OPERS conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to government organizations. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

GASB Statement 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and Statement 26, *Financial Reporting for Post-employment Health Care Plans Administered by Defined Benefit Pension Plans,* require that the three pension plans (Traditional, Member-Directed and Combined) and the two health care funds (Post-employment Health Care and VEBA) be shown separately in the Combined Financial Statements as they are legally separate plans. To meet this requirement, plan assets and liabilities, where possible, were specifically identified to a plan or health care fund. Assets and liabilities that were not specifically identifiable to a plan or health care fund were allocated based on calculation and projection formulas that take into account daily investment return, daily plan cash inflows and outflows, and analysis and allocation of administrative expenses.

GASB Statement 43, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans (OPEB),* establishes standards that pension systems must use when reporting post-employment benefits, other than pension benefits (such as post-employment health care). GASB Statement 43 was implemented for the year ended December 31, 2006.

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pensions,* established the standards that employers must use when reporting participation in retirement systems that administer post-employment benefit plans. GASB Statement 45 was early implemented for the year ended December 31, 2006.

GASB Statement 50, *Pension Disclosures,* established the standards for enhancing footnote disclosures for pension plans consistent with standards under GASB Statement 43 and 45. GASB Statement 50 was early implemented for the year ended December 31, 2007.

b. **Investments**—OPERS is authorized by ORC Section 145.11 to invest under a prudent person standard and does so through an investment policy established by the Board of Trustees. The prudent person standard requires the Board of Trustees, "To discharge their duties with respect to the funds solely in the interest of the participants and beneficiaries and defraying reasonable expenses of administering the System; with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims; and by diversifying the investments of the system so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so."

Member-Directed Plan participants self direct the investment of both member and employer contributions. Contributions must be invested with an investment manager approved by the OPERS Board of Trustees. Similarly, participants in the Combined Plan self direct the investment of member contributions. The investment assets for all other plans are invested under the direction of OPERS' Investment staff in conformance with Board of Trustees-approved policies.

Plan investments are reported at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. All investments, with the exception of real estate and private equity, are valued based on closing market prices or broker quotes. Securities not having a quoted market price have been valued based on yields currently available on comparable securities of issuers with similar credit ratings. The fair value of real estate investments is based on estimated current values and independent appraisals. Private equities are valued based on the most current net asset values and activities through year end.

Net appreciation (depreciation) in the fair value of investment assets is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value. Commissions paid to brokers are considered a part of the investment asset cost and are, therefore, not reported as expenses of the System. Brokerage commissions for 2007 and 2006 were $27,825,427 and $24,334,321, respectively. Investment administrative expenses consist of custodial banking fees and those expenses directly related to OPERS' internal investment operations, and include a proportional amount of overhead that is allocated based on either the ratio of OPERS' Investment Division square footage to total office square footage or investment personnel to total OPERS' personnel, as appropriate.

c. **Capital Assets**—Capital assets are recorded at cost. OPERS has adopted a capitalization threshold that is used to identify whether assets purchased by the System are classified as capital assets or operating expenses. Building enhancements, furniture and equipment with a cost equal to or greater than $5,000 and computer software purchases of $25,000 or more are recorded as capital assets and depreciated based on the useful life of the asset.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets according to the following schedule:

Straight-line Method of Computing Depreciation

	Years
Buildings and building improvements	50
Furniture and equipment	3-10

The table below is a schedule of the capital asset account balances as of December 31, 2006, and changes to those account balances during the year ended December 31, 2007.

Capital Asset Account Balances

	Land	Building and Building Improvements	Furniture, Fixtures and Equipment	Total Capital Assets
Cost:				
Balances, December 31, 2006	$3,734,813	$110,743,817	$55,865,763	$170,344,393
Additions	0	1,639,955	10,076,456	11,716,411
Write-offs	0	(622,761)	0	(622,761)
Balances, December 31, 2007	3,734,813	111,761,011	65,942,219	181,438,043
Accumulated Depreciation:				
Balances, December 31, 2006	0	11,116,803	39,071,492	50,188,295
Depreciation expense	0	2,300,240	8,105,861	10,406,101
Write-offs	0	(16,077)	0	(16,077)
Balances, December 31, 2007	0	13,400,966	47,177,353	60,578,319
Net capital assets, December 31, 2007	$3,734,813	$98,360,045	$18,764,866	$120,859,724

d. **Undistributed Deposits**—Cash receipts are recorded as undistributed deposits until they are allocated to employers' receivables, members' contributions, or investment income.

e. **Federal Income Tax Status**—OPERS is a qualified plan under Section 401(a) of the Internal Revenue Code and is exempt from federal income taxes under Section 501(a).

f. **Funds**—In accordance with the ORC and Internal Revenue Service (IRS) regulations, various funds have been established to account for the reserves held for future and current benefit payments. Statutory and IRS mandated funds within each of the three pension plans are as follows:

Traditional Plan

- ***The Employees' Savings Fund***—represents members' contributions held in trust pending their refund or transfer to a benefit disbursement fund. Upon an employee's refund or retirement, such employee's account is credited with an amount of interest (statutory interest) on the employee's contributions based on a Board of Trustees approved rate in effect, which can range from 1% to 4%. Employees eligible for a refund also receive additional funds from the Employers' Accumulation Fund, if qualified. The ORC Chapter 145 requires statutory interest to be compounded annually.
- ***The Employers' Accumulation Fund***—is used to accumulate employers' contributions to be used in providing the reserves required for transfer to the Annuity and Pension Reserve Fund as members retire or become eligible for disability benefits, and to the Survivors' Benefit Fund for benefits due dependents of deceased members.

- ***The Employers' Accumulation Health Care Fund***—is used to accumulate employers' contributions to be used in providing the reserves required for transfer to the Annuity and Pension Reserve and Survivors' Benefit Funds for health care benefits paid for retirees and dependents of deceased members.
- ***The Annuity and Pension Reserve Fund***—is the fund from which annuity, disability, and health care benefits that do not exceed the IRC 415(b) limitations are paid. This reserve was fully funded according to the latest actuarial study dated December 31, 2006, and accordingly, there are sufficient assets available in this fund to pay the vested pension benefits of all retirees and beneficiaries as of the valuation date.
- ***The Survivors' Benefit Fund***—is the fund from which benefits due dependents of deceased members of the System that do not exceed the IRC 415(b) limitations are paid. This fund also was fully funded with relation to vested pension benefits as of December 31, 2006.
- ***Qualified Excess Benefit Arrangement (QEBA)***—is the fund from which annuity, disability and survivors' benefits are paid when the recipient exceeds the IRC 415(b) limits. This reserve is funded by employer contributions on an as-needed basis; therefore, it is fully funded.
- ***The Income Fund***—is the fund credited with all investment earnings and miscellaneous income. Annually the balance in this fund is transferred to other funds to aid in the funding of future benefit payments and administrative expenses.
- ***The Expense Fund***—provides for the payment of administrative expenses with the necessary monies allocated to it from the Income Fund.

Member-Directed Plan

- ***The Defined Contribution Fund***—represents members' and employers' contributions held in trust pending their refund or commencement of benefit payments. Members self-direct the investment of these funds. Employer funds vest with the member over a five-year period at a rate of 20% per year.
- ***The Annuity and Pension Reserve Fund***—is the fund from which annuity benefits are paid. Upon retirement, Member-Directed participants may elect to liquidate their defined contribution accounts for deposit into a defined benefit annuity. The value of the annuity is based on the value of the defined contribution account at the time of liquidation.
- ***The Income Fund***—is the fund credited with all investment earnings and miscellaneous income. The balance in this fund is used to fund the gains or losses incurred by participants and to fund administrative expenses of the Member-Directed Plan.
- ***The Expense Fund***—provides for the payment of administrative expenses with the necessary monies allocated to it from the Income Fund.
- ***The Voluntary Employees' Beneficiary Association (VEBA) Fund***—is the fund used to accumulate employer contributions in a retiree medical account. The effective date of the VEBA program coincides with the effective date of the Member-Directed Plan. Accordingly, since January 1, 2003, a portion of employer contributions made on behalf of

members electing to participate in the Member-Directed Plan has been deposited to the VEBA. Upon termination, Member-Directed participants can use vested VEBA funds for reimbursements of qualified medical expenses. VEBA funds vest with the member over a 10-year period.

Combined Plan

- ***The Defined Contribution Fund***—represents members' contributions held in trust pending their refund or commencement of benefit payments. Members self-direct the investment of these funds.
- ***The Employees' Savings Fund***—represents members' deposits for the purchase of service credit held in trust pending their refund or transfer to the Annuity and Pension Reserve or Survivors' Benefit Funds. Upon an employee's refund or retirement, such employee's accounts are credited with an amount of interest (statutory interest) on the employee's deposits based on a rate of 1%.
- ***The Employers' Accumulation Fund***—is used to accumulate employers' contributions to be used in providing the reserves required for transfer to the Annuity and Pension Reserve Fund as members retire. Disability and survivor benefits are funded by transfers to Traditional Plan funds, which pay such benefits.
- ***The Employers' Accumulation Health Care Fund***—is used to accumulate employers' contributions to be used in providing health care benefits to retirees and dependents of deceased members.
- ***The Annuity and Pension Reserve Fund***—is the fund from which retirement allowances and health-care benefits are paid. This reserve was fully funded according to the latest actuary study dated December 31, 2006.
- ***Qualified Excess Benefit Arrangement (QEBA)***—is the fund from which annuity benefits exceeding the IRC 415(b) limits are paid for the defined benefit portion of the Combined Plan. As of December 31, 2007, there were no benefits being paid out of the fund to Combined Plan participants.
- ***The Income Fund***—is the fund credited with all investment earnings and miscellaneous income. The balance in this fund is transferred to other funds to the credit of the member account and to aid in the funding of future benefit payments and administrative expenses.
- ***The Expense Fund***—provides for the payment of administrative expenses with the necessary monies allocated to it from the Income Fund.

The statutory funds defined by ORC 145 and the IRC required funds are not mutually exclusive. The Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets are presented based on IRC requirements. The following schedule provides the values of the statutory funds and how they are distributed among the various retirement and health care plans administered by the System. The rows represent the statutory funds required by the ORC. In total, these funds will equal the fiduciary net assets of the System. To support the fiduciary net assets for each plan included in the statements, the schedule has been expanded to include the value of the statutory funds as they relate to each plan.

Statistical and IRC Fund balances at December 31, 2007 and 2006 are as follows:

Statutory and IRC Fund Balances (as of December 31, 2007 and 2006)

For Year Ended December 31, 2007	Traditional Plan	Post-employment Health Care	Combined Plan	Member-Directed Plan	VEBA	Total
Employees' Savings Fund	$10,814,646,533	$0	$512,479	$0	$0	$10,815,159,012
Employers' Accumulation Fund	26,970,418,583	13,282,947,482	83,391,067	(73)	0	40,336,757,059
Annuity and Pension Reserve Fund	30,698,939,078	0	60,804	27,543	0	30,699,027,425
Survivors' Benefit Fund	1,373,512,884	0	0	0	0	1,373,512,884
Defined Contribution Fund	0	0	72,900,216	123,919,448	37,227,685	234,047,349
Income Fund	99,627,634	0	0	0	0	99,627,634
Expense Fund	2,496,366	0	0	0	0	2,496,366
Total	**$69,959,641,078**	**$13,282,947,482**	**$156,864,566**	**$123,946,918**	**$37,227,685**	**$83,560,627,729**

For Year Ended December 31, 2006	Traditional Plan	Post-employment Health Care	Combined Plan	Member-Directed Plan	VEBA	Total
Employees' Savings Fund	$10,374,152,385	$0	$328,340	$0	$0	$10,374,480,725
Employers' Accumulation Fund	25,743,571,669	12,838,059,079	60,191,369	0	0	38,641,822,117
Annuity and Pension Reserve Fund	27,770,523,103	0	(556)	0	0	27,770,522,547
Survivors' Benefit Fund	1,313,109,826	0	0	0	0	1,313,109,826
Defined Contribution Fund	0	0	53,479,881	86,524,882	25,331,889	165,336,652
Income Fund	95,995,910	0	0	0	0	95,995,910
Expense Fund	0	0	0	0	0	0
Total	**$65,297,352,893**	**$12,838,059,079**	**$113,999,034**	**$86,524,882**	**$25,331,889**	**$78,361,267,777**

g. Risk Management—OPERS is exposed to various risks of loss related to theft of, damage to, and destruction of assets; injuries to employees; and court challenges to fiduciary decisions. To cover these risks OPERS maintains commercial insurance and holds fidelity bonds on employees. There were no reductions in coverage nor have there been any settlements exceeding insurance coverage for the past three years. As required by state law, OPERS is registered and insured through the state of Ohio Bureau of Workers' Compensation for injuries to employees. OPERS is self-insured for employee health care coverage. The only outstanding liabilities at the end of 2007 and 2006 were related to the employee health care coverage (see Note 8).

h. Reclassifications—Certain 2006 balances have been reclassified to conform with the current year presentation.

i. Use of Estimates—In preparing the financial statements in conformity with accounting principles generally accepted in the U.S., the Board makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amount of additions to and deductions from net assets during the reporting period. Actual results could differ from those estimates and assumptions.

3. Cash and Investments

A summary of cash and short-term securities and investments held at December 31, 2007 and 2006 is as follows on the next page:

Summary of Cash and Short-term Securities and Investments (held at December 31, 2007 and 2006)

	2007 Fair Value	2006 Fair Value
Cash and Short-term Investments:		
Cash	$101,162,570	$37,448,520
Short-term Securities:		
Commercial Paper	86,562,931	128,715,745
U.S. Treasury Obligations	35,656,916	15,044,581
Agency Discount Notes	669,506	274,116
Repurchase Agreements	508,137,000	775,000,000
Money Market Bonds	0	149,983,237
Short-term Investment Funds (STIF)	298,754,685	289,352,411
Total Short-term Securities	$929,781,038	$1,358,370,090
Total Cash and Short-term Investments	**$1,030,943,608**	**$1,395,818,610**
Investments:		
Bonds:		
U.S. Corporate Bonds	$7,459,132,854	$5,963,781,951
Non-U.S. Bonds	1,785,223,748	1,534,070,833
U.S. Government and Agencies	7,463,435,091	6,520,570,781
U.S. Mortgage Backed	6,687,855,616	7,541,565,474
Total Bonds	$23,395,647,309	$21,559,989,039
Domestic Equities	$33,782,291,499	$34,091,505,439
Real Estate	4,695,739,359	3,674,622,803
Private Equities	2,346,371,489	1,333,638,551
International Equities	17,781,078,614	15,793,080,611
Total Investments Before Collateral	**$82,001,128,270**	**$76,452,836,443**
Collateral on Loaned Securities:		
Cash	$13,159,403,768	$12,744,242,746
Total Collateral on Loaned Securities	**$13,159,403,768**	**$12,744,242,746**
Total Investments	**$95,160,532,038**	**$89,197,079,189**

a. **Custodial Credit Risk, Deposits**—Custodial credit risk for deposits is risk that, in the event of the failure of a depository financial institution, OPERS will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. All non-investment related bank balances at year end were insured or collateralized with securities held by OPERS' pledging financial institution. Deposits held in the investment related bank account were neither insured nor collateralized for amounts in excess of $100,000. As of December 31, 2007, deposits totaling $48,844,236 were neither insured nor collateralized. OPERS has no formal policy specific to custodial credit risk. These assets are under the custody of the treasurer of the state of Ohio.

b. **Custodial Credit Risk, Investments**—The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, OPERS will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Since the treasurer of the state of Ohio, as custodian, holds all investments in the name of OPERS or its nominee, OPERS' investments are not exposed to custodial credit risk.

c. **Credit Risk**—Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

OPERS' risk management policy over credit risk includes limiting non-investment grade securities to 15% of total global bond assets. Limitations on the holding of non-investment grade securities are included in portfolio guidelines to ensure compliance with this constraint.

d. **Interest Rate Risk**—Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. OPERS monitors the interest rate risk inherent in its portfolio by measuring the weighted average duration of its portfolio. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The effective duration measures the sensitivity of the market price to parallel shifts in the yield curve. The OPERS *Interest Rate Risk Policy* states the average effective duration of all Defined Benefit assets must be within 20% of the average effective duration of the benchmark (60% Lehman Universal Index; 40% Lehman Long Government/Credit Index).

The following table presents the credit quality ratings and effective durations of OPERS' global bond assets, including short-term investments as of December 31, 2007.

Average Credit Quality and Exposure Levels of Guaranteed Securities

Fixed Income Security Type	Fair Value	Percent of All Fixed Income Assets	Weighted Average Duration to Maturity (years)	AAA	AA
Commercial Paper	$86,562,931	0.4%	0.00	$44,643,785	$41,919,146
Repurchase Agreements	508,137,000	2.1	0.00	508,137,000	
Money Market/STIF	298,754,685	1.2	0.00	298,754,685	
Corporate Bonds	6,169,331,238	25.4	6.50	426,353,266	917,043,040
Municipal Bonds	10,770,000	0.0	0.00	2,770,000	8,000,000
Asset Backed Securities	1,157,980,580	4.8	2.03	792,955,198	244,432,868
Collateralized Mortgage Obligations	2,147,386,856	8.8	4.31	2,092,565,076	8,741,687
Mortgages	2,184,482,276	9.0	3.24	2,138,647,683	42,261,765
Non-U.S. Corporate Bonds	1,172,839,754	4.8	8.23	60,887,400	110,479,294
Non-U.S. Mortgage	85,375,083	0.4	2.85	71,465,958	6,320,079
Non-U.S. Asset Backed Securities	76,249,749	0.3	2.88	20,299,879	22,360,263
Non-U.S. Government	450,759,162	1.9	7.57		
Commingled Long-Term Global Bonds	219,663,887	0.9	3.42		
Agency Mortgages	2,257,373,633	9.3	3.67	2,257,373,633	
Agency Bonds	1,122,596,612	4.6	6.32	1,070,900,703	51,695,909
Total Non-Government Guaranteed	**$17,948,263,446**	**73.8%**		**$9,785,754,266**	**$1,453,254,051**
U.S. Treasury Notes/Bonds	$2,844,039,770	11.7%	8.94	$2,844,039,770	
U.S. Strips	710,810,619	2.9	18.18	710,810,619	
U.S. Treasury Inflation Protected	2,785,988,090	11.5	7.84	2,785,988,090	
U.S. Treasury and Agency Discount Notes	36,326,422	0.1	0.23	36,326,422	
Total Global Bonds and Short-Term Securities	**$24,325,428,347**	**100.0%**		**$16,162,919,167**	**$1,453,254,051**

e. Concentration of Credit Risk—Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. OPERS' portfolio has no single issuer exposure that comprises 5% or more of the overall portfolio and, therefore, there is no concentration of credit risk.

f. Foreign Currency Risk—Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. OPERS currency risk exposures, or exchange rate risk, primarily reside within OPERS' international equity investment holdings. OPERS' implementation policy is to allow OPERS' external managers to decide what action to take regarding their respective portfolio's foreign currency exposures using forward-currency contracts. See chart on page 54.

Average Credit Quality and Exposure Levels of Guaranteed Securities (continued)

A	BBB	BB	B	CCC	CC	C	D	Not Rated
$1,956,084,568	$2,211,706,485	$117,722,562	$413,780,485	$117,352,662	$158,750			$9,129,420
61,210,578	50,428,226	1,231,423	4,008,708	3,543,330		$170,249		
20,476,005	25,604,088							
2,133,993				1,438,835				
454,833,930	453,277,735	29,126,612	58,940,086	3,109,463				2,185,234
5,596,576	1,992,470							
27,638,605		5,787,199	13,803					150,000
29,773,205	146,391,842	223,294,389	40,245,395	1,316,550			$7,013,427	2,724,354
								219,663,887
$2,557,747,460	**$2,889,400,846**	**$377,162,185**	**$516,988,477**	**$126,760,840**	**$158,750**	**$170,249**	**$7,013,427**	**$233,852,895**
$2,557,747,460	**$2,889,400,846**	**$377,162,185**	**$516,988,477**	**$126,760,840**	**$158,750**	**$170,249**	**$7,013,427**	**$233,852,895**

OPERS' exposure to foreign currency risk in U.S. dollars as of December 31, 2007 is as follows:

Exposure to Foreign Currency Risk in U.S. Dollars (as of December 31, 2007)

Currency	Cash	Forwards	Bonds	International Equities	Real Estate	Private Equities
Argentine Peso	$936,188		$3,673,167			
Australian Dollar	2,130,370	$1,892,939		$278,258,737		
Brazilian Real	(2,044,101)		50,735,366	66,655,107		
British Pound Sterling	6,155,729	(76,201,334)		1,354,802,695	$56,587,444	$31,924,169
Canadian Dollar	9,575,018	17,342,744		184,106,621		
Chinese Yuan Renminbi	(26,574)					
Columbian Peso	(48,777)		17,650,223			
Czech Koruna	39,228			8,804,669		
Danish Krone	1,372			21,456,476		
Egyptian Pound	8,556		2,616,327	14,778,136		
Euro Currency	(9,436,280)	48,976,189	8,116,280	2,087,701,795	87,066,586	270,290,090
Hong Kong Dollar	(2,092,557)	(392,902)		407,640,103		
Hungarian Forint	(234,802)		3,497,669	6,422,806		
Indian Rupee	5,148,067			23,811,012		
Indonesian Rupiah	132,086		12,270,379	10,898,582		
Israeli Shekel	2,607,197	2,436,617	2,477,685	16,967,780		
Japanese Yen	1,506,427	(11,232,598)		1,366,615,910		
Malaysian Ringgit	620,382		6,181,452	32,470,252		
Mexican Peso	1,544,674	4,928,082	14,658,416	47,813,901		
New Zealand Dollar	1,137,605			10,537,852		
Norwegian Krone	1,649,425	(20,311,572)		47,786,389		
Philippine Peso	111,893			2,993,958		
Polish Zolty	30,883	2,024,948	2,419,320	6,020,600		
Singapore Dollar	426,992			79,998,181		
South African Rand	6,759,826	5,984,774	4,167,049	53,866,964		
South Korean Won	(1,901,684)		421,667	287,912,395		
Swedish Krona	65,696			88,438,408		
Swiss Franc	2,817,874			342,715,321		
Taiwan Dollar	8,438,126			168,074,883		
Thailand Baht	245,870			44,531,636		
Turkish Lira	113,715	1,765,596	21,810,758	58,827,875		
Uruguay Peso	7,142		6,367,818			
Total	**$36,425,565**	**$(22,786,516)**	**$157,063,575**	**$7,120,909,043**	**$143,654,029**	**$302,214,259**

g. **Securities Lending**—OPERS maintains a securities lending program. OPERS uses its own discretion to determine the type and amount of securities lent under the program. Under this program securities are loaned to brokers. In return, OPERS receives cash collateral and agrees to return the collateral for the same securities in the future. Cash collateral from securities loaned is, simultaneous to the loan, reinvested in repurchase agreements (repos) and short-term securities. Securities loaned are collateralized at a minimum of 102% of the market value of loaned U.S. securities and 105% of the market value of loaned international securities. Collateral is marked-to-market daily. OPERS does not have the ability to pledge or sell collateral securities absent a broker default. If the market value of the collateral held falls below the required levels, additional collateral is provided. There is always a positive spread between the cost of funds raised from a securities loan and the income earned from the associated repurchase. At year end, OPERS had no credit risk exposure to borrowers because the fair value of collateral OPERS held exceeded the fair value of securities loaned.

As of December 31, 2007, the fair value of securities on loan was $12,852,633,782. Associated collateral totaling $13,159,403,768 was comprised of cash.

As of December 31, 2006, the fair value of securities on loan was $12,413,233,712. Associated collateral totaling $12,744,242,746 was comprised of cash.

Net security lending income is composed of three components: gross income, broker rebates, and agent fees. Gross income is equal to earnings on cash collateral received in a security lending transaction. A broker rebate is the cost of using that cash collateral. Agent fees represent the fees paid to the agent for administering the lending program. Net security lending income is equal to gross income less broker rebates and agent fees. Security lending income for 2007 and 2006 was recorded on a cash basis, which approximated accrual basis.

h. **Derivatives**—Derivatives are generally defined as contracts whose values depend on, or are derived from, the value of an underlying asset, reference rate or index. OPERS has classified the following as derivatives:

- ***Forward-Currency Contracts***—OPERS enters into various forward-currency contracts to manage exposure to changes in foreign-currency exchange rates on its foreign portfolio holdings. The System may also enter into forward-currency exchange contracts to provide a quantity of foreign currency needed at a future time at the current exchange rates, if rates are expected to change dramatically. A forward-exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risk associated with such contracts includes movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. The contracts are valued at forward-exchange rates, and the changes in value of open contracts are recognized as net appreciation/depreciation in the statement of changes in fiduciary net assets. The realized gain or loss on forward-currency contracts represents the difference between the value of the original contracts and the closing value of such contracts and is included as net appreciation/depreciation in the statement of changes in fiduciary net assets.

The fair values of forward-currency contracts were as follows:

Fair Values of Forward-Currency Contracts (as of December 31, 2007 and 2006)

	2007	2006
Forward-currency purchases	$999,415	$5,194,104
Forward-currency sales	973,699	8,044,691
Unrealized loss	(881)	(22,762)

The fair values of contracts hedged were:

Fair Values of Contracts Hedged (as of December 31, 2007 and 2006)

	2007	2006
Hedge-contract purchases	$126,398,857	$314,481,543
Hedge-contract sales	149,211,089	325,269,211
Unrealized gain	1,827,733	683,328

- ***Stock Index Futures Contracts***—OPERS enters into various stock index futures contracts to manage exposure to changes in foreign equity markets and to take advantage of equity index movements on an opportunistic basis. A stock index future is a futures contract that uses a stock index as its base, and which is settled by cash or delivery of the underlying stocks in the index. Financial futures represent an off-balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. Futures contracts differ from forward contracts by their standardization, exchange trading, margin requirements, and daily settlement (marking to market). Risk associated with stock index futures contracts includes adverse movements in the underlying stock index. The following table shows the futures positions held by OPERS as of December 31, 2007 and 2006.

Futures Positions Held (as of December 31, 2007 and 2006)

	2007		2006	
Stock Index Futures	Number of Contracts	Contract Principal	Number of Contracts	Contract Principal
Equity Futures purchased long	8,563	$647,882,560	5,244	$418,435,360
U.S. Treasury Futures purchased long	566	63,741,531	402	43,545,094
U.S. Treasury Futures purchased short	(264)	(31,194,297)	(14)	(2,856,438)
Euro Futures purchased short	(42)	(10,119,750)	(28)	(6,633,900)
10 Year Interest Rate Swap purchased short	143	15,797,031	(1)	(106,328)

- ***Credit Default Swaps***—OPERS may manage credit exposure through the use of credit default swaps. A credit default swap (CDS) is a contract whereby the credit risk associated with an investment is transferred by entering into an agreement with another party who, in exchange for periodic fees, agrees to make payments in the event of a default or other predetermined credit event. One of the main advantages of a CDS is it allows for exposure to credit risk while limiting exposure to other risks such as interest rate and currency risk. As of December 31, 2007, OPERS held credit default swaps with a notional value of $25,065,000. At December 31, 2006 OPERS did not hold credit default swaps.

4. Leases

OPERS leases equipment with lease terms of one year or less. Total lease expense was $423,535 and $527,668 for the years ended December 31, 2007 and 2006, respectively.

5. Vacation and Sick Leave

As of December 31, 2007 and 2006, $5,890,173 and $5,377,150, respectively, were accrued for unused vacation and sick leave for OPERS' employees. Employees who resign or retire are entitled to full compensation for all earned but unused vacation leave. Unused sick leave pay is forfeited upon termination. However, employees who retire with more than 10 years of service are entitled to receive payment for a percentage of unused sick leave.

6. Deferred Compensation Plan

OPERS does not sponsor a deferred compensation program. OPERS employees are eligible to participate in the deferred compensation plan sponsored by the state of Ohio. The state-sponsored plan was created in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all OPERS employees, permits them to defer a portion of their salary until future years. Deferred compensation assets are not available to employees until termination, retirement, death, or unforeseeable emergency.

IRC Section 457 requires that the amount of compensation assets deferred under a plan, all property and rights, and all income attributable to those amounts, property, or rights be held in trust for the benefit of the participants. This insulates IRC Section 457 benefits from the claims of an employer's general creditors. Accordingly, OPERS does not include the deferred compensation assets or liabilities of the Ohio Deferred Compensation Plan in its financial statements.

7. Schedule of Required Contributions

All employees of the OPERS are eligible for membership in the benefit plans of the System. The annual required pension and health care contributions for OPERS' employees for the year ended December 31, 2007, 2006 and 2005 are as follows:

Annual Required Pension and Health Care Contributions

	Pension		Health Care	
Year Ended	Annual Required Contribution	Percent Contributed	Annual Required Contribution	Percent Contributed
2007	$3,109,122	100%	$2,046,417	100%
2006	3,263,993	100	1,596,518	100
2005	3,134,980	100	1,313,080	100

8. Self-insured Employee Health Care

OPERS is self-insured under a professionally administered plan for general health, hospitalization, and prescription drug employee benefits. OPERS maintained specific stop-loss coverage per employee for medical benefits in the amount of $250,000 for both 2007 and 2006. OPERS has a lifetime maximum coverage per employee for medical benefits in the amount of $2,500,000.

The summary of changes in incurred, but unreported, claims for the years ended December 31, 2007 and 2006 follows:

General Health Insurance

	2007	2006
Balance January 1	$38,220	$45,437
Claims Incurred	4,716,884	5,173,077
Claims Paid	(4,683,197)	(5,180,294)
Balance December 31	**$71,907**	**$38,220**

9. Pension and Health Care Plans

The funded status of the Pension and Health Care plans as of December 31, 2006, the most recent actuarial valuation date, is as follows:

Funded Status of the Pension and Health Care Plans ($ in millions)

Plan	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
Pension	$66,161	$61,296	$4,865	93%	$12,175	40%
Health Care	30,748	12,025	18,723	39	12,175	154

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Schedules of Funding Progress for defined pension benefits and post-employment health care are presented on pages 60-61 of the Required Supplementary Information section of this document.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the Actuarial Required Contribution rate (ARC), an amount that is actuarially determined in accordance with the parameters of GASB Statements 25 and 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Key methods and assumptions used in the latest actuarial valuations are presented below.

Key Methods and Assumptions Used in Health Care Actuarial Valuation

Actuarial Information	Pension	Health Care
Valuation date	December 31, 2006	December 31, 2006
Actuarial cost method	Individual entry age	Individual entry age
Amortization method	Level percentage of pay, open	Level percentage of pay, open
Amortization period	26 years	30 years
Asset valuation method	4-year, smoothed market, 12% corridor	4-year, smoothed market, 12% corridor
Actuarial assumptions:		
Investment rate of return	8.0%	6.5%
Projected salary increases	4.5%-10.3% (includes wage inflation at 4.0%)	4.5%-10.3% (includes wage inflation at 4.0%)
Health care cost trend rate	N/A	9% initial, 4.0% ultimate

Required Supplementary Information (unaudited)

Schedule of Funding Progress* ($ in millions) — Traditional and Combined Pension Plans

Valuation Year	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
2006	$66,161	$61,296	$4,865	93%	$12,175	40%
2005#	62,498	54,473	8,025	87	11,807	68
2005#**	61,146	54,473	6,673	89	11,807	57
2004	57,604	50,452	7,152	88	11,454	62
2003	54,774	46,746	8,028	85	11,165	72
2002	50,872	43,706	7,166	86	11,207	64
2001	47,492	48,748	(1,256)**	103	10,782	(12)

* The amounts reported on this schedule do not include assets or liabilities for post-employment health care benefits.
** Valuation assets were in excess of AAL.
#* Results from original valuation prior to re-statement after completion of experience study.
Revised from results reported in 2006 CAFR due to updating actuarial assumptions based on experience study.

Schedule of Funding Progress* ($ in millions) — Traditional Plan

Valuation Year	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
2006	$66,089	$61,235	$4,854	93%	$11,971	41%
2005#	62,447	54,433	8,014	87	11,633	69
2005#**	61,099	54,433	6,666	89	11,633	57
2004	57,573	50,430	7,143	88	11,313	63
2003	54,756	46,737	8,019	85	11,056	73
2002	50,872	43,706	7,166	86	11,207	64
2001	47,492	48,748	(1,256)**	103	10,782	(12)

* The amounts reported on this schedule do not include assets or liabilities for post-employment health care benefits.
** Valuation assets were in excess of AAL.
#* Results from original valuation prior to re-statement after completion of experience study.
Revised from results reported in 2006 CAFR due to updating actuarial assumptions based on experience study.

See Notes to Required Supplementary Information, beginning on page 64.

See accompanying independent auditor’s report on pages 18-19.

Schedule of Funding Progress* ($ in millions) — Combined Plan**

Valuation Year	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
2006	$72	$61	$11	85%	$205	5%
2005#	51	40	11	78	174	6
2005#*	47	40	7	85	174	4
2004	31	22	9	71	141	6
2003	18	9	9	50	109	8

* The amounts reported on this schedule do not include assets or liabilities for post-employment health care benefits.
** Plan inception January 1, 2003.
# Revised from results reported in 2006 CAFR due to updating actuarial assumptions based on experience study.
#* Results from original valuation prior to re-statement after completion of experience study.

Schedule of Funding Progress*** ($ in millions) — Post-employment Health Care Plan

Valuation Year	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
2006	$30,748	$12,025	$18,723	39%	$12,175	154%
2005#	31,796	11,070	20,726	35	11,806	176
2005#*	31,307	11,070	20,237	35	11,806	171
2004	29,479	10,816	18,663	37	11,454	163

*** GASB 43 was implemented in 2006. Actuarial data prior to 2004 is not available.
# Revised from results reported in 2006 CAFR due to updating actuarial assumptions based on experience study.
#* Results from original valuation prior to re-statement after completion of experience study.

See Notes to Required Supplementary Information, beginning on page 64.

See accompanying independent auditor’s report on pages 18-19.

Required Supplementary Information

Schedule of Employer Contributions* — Traditional and Combined Plans

Year Ended December 31	Annual Required Contributions	% Contributed
2007	$1,071,049,868	100%
2006	1,110,687,879	100
2005	1,122,388,137	100
2004	1,069,594,041	100
2003	979,674,494	100
2002	974,999,979	100

Schedule of Employer Contributions* — Traditional Plan

Year Ended December 31	Annual Required Contributions	% Contributed
2007	$1,051,808,289	100%
2006	1,092,998,459	100
2005	1,106,755,953	100
2004	1,057,429,880	100
2003	971,223,297	100
2002	974,999,979	100

Schedule of Employer Contributions* — Combined Plan**

Year Ended December 31	Annual Required Contributions	% Contributed
2007	$19,241,579	100%
2006	17,689,419	100
2005	15,632,184	100
2004	12,164,161	100
2003	8,451,197	100

* The Board of Trustees has approved all contribution rates as recommended by the actuary. Annual required contributions exclude funds deposited for purchase of service credit, employer paid retirement incentive programs, interest and penalties. These deposits are included in Contract and Other Receipts in the Combining Statements of Changes in Fiduciary Net Assets.

** Plan inception January 1, 2003.

See Notes to Required Supplementary Information, beginning on page 64.

See accompanying independent auditor's report on pages 18-19.

Schedule of Contributions from Employers and Other Contributing Entities — Post-employment Health Care

Year Ended December 31	Annual Required Contributions	% Contributed by Employers#	Federal Subsidy	Total % Contributed
2007	$2,068,922,571	33.64%	$59,075,120	36.49%
2006***	1,990,561,830	27.06	58,987,181	30.01

*** GASB 43 was implemented in 2006. Actuarial data prior to 2006 is not available.

The % Contributed by Employers displays the percentage of the annual required contributions that was billed to employers (and paid) each year.

See Notes to Required Supplementary Information, beginning on page 64.

See accompanying independent auditor's report on pages 18-19.

Description of Schedule of Funding Progress

Each time a new benefit is added which applies to service already rendered, an unfunded actuarial accrued liability is created. Laws governing OPERS require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to unfunded actuarial accrued liability.

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amount, with a corresponding increase in unfunded actuarial accrued liabilities—all at a time when the actual value of these items, in real terms, may be decreasing. Looking at just the dollar amounts of unfunded actuarial accrued liabilities can be misleading. Unfunded actuarial accrued liabilities divided by active employee payroll provides an index that adjusts for the effects of inflation. The smaller the ratio of unfunded actuarial accrued liabilities to active member payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

Actuarial Assumptions and Methods

Defined Benefit Pension Plans:

- ***Funding Method***—An entry age normal actuarial cost method of valuation is used in determining benefit liabilities and normal cost. Differences between assumed and actual experience (the actuarial gains and losses) become part of unfunded actuarial accrued liabilities. Unfunded actuarial accrued liabilities for pension benefits are amortized over a period of time to produce payments that are level percents of payroll contributions based on an open amortization period.

  As of December 31, 2006, the date of the last actuarial study, the funding period was 26 years. The funding period for the actuarial study performed for the year ended December 31, 2005 was 21 years, however, changes in actuarial assumptions related to mortality resulting from an experience study performed in 2007, amended this period to 28 years.

- ***Asset Valuation Method***—For actuarial purposes, assets are valued utilizing a method which recognizes book value plus or minus realized and unrealized investment gains and losses amortized on a straight-line basis over a four-year period.

- ***Significant Actuarial Assumptions***—Assumptions employed by the actuary for funding purposes as of December 31, 2006, the date of the latest actuarial study, and 2005 include:

  - ***Investment Return***—An investment return rate of 8% compounded annually for all members, retirees, and beneficiaries was assumed for the years 2006 and 2005.

  - ***Salary Scale***—The active member payroll was assumed to increase 4% annually, which is the portion of the individual pay increase assumption attributable to inflation and overall productivity. Also assumed were additional projected salary increases ranging from 0.50% to 6.30% per year depending on age, attributable to seniority and merit.

  - ***Benefit Payments***—Benefit payments are assumed to increase by 3% of the original retirement benefit per year after retirement.

- ***Multiple Decrement Tables:***

  - ***Mortality***—The rates used for retiree allowances were 110% of the RP-2000 mortality table for males and 100% of the RP-2000 mortality table for females with 15 years of projected mortality improvements. The rates used for disability allowances were the RP-2000 mortality table for disabled lives, setback four years for males and set-forward four years for females.

The mortality tables for the December 31, 2006 actuarial valuation were changed based on the results of an experience study. For retirees in the December 31, 2005 valuation, 90% of the rates in the 1971 *Group Annuity Mortality Male and Female Tables,* projected to 1984 were used to project mortality. The mortality rates for disability allowances were 300% of the rates in the 1983 *Group Annuity Mortality Table for Males,* and 400% of the rates in the 1983 *Group Annuity Mortality Table for Females.*

- ***Disability***—Projections for active employees are based on OPERS' experience.
- ***Withdrawal***—Projections for active employees are based on OPERS' experience.

Post-employment Health Care Benefits:

- ***Funding Method***—An individual entry age actuarial cost method of valuation is used in determining benefit liabilities and normal cost. Differences between assumed and actual experience (the actuarial gains and losses) become part of unfunded actuarial accrued liabilities. Unfunded actuarial accrued liabilities for post-employment health care benefits are amortized over a period of time to produce payments that are level percents of payroll contributions based on an open amortization period.

- ***Asset Valuation Method***—For actuarial purposes, assets are valued utilizing a method which recognizes book value plus or minus realized and unrealized investment gains and losses amortized on a straight-line basis over a four-year period.

- ***Significant Actuarial Assumptions***—Assumptions employed by the actuary for funding purposes as of December 31, 2006, the date of the latest actuarial study, and for 2005, include:

  - ***Investment Return***—An investment return rate of 6.5% compounded annually for all members, retirees, and beneficiaries was assumed for the years 2006 and 2005.

  - ***Salary Scale***—The active member payroll was assumed to increase 4% annually, which is the portion of the individual pay increase assumption attributable to inflation and overall productivity. Also assumed were additional projected salary increases ranging from 0.50% to 6.30% per year depending on age, attributable to seniority and merit.

  - ***Benefit Payments***—Health care expenses are assumed to increase at the projected wage inflation rate of 4% plus an additional factor ranging from 0.5% to 5% for the next eight years. In subsequent years, (nine and beyond) health care costs were assumed to increase at the projected wage inflation rate.

    In the December 31, 2005 valuation, health care expenses were assumed to increase at the projected wage inflation rate of 4% plus an additional factor ranging from 0.5% to 6% for the next nine years. In subsequent years, (10 and beyond) health care costs were assumed to increase at the projected wage inflation rate.

- ***Multiple Decrement Tables:***

  - ***Mortality***—The rates used for retiree allowances were 110% of RP-2000 mortality table for males and 100% of RP-2000 mortality table for females with 15 years of projected mortality improvements. The rates used for disability allowances were the RP-2000 mortality table for disabled lives, setback four years for males and set-forward four years for females.

    The mortality tables for the December 31, 2006 actuarial valuation were changed based on the results of an experience study. For retirees in the December 31, 2005 valuation, 90% of the rates in the 1971 *Group Annuity Mortality Male and Female Tables,* projected to 1984, were used to project mortality. The mortality rates for disability allowances were 300% of the rates in the 1983 *Group Annuity Mortality Table for Males,* and 400% of the rates in the 1983 *Group Annuity Mortality Table for Females.*

Administrative Expenses* (for the years ended December 31, 2007 and 2006)

	2007	2006
Personnel Expenses:		
Wages and salaries	$38,180,152	$37,012,786
Retirement contributions—OPERS	5,155,539	4,860,511
Retirement contributions—Medicare	494,078	470,670
Employee insurance	4,719,758	5,036,195
Other personnel expense	343,189	420,080
Purchased Services and Supplies:		
Professional expenses:		
Audit services	281,623	252,589
Actuarial services	607,361	555,834
Consulting services	771,660	1,542,344
Investment and financial services	6,690,751	6,960,138
Legal and investigation services	2,286,907	1,201,856
Medical examinations	2,129,561	2,455,501
Retirement Study Council	241,924	251,853
Custodial and banking fees	4,005,371	5,410,821
Information technology	5,454,023	4,127,636
Communications	2,661,467	2,876,241
Office supplies and equipment	678,273	677,365
Training and travel expenses	1,667,358	1,584,940
Other miscellaneous	127,259	98,848
Facility expenses	4,994,380	4,352,341
Subtotal Operating Expenses	**81,490,634**	**80,148,549**
Depreciation Expense:		
Building	2,284,163	2,140,443
Furniture and equipment	8,105,861	7,622,715
Subtotal Depreciation	**10,390,024**	**9,763,158**
Total Administrative Expenses	**91,880,658**	**89,911,707**
Investment expenses	(22,574,667)	(24,758,933)
Net Administrative Expenses	**69,305,991**	**65,152,774**

*2006 restated to reflect change in account classifications.

Schedule of Investment Expenses (for the years ended December 31, 2007 and 2006)

	2007	2006
Investment services	$10,321,092	$11,907,788
Investment staff expense	9,836,888	10,425,078
Investment legal services*	552,545	778,903
Allocation of administrative expenses	1,864,142	1,647,164
(See Note 2b to Financial Statements)		
Total Investment Expenses*	**$22,574,667**	**$24,758,933**

*Excludes fees and commissions, please see Schedule of Brokerage Commissions Paid presented on page 79.

Schedule of Payments to Consultants

OPERS paid the following investment consultants during 2007:

CEM Benchmarking Inc	$55,000
Ennis Knupp + Associates	315,000
Hamilton Lane Advisors LLC	358,084
Macroeconomic Advisors LLC	23,350
Mercer Investment Consulting	214,404
Pacific Corporate Group	300,000
Strategic Capital Management AG	25,000
The Townsend Group	425,000
Total	**$1,715,838**

Schedule of External Asset Managers' Fees (for the years ended December 31, 2007 and 2006)

	2007	2006
Bonds	$9,411,605	$10,146,629
Domestic Equities	15,311,142	15,222,015
International Equities	42,348,988	43,227,709
Real Estate	29,040,475	24,120,511
Private Equities	24,620,540	29,205,726
Total Fees	**$120,732,750**	**$121,922,590**

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OPERS

Investment Section

Ohio-Midwest Fund—International Reach with Local Impact

The OPERS regional investment program, the Ohio-Midwest Fund, continued putting investment capital to work in Ohio during 2007. The 10 private equity managers selected for the fund had invested more than $84 million in Ohio companies, and positively impacted more than 2,000 jobs by the end of last year.

The program was established in 2005 by OPERS and Credit Suisse to generate superior returns for OPERS members and encourage business growth within Ohio and the surrounding region. Based on the program's initial success, OPERS decided to expand the fund from $51 million to $102 million in May 2007.

The selected managers are required to have a significant market presence in Ohio and the Midwest region and possess a strong track record of generating superior returns. Fund commitments are also targeted to take advantage of Ohio's clusters of innovation, including industrial, consumer and business services segments; information technology; advanced electronics and materials and biosciences.

Why is venture capital a promising investment? Many experts believe that venture capital concepts are worthy of investment because they are developing recession-resistant products that save money—providing appeal even in times of economic instability.

With $83.6 billion in assets, OPERS is the largest retirement system in Ohio and the tenth largest public retirement system in the U.S. However, management and board of trustee direction have focused on OPERS' investments to be nimble enough to act on marketplace opportunities. The Ohio-Midwest Fund is just such an opportunity.

Investment Report

Dear Members, Beneficiaries and Members of the Board of Trustees:

It is a pleasure to discuss the 2007 accomplishments of the Investment Division with you. Overall, 2007 was a good year, despite the turmoil experienced in the capital markets caused by the credit crunch and the subprime crisis.

A Global Marketplace

As globalization continues to evolve with the continued shift toward the growing Asian economies, we are faced with both opportunities and risks. OPERS' Investment Division positions itself to take advantage of the integration of cultural, economic and political systems across the globe through its strategic asset allocation and active Non-U.S. Equity manager selection. These actions will accomplish our underlying goal of generating the best risk-adjusted returns for the total fund.

Well before 2007, the year reported here, OPERS recognized the increasingly interconnected global economy and laid the groundwork for the results achieved in 2007. These outcomes were achieved despite the challenges experienced by a global marketplace, which created abnormally high volatility in the financial markets. OPERS has encountered such volatility in the past and will again. However, because OPERS has a disciplined investment program supported by strong analysis, pro-active research and stringent adherence to asset allocation and diversification strategies, it is prepared for and positioned well to weather the effects of a volatile market—both on the domestic and international fronts.

Just as no market stands alone, no year really stands alone. A year-end report provides a point-in-time comparative snapshot that is best understood within a deeper context, presented here.

Summary of Results

OPERS' total portfolio is made up of the Defined Benefit, Health Care and Defined Contribution portfolios. Despite the well-publicized credit issues rippling through the nation's markets in 2007, the OPERS total fund exceeded its target by delivering a positive 8.53% return. Although this is less than the 2006 return of 14.7%, it exceeded both the benchmark of 8.48% and the actuarial rate of return of 8.0%. The total fund's three-year return was 10.71%, compared to the benchmark of 10.41% and the five-year return was 13.86%, compared to the benchmark return of 13.52%.

These results are good and enabled OPERS to add $5.2 billion to investment assets, increasing the funding status of the System.

To provide further details, by fund:

The Defined Benefit Portfolio

The Defined Benefit Portfolio contains the assets of the Traditional Plan, the VEBA assets and the defined benefit portion of the Combined Plan. The assets in this portfolio have grown from $64.9 billion in 2006 to $69.6 billion at the end of 2007. In 2007, the Defined Benefit Portfolio had an overall investment return of 8.89%, compared to 15.10% in 2006. This return continues the positive results garnered in the previous years (2003-2006) and exceeds the established benchmark of 8.66% and the actuarial rate of return of 8.0%.

The Health Care Portfolio

The Health Care Portfolio's assets grew from $12.8 billion in 2006 to $13.2 billion at the end of 2007. The Health Care Portfolio had a return of 6.87%, exceeding its actuarial rate of return of 6.50%, but was less than the benchmark of 7.55%. This compares to the 2006 return of 12.80%, which exceeded both target return and the actuarial return assumption.

The Defined Contribution Portfolio

The Defined Contribution Portfolio includes assets from the Member-Directed Plan and the defined contribution portion of the Combined Plan. The assets in this portfolio have grown from the $175.9 million reported at year-end 2006 to $237.2 million at the end of 2007. In 2007, the return was 5.80%, and in 2006, the return was 13.00%. As a reminder, the participants in the Member-Directed and Combined plans choose the investment options for these assets, rather than the Investment staff, thus there is no benchmark.

Key Activities in 2007

There were many activities in 2007 that enabled the Investment Division to achieve these thresholds. As an overview, specific actions and accomplishments are noted:

- Completion of the strategic asset allocation review for the Health Care Portfolio.
- Enhancement of the U.S. Equity strategy to provide greater flexibility in achieving target levels of return while effectively managing risk.
- Completion of a dedicated long-duration portfolio designed to partially hedge the pension liabilities of the Defined Benefit Portfolio.
- Funding and implementation of a Minority Manager program.
- Successful implementation of the Private Equity Ohio/Midwest discretionary funds program (see section divider for more information on this fund-of-funds).
- Development of the Iran/Sudan Divestment policy and process.
- Selecting a new general investment consultant with a global platform.

Moving Forward

Markets—especially global markets—are dynamic. The OPERS Investment Division works to maintain a balance between taking advantage of marketplace shifts and managing risk. The never-ending challenge is to stay ahead of the curve by identifying and acting upon market opportunities, while not moving so quickly that acceptable risk standards are exceeded. Relying on our established strategies, OPERS can be further positioned for the complex marketplace of the future. We have the agility to capture global opportunities, combined with the expertise to assess risk. OPERS can and does function in a global arena. We do this by assessing long-term growth in a global economy, working to manage costs so that funding levels are not eroded over time and by applying prudent person standards to all investments. Although moving in a global arena, the Investment Division continues to strive to achieve the Board of Trustee's directive to secure the best possible returns, while managing risk.

The Investment Division relies upon the leadership and support provided by the OPERS Board of Trustees and the dedication and hard work of all the staff. As always, this is my opportunity to thank all stakeholders as we continue to fulfill the Investment Division's mission statement: To provide a secure financial future for public employees by leveraging an educated and talented staff, a large asset base, a long-term perspective and a noble mission.

Sincerely,

Jennifer C. Hom, CFA
Director—Investments

Board Investment and Fiduciary Duties

(A) The members of the public employees retirement board shall be the trustees of the funds created by section 145.23 of the Revised Code. The board shall have full power to invest the funds. The board and other fiduciaries shall discharge their duties with respect to the funds solely in the interest of the participants and beneficiaries; for the exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the public employees retirement system; with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims; and by diversifying the investments of the system so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

(B) In exercising its fiduciary responsibility with respect to the investment of the funds, it shall be the intent of the board to give consideration to investments that enhance the general welfare of the state and its citizens where the investments offer quality, return, and safety comparable to other investments currently available to the board. In fulfilling this intent, equal consideration shall also be given to investments otherwise qualifying under this section that involve minority owned and controlled firms and firms owned and controlled by women either alone or in joint venture with other firms.

OPERS

Letter from Investment Consultant

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

10 South Wacker Drive, Suite 1700
Chicago, IL 60606
312 902 7147 Fax 312 902 7640
douglas.kryscio@mercer.com
www.mercer.com

May 7, 2008

Board of Trustees
Ohio Public Employees Retirement System
277 East Town Street
Columbus, OH 43215-4642

As an independent investment advisor to the Ohio Public Employees Retirement System ('OPERS') and the Board of Trustees, Mercer is providing an opinion on the reporting of OPERS investment results, investment policies, internal compliance procedures and the Board's oversight of the Retirement System's investments:

Investment Results

In Mercer's opinion, OPERS investment results (as presented in this report) accurately represent the performance of the Retirement System's assets (Defined Benefit, Health Care and Defined Contribution plans). All measurements shown have been calculated using standard performance evaluation methods and are presented in a manner that is consistent with investment industry standards. Performance numbers for OPERS assets were calculated using time weighted rates of return net of investment management fees.

Investment Policies

OPERS investment policies can be accessed online at https://www.opers.org/investments/inv-policies.shtml and are organized as follows: Part I - Funds; Part II - Asset Class Policies; Part III - External Manager Public Policies and Part IV - Investment Administrative Policies.

In our opinion, OPERS assets are managed under a set of transparent investment policies and guidelines which adequately highlight the fundamental performance goals of the Ohio Public Employees Retirement System while emphasizing the equal importance of adequate risk controls and program diversification. OPERS investment policies continue to evolve in a functional and progressive manner. Since being hired by the Board in June 2007, the Mercer team has provided its independent opinion on the augmentation of the investment policy guidelines that govern the Defined Benefit, Health Care and Defined Contribution plans and the underlying asset classes that comprise the plans.

Services provided by Mercer Investment Consulting, Inc.

Consulting. Outsourcing. Investments.

Letter from Investment Consultant

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

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May 7, 2008
Board of Trustees
Ohio Public Employees Retirement System

Internal Compliance

We feel that OPERS internal structure provides a clear and concise picture of how the Investment Division is resourced and governed as well as how its performance is benchmarked and measured. Mercer also believes that the Investment Division's open support of the CFA® Institute's Code of Ethics and Standards of Professional Conduct as well as the guidelines and procedures set forth in the OPERS Code of Ethics and OPERS Personal Trading Policies are in line with the industry's best practices for investment professionals.

Prudent Oversight

The daily management of the OPERS assets has been clearly outlined as the responsibility of the Retirement System's investment Staff. Under this structure, in Mercer's opinion, the collective Board is able to maintain a high degree of awareness and strong oversight over the OPERS Defined Benefit, Health Care and Defined Contribution plans through quarterly performance reviews, the day-to-day oversight of Staff's activities and through monthly meetings with Staff, the investment consultant and other independent service providers.

Sincerely,

Kristin Finney-Cooke Principal	Doug Kryscio Principal	Rich Nuzum President

Introduction

OPERS' total investments portfolio, as reflected in the Combining Statements of Fiduciary Net Assets, pages 34-35, is comprised of defined benefit (DB), defined contribution (DC) and health care (HC) portfolio assets. The DB assets originate from member and employer contributions to the Traditional Plan and employer contributions to the Combined Plan and VEBA Plan. The management of these assets is the responsibility of OPERS' Investment staff under the direction of the Board of Trustees. DC assets originate from member contributions to the Combined Plan and both member and employer contributions to the Member-Directed Plan. The investment of DC assets is self-directed by members of the Combined and Member-Directed Plans, but is limited to investment vehicles approved by the Board of Trustees. During 2005, the HC portfolio assets were segregated from the pension portfolio and invested with a more conservative asset-allocation strategy. The HC portfolio is comprised of the assets set aside to provide post-employment health care for the Traditional and Combined Plans.

The Investments Summary

OPERS' Total Investments Summary (page 76), relates to the System-wide investments and includes DB portfolio, HC portfolio and DC portfolio assets. The balance of information in this Investment Section is organized as follows: OPERS' DB portfolio investments (pages 84-86) relates exclusively to the DB investments; OPERS' HC portfolio investments (pages 87-89) relates exclusively to the HC investments; OPERS' DC portfolio investments (pages 90-91) relates exclusively to the DC investments. The Investment Objectives and Policies (pages 93-96) provide information on System-wide policies.

A complete listing of assets held at December 31, 2007, is available from OPERS upon request. All returns presented throughout the Investment Section are net of external manager fees, overdraft charges, debit interest, registration expenses and stamp duties and taxes spent on foreign securities. In addition, the securities lending money market returns are net of custodial fees, transfer agent expenses and professional fees.

Investments Summary

The following chart reflects the total investments portfolio, which includes all three component portfolios—the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio.

Total Investments Summary (as of December 31, 2007 and 2006)

	2007		2006	
	Fair Value	% of Total Fair Value	Fair Value	% of Total Fair Value
Investments:				
Bonds:				
U.S. Corporate Bonds	$7,459,132,854	8.98%	$5,963,781,951	7.66%
Non-U.S. Notes Bonds	1,785,223,748	2.15	1,534,070,833	1.97
U.S. Government and Agencies	7,463,435,091	8.99	6,520,570,781	8.38
U.S. Mortgage Backed	6,687,855,616	8.05	7,541,565,474	9.69
Total Bonds	$23,395,647,309	28.17%	$21,559,989,039	27.70%
Domestic Equities	33,782,291,499	40.70	34,091,505,439	43.79
Real Estate	4,695,739,359	5.66	3,674,622,803	4.72
Private Equities	2,346,371,489	2.83	1,333,638,551	1.71
International Equities	17,781,078,614	21.41	15,793,080,611	20.29
Total Long-term Investments	**$82,001,128,270**	**98.77%**	**$76,452,836,443**	**98.21%**
Cash and Short-term Investments:				
Cash	101,162,570	0.12	37,448,520	0.04
Short-term Securities:				
Commercial Paper	86,562,931	0.10	128,715,745	0.17
U.S. Treasury Obligations	35,656,916	0.04	15,044,581	0.02
Agency Discount Notes	669,506	0.00	274,116	0.00
Repurchase Agreements	508,137,000	0.61	775,000,000	1.00
Money Market Bonds	0	0.00	149,983,237	0.19
Short-term Investment Funds (STIF)	298,754,685	0.36	289,352,411	0.37
Total Cash and Short-term Investments	**$1,030,943,608**	**1.23%**	**$1,395,818,610**	**1.79%**
Total Cash and Investments	**$83,032,071,878**	**100.00%**	**$77,848,655,053**	**100.00%**

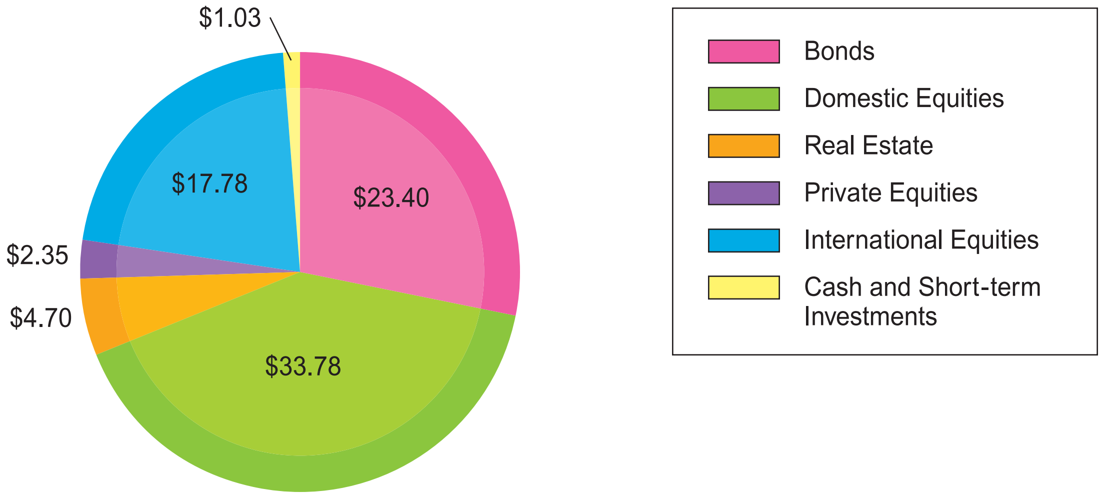
The following chart reflects the breakdown of the total investments portfolio into the three component portfolios—the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio.

Total Investments Summary by Portfolio* (as of December 31, 2007)

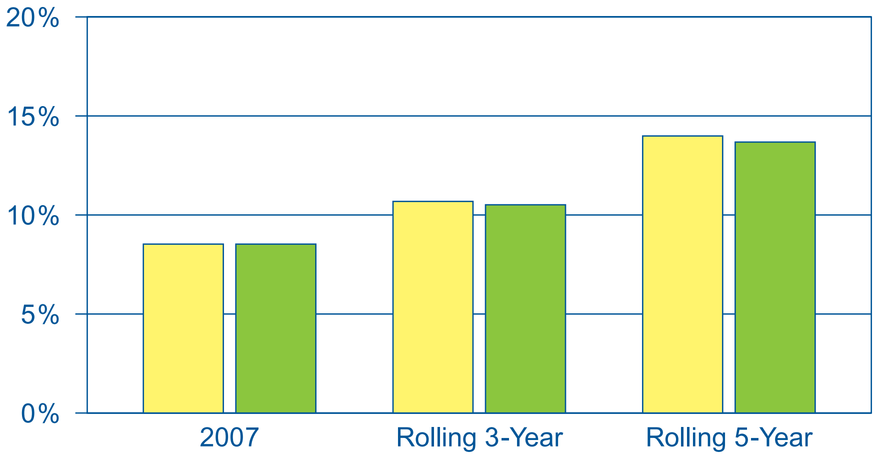
	Defined Benefit	Health Care	Defined Contribution	Total
Bonds	$16,747,085,791	$6,581,396,111	$67,165,407	$23,395,647,309
Domestic Equities	29,469,529,319	4,186,123,350	126,638,830	33,782,291,499
Real Estate	4,695,739,359	0	0	4,695,739,359
Private Equities	2,346,371,489	0	0	2,346,371,489
International Equities	15,459,101,427	2,282,909,655	39,067,532	17,781,078,614
Cash and Short-term Investments	860,206,301	166,407,166	4,330,141	1,030,943,608
Total	**$69,578,033,686**	**$13,216,836,282**	**$237,201,910**	**$83,032,071,878**

*Assets summarized on performance basis.

Total Investments Portfolio Asset Allocation (as of December 31, 2007) ($ in billions)



Total Investments Portfolio Returns—Annual Rates of Return*



	2007	Rolling 3-Year	Rolling 5-Year
OPERS Return	8.53%	10.71%	13.86%
Policy Benchmark Return	8.48%	10.41%	13.52%

*Annual rates of return—The OPERS return is the combined result of the returns generated by defined benefit, health care and defined contribution investments based on a combination of time-weighted calculations and market-value-weighted combinations. The policy benchmark is derived by a market-value-weighted combination of the defined benefit, health care and defined contribution investments policy benchmarks while all other returns throughout the remainder of this section are derived from a time-weighted calculation. All returns presented throughout the Investment Section are net of external manager fees, overdraft charges, debit interest, registration expenses and stamp duties and taxes spent on foreign securities. In addition, the securities lending money market returns are net of custodial fees, transfer agent expenses and professional fees.

List of Largest Assets Held

Largest Equity Holdings (by fair value)* (as of December 31, 2007)

Description	Shares	Fair Value
Exxon Mobil Corporation	11,153,759	$1,044,995,681
General Electric Company	21,833,365	809,362,841
Microsoft Corporation	17,239,564	613,728,478
Procter & Gamble Company	6,656,598	488,727,425
AT&T Incorporated	11,225,492	466,531,448
Chevron Corporation	4,771,347	445,309,816
Bank of America Corporation	10,064,371	415,255,947
Cisco Systems Incorporated	14,164,402	383,428,946
Apple Incorporated	1,848,686	366,187,723
Altria Group Incorporated	4,787,581	361,845,372
Total	**103,745,165**	**$5,395,373,676**

Largest Global Bond Holdings (by fair value)* (as of December 31, 2007)

Description	Coupon	Maturity	Rating	Par Value	Fair Value
U.S. Treasury Bond	6.125%	11/15/2027	AAA	$212,340,000	$257,111,887
U.S. Treasury Bond	6.000	2/15/2026	AAA	185,000,000	218,954,893
U.S. Treasury Bond	4.500	2/15/2036	AAA	205,992,000	207,106,402
U.S. Treasury Inflation Index Note	1.875	7/15/2013	AAA	175,500,000	205,879,849
U.S. Treasury Bond	5.000	5/15/2037	AAA	180,530,000	196,440,116
U.S. Treasury Note	4.875	6/30/2009	AAA	190,639,000	195,553,694
U.S. Treasury Bond	6.250	8/15/2023	AAA	161,121,000	192,913,388
U.S. Treasury Note	4.250	11/15/2017	AAA	188,796,000	192,099,945
U.S. Treasury Inflation Index Bond	3.875	4/15/2029	AAA	110,060,000	185,818,645
U.S. Treasury Inflation Index Note	3.000	7/15/2012	AAA	145,000,000	182,583,622
Total				**$1,754,978,000**	**$2,034,462,440**

* A complete list of assets held at December 31, 2007, is available from OPERS upon request.

Schedule of Brokerage Commissions Paid

U.S. Equity Commissions (for the year ended December 31, 2007)

Brokerage Firm	U.S. Equity Commissions Paid	Shares Traded	Average Commission Per Share
Lehman Brothers Inc	$1,985,036	43,678,660	$0.045
Morgan Stanley Co Inc	1,846,060	53,917,698	0.034
Merrill Lynch, Pierce, Fenner & Smith	1,602,067	190,405,225	0.008
Banc of America Securities LLC	1,231,875	48,723,318	0.025
Bear Stearns Securities Corp	1,142,121	26,878,635	0.042
Goldman Sachs & Co	1,111,021	20,916,590	0.053
JP Morgan Securities Inc	1,006,806	32,968,031	0.031
Deutsche Bank Securities Inc	903,689	23,111,179	0.039
Credit Suisse First Boston Corp	791,686	35,330,497	0.022
Citigroup Global Markets Inc	712,163	25,284,383	0.028
Sanford C Bernstein Co LLC	536,448	15,778,216	0.034
Simmons & Co International	324,965	7,587,686	0.043
UBS Securities LLC	316,594	12,348,362	0.026
Leerink Swann & Co	247,272	5,751,000	0.043
Oppenheimer & Co	215,388	4,798,255	0.045
Robert W. Baird & Co	211,124	4,887,904	0.043
Jeffries & Co	168,328	5,061,656	0.033
Stanford Group Co	152,693	3,746,566	0.041
A.G. Edwards Trust Co	142,386	3,187,469	0.045
Green Street Advisors	132,292	3,896,880	0.034
ISI Group Inc	127,001	2,893,903	0.044
Stifel Nicolaus & Co Inc	116,980	2,836,904	0.041
RBC Capital Markets	112,734	2,705,503	0.042
Wachovia Capital Markets LLC	110,308	2,996,892	0.037
Wedbush Morgan Securities Inc	109,134	2,728,340	0.040
Longbow Securities LLC	108,836	2,510,592	0.043
Fox Pitt Kelton Inc	106,690	2,511,774	0.042
Keefe Bruyette & Woods Inc	104,463	2,321,393	0.045
Kevin Dann Partners LLC	100,349	2,413,876	0.042
Prudential Equity Group	98,623	2,240,530	0.044
Dowling & Partners	96,266	2,211,737	0.044

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Schedule of Brokerage Commissions Paid

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U.S. Equity Commissions (for the year ended December 31, 2007)

Brokerage Firm	U.S. Equity Commissions Paid	Shares Traded	Average Commission Per Share
Harris Nesbitt Corp	$91,718	2,115,722	$0.043
Investment Technology Group Inc	82,416	19,334,418	0.004
Cantor Fitzgerald & Co	67,029	1,853,489	0.036
Oberlin Financial Corp	59,574	1,355,553	0.044
Sandler O'Neill & Partners LP	52,811	1,173,580	0.045
Midwest Research Securities	50,248	1,116,614	0.045
McDonald & Co Securities Inc	48,469	1,088,044	0.045
William Blair & Co LLC	41,675	1,019,957	0.041
Weeden & Co	36,741	1,300,041	0.028
Howard Weil Division of Legg Mason	35,541	789,790	0.045
National Financial Services Corp	31,337	1,811,891	0.017
Pipeline Trading Systems LLC	30,594	1,580,421	0.019
Liquidnet Inc	30,358	1,525,922	0.020
Pershing LLC	30,024	1,125,064	0.027
Miller Tabak & Co LLC	26,419	587,081	0.045
Spear, Leeds & Kellogg	26,164	2,442,170	0.011
Soleil Securities	25,731	571,800	0.045
Instinet Clearing Services Inc	25,462	3,820,089	0.007
Cowen & Co LLC	25,182	594,445	0.042
Other commissions less than $20,000	313,611	11,198,202	0.028
Total U.S. Equity Commissions	**$17,102,499**	**653,033,947**	**$0.026**

Schedule of Brokerage Commissions Paid

Non-U.S. Equity Commissions (for the year ended December 31, 2007)

Brokerage Firm	Non-U.S. Equity Commissions Paid	Proceeds	Percent of Proceeds
Merrill Lynch	$1,055,881	$771,509,893	0.137%
UBS Securities LLC	884,756	1,574,990,726	0.056
Credit Suisse First Boston Corp	849,413	1,306,423,544	0.065
Citigroup Global Markets, Inc.	733,967	749,455,846	0.098
Morgan Stanley Co Inc	683,931	721,097,915	0.095
JP Morgan Securities Inc	638,065	709,979,938	0.090
Goldman Sachs & Co	629,866	626,430,586	0.101
Deutsche Bank Securities Inc	623,845	503,957,825	0.124
Lehman Brothers Inc	612,040	698,036,877	0.088
Credit Lyonnais Securities	341,960	202,025,341	0.169
Macquarie Securities	303,742	145,916,302	0.208
Bear Stearns Securities Corp	284,393	336,272,914	0.085
ABN Amro	271,610	349,950,756	0.078
Nomura Securities International Inc	268,304	257,221,977	0.104
Brockhouse & Cooper Inc	258,209	285,547,239	0.090
Societe Gererale Securities Corp	251,505	298,282,492	0.084
Instinet	194,766	234,855,292	0.083
Daiwa	171,010	242,896,572	0.070
Pershing LLC	162,707	88,657,644	0.184
HSBC Securities	114,707	81,409,099	0.141
Cazenove	84,762	53,613,319	0.158
Kleinwort Benson Securities Ltd	78,107	79,114,841	0.099
SG Securities	78,026	103,482,806	0.075
CLSA Securities Korea Ltd	74,874	27,085,020	0.276
Mitsubishi Securities	69,271	52,496,446	0.132
Exane SA	64,452	48,249,359	0.134
Salomon Smith Barney Inc	45,981	23,316,188	0.197
BNP Paribas	43,587	16,507,245	0.264
Raymond James & Assoc Inc	39,178	30,964,117	0.127

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Schedule of Brokerage Commissions Paid

continued from page 81

Non-U.S. Equity Commissions (for the year ended December 31, 2007)

Brokerage Firm	Non-U.S. Equity Commissions Paid	Proceeds	Percent of Proceeds
KBC Financial Products UK Ltd	$37,779	$25,727,261	0.147%
ITG Securities	31,268	88,828,136	0.035
Nesbitt Burns	30,608	7,251,932	0.422
Samsung Securities Co	28,275	9,426,768	0.300
Banco Santander Central Hispano	26,233	12,316,111	0.213
Dresdner Kleinworth Wasserstein Securities	25,117	23,583,783	0.107
Mainfirst Bank	24,107	16,099,082	0.150
Sanford C Bernstein Co LLC	21,163	14,036,034	0.151
Leerink Swann & Co	20,600	5,689,489	0.362
Other commissions less than $20,000	564,865	504,881,208	0.001
Total Non-U.S. Equity Commissions	**$10,722,928**	**$11,327,587,924**	0.095%
Total U.S. Equity Commissions and Non-U.S. Equity Commissions	**$27,825,427**	**$11,980,621,871**	**N/A**

The brokerage commissions do not include commissions paid by external investment managers utilizing commingled fund structures. OPERS maintains a commission recapture program with several of its investment managers. Capital Institutional Services, Inc., Donaldson Co. and Frank Russell Securities, Inc. perform record-keeping services for the commission recapture program.

Schedules of External Asset Managers

Schedule of Fees to External Asset Managers (for the year ended December 31, 2007)

	Defined Benefit	Health Care	Defined Contribution	Total
Bonds	$7,831,703	$1,466,020	$133,882	$9,411,605
Domestic Equities	12,789,537	2,390,829	130,776	15,311,142
Real Estate	29,040,475	0	0	29,040,475
Private Equities	24,620,540	0	0	24,620,540
International Equities	35,599,802	6,654,409	94,777	42,348,988
Total Fees	**$109,882,057**	**$10,491,258**	**$359,435**	**$120,732,750**

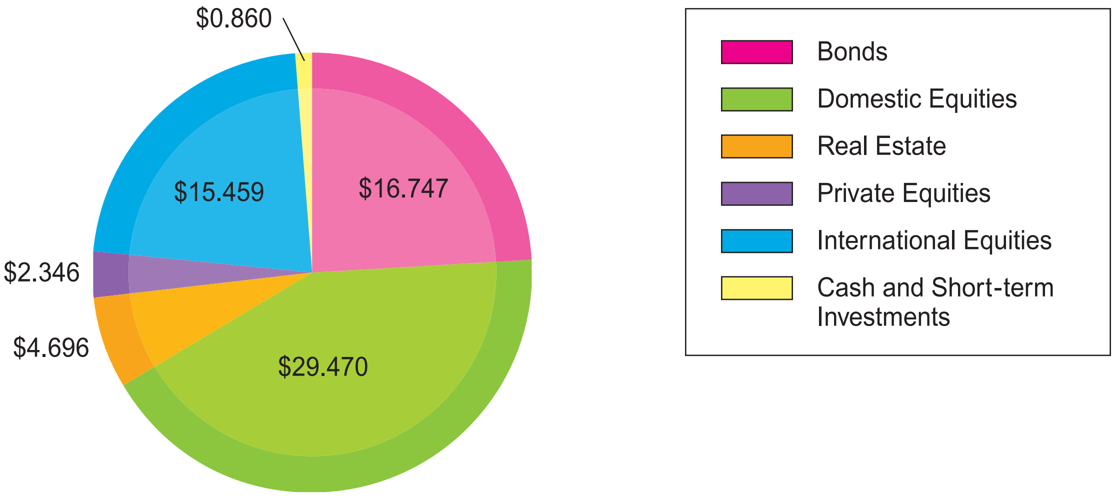
Schedule of External Asset Managers (for the year ended December 31, 2007)

U.S. Equity Managers	Non-U.S. Equity Managers	Bond Managers
Alliance Bernstein	Acadian	AFL-CIO Housing Investment Trust
Barclays Global Investors	Alliance Bernstein	Capital Guardian
Crestline	Barclays Global Investors	Clarion
Grantham, Mayo, Otterloo	Baring	Pyramis
Goldman Sachs	Boston Company	Fort Washington
Invesco	Brandes	Goldman Sachs
JP Morgan	JP Morgan Fleming	Goode Investment Management
Leading Edge	Lazard	Invesco
PAAMCO	LSV	Post Advisory Group
Piedmont	QMA	Shenkman
Pimco	T Rowe Price	Smith Breeden
Progress	TT International	Stone Harbor
Pyramis	Walter Scott	
Wellington		

OPERS' Defined Benefit Portfolio

As noted previously, the Investment Division manages the OPERS total investment portfolio by dividing it into three sub-portfolios. These portfolios are the Defined Benefit portfolio, the Defined Contribution portfolio and the Health Care portfolio. All information prior to this point has been reported on the OPERS total investment portfolio; however, all information following this will be presented on the specific portfolio level.

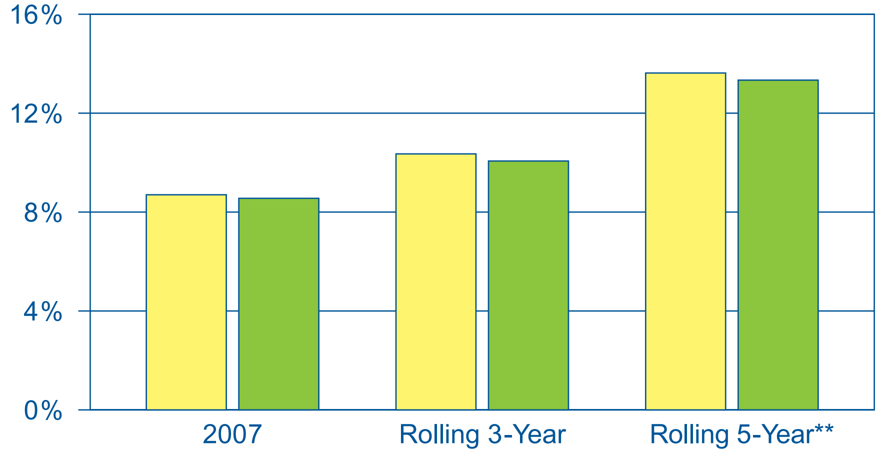
Defined Benefit Portfolio Asset Allocation (as of December 31, 2007) ($ in billions)



Investments Returns

The OPERS DB portfolio returned 8.89% in 2007. The overall portfolio return is compared to a composite benchmark return that could be achieved by a portfolio that is passively invested in the broad market, with percentage weights allocated to each asset class as specified in OPERS' *Statement of Investment Objectives and Policies.* The return of the policy benchmark for 2007 was 8.66%.

Investment Returns—Annual Rates of Return—Defined Benefit Portfolio*



	2007	Rolling 3-Year	Rolling 5-Year**
OPERS Defined Benefit Portfolio	8.89%	11.03%	13.86%
Policy Benchmark Return	8.66%	10.64%	13.65%

*Annual rates of return—The OPERS return is the combined result of the returns generated by defined benefit investments based on a combination of time-weighted calculations and market-value-weighted combinations. The policy benchmark is derived by a market-value-weighted combination of the defined benefit investments policy benchmarks. All returns are net of external manager fees, overdraft charges, debit interest, registration expenses and stamp duties and taxes spent on foreign securities.

**The Health Care portfolio was segregated from the Defined Benefit portfolio in 2005, thus the 5-year rolling return information reflects both the Defined Benefit and Health Care Funds.

Historical returns for the Defined Benefit investments underlying asset class composites and their respective benchmarks are shown below.

Schedule of Investment Results—Defined Benefit Portfolio[1] (for the year ended December 31, 2007)

	2007	Rolling 3-Year	Rolling 5-Year
Total Defined Benefit Portfolio	8.89%	11.03%	13.86%
Defined Benefit Portfolio Benchmark [1]	8.66	10.64	13.52
U.S. Equity Composite	5.17	8.87	N/A
U.S. Equity Composite Benchmark	5.14	8.89	N/A
Opportunistic Composite	15.1	N/A	N/A
Opportunistic Composite Benchmark	9.8	N/A	N/A
Universal Bond Composite	5.5	4.8	5.3
Universal Bond Composite Benchmark	6.5	4.7	5.0
Stable Value Composite	4.6	4.4	N/A
Stable Value Composite Benchmark	5.1	4.4	N/A
Long Duration Bond Composite	5.8	N/A	N/A
Long Duration Bond Composite Benchmark	6.6	N/A	N/A
Non-U.S. Equity Composite	16.6	20.4	24.4
Non-U.S. Equity Composite Benchmark	16.7	19.9	24.0
Private Real Estate Composite	16.2	18.0	16.1
Private Real Estate Composite Benchmark	15.8	17.1	15.5
REITS Composite	(18.2)	8.8	N/A
REITS Composite Benchmark	(17.9)	8.3	N/A
Private Equity Composite	31.0	26.7	24.7
Private Equity Composite Benchmark	20.1	17.2	19.7
Cash Equivalents Composite	5.5	4.7	3.3
Cash Equivalents Composite Benchmark	5.0	4.3	3.1

Footnotes for Schedule of Investment Results—Defined Benefit Portfolio

1 **Defined Benefit Portfolio Benchmark**—The returns for this benchmark are derived from the asset class composite benchmark returns summarized in the table above, the historical asset class target allocations listed in the following table and the asset class composite benchmark indices listed in the table on the following page.

Historical Asset Class Target Allocations

Asset Class	2007	2006	2005	2004 and 2003
U.S. Equity	45.4%	45.6%	46.1%	46.0%
Opportunistic	0.1	0.0	0.0	0.0
Universal Bond	16.2	24.6	25.9	20.0
Stable Value	0.0	0.0	0.0	0.0
Long Duration Bond	8.6	0.0	0.0	0.0
Non-U.S. Equity	20.0	20.0	20.0	23.0
Private Real Estate	6.2	6.5	6.1	9.0
REITS	1.0	1.0	0.0	0.0
Private Equities	2.5	1.3	0.9	1.0
Cash Equivalents	0.0	1.0	1.0	1.0
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

To arrive at customized benchmark performance, the asset allocation targets are multiplied by the performance of the corresponding asset class reference indexes. The asset class reference indices are specified by the Investment Policy, and are displayed below:

Historical Asset Class Composite Benchmark Indexes—Defined Benefit Portfolio

Asset Class Composite Benchmarks	12/31/2007	12/31/2006	12/31/2005	1/1/2002 through 12/31/2004
U.S. Equity	Russell 3000 [2]	Russell 3000	Russell 3000	Russell 3000
Opportunistic	LIBOR (2 month lag) + 4% [3]	N/A	N/A	N/A
Universal Bond	Lehman Universal [4]	Lehman Universal	Lehman Universal	Lehman Universal
Stable Value	90-day U.S. Treasury Bill [5]	90-day U.S. Treasury Bill	90-day U.S. Treasury Bill	90-day U.S. Treasury Bill
Long-Duration Bond	Lehman U.S. Long Government/Credit Bond [6]	N/A	N/A	N/A
Non-U.S. Equity	MSCI ACWI x U.S. [7]	MSCI ACWI x U.S.	MSCI ACWI x U.S.	MSCI ACWI x U.S.
Private Real Estate	NCREIF Property Index [8]	NCREIF Property Index	NCREIF Property Index—100bps	Custom Real Estate Index [10]
REITS	DJ Wilshire RESI [9]	DJ Wilshire RESI	DJ Wilshire RESI—20bps	DJ Wilshire RESI
Private Equities	Russell 3000 (quarter lag) + 3% [2]	Russell 3000 (quarter lag) + 3%	Russell 3000 (quarter lag) + 3%	Russell 3000 (quarter lag) + 3%
Cash Equivalents	90-day U.S. Treasury Bill [5]	90-day U.S. Treasury Bill	90-day U.S. Treasury Bill	90-day U.S. Treasury Bill

The footnotes below provide definitions for the 12/31/2007 asset class composite benchmark indexes.

[2] **Russell 3000 Stock Index**—A capitalization-weighted stock index consisting of the 3,000 largest publicly traded U.S. stocks by capitalization. This index is a broad measure of the performance of the aggregate domestic equity market.

[3] **LIBOR Index**—London Interbank Offered Rate (LIBOR) is the rate of interest at which banks offer to lend money to one another in the wholesale money markets in London. This index is a standard financial index used in U.S. capital markets.

[4] **Lehman Universal Index**—A market-value-weighted index consisting of the Lehman Brothers Corporate, Government and Mortgage-Backed Indices. This index is the broadest available measure of the aggregate U.S. fixed income market.

[5] **90-day U.S. Treasury Bill Index**—The 90-day Treasury Bill return as measured by Lehman Brothers.

[6] **Lehman U.S. Long Government/Credit Bond Index**—The long component of the Lehman U.S. Government/Credit Index, a widely recognized index that features a blend of U.S. Treasury, government-sponsored (U.S. Agency and supranational), mortgage, and corporate securities limited to a maturity of more than 10 years.

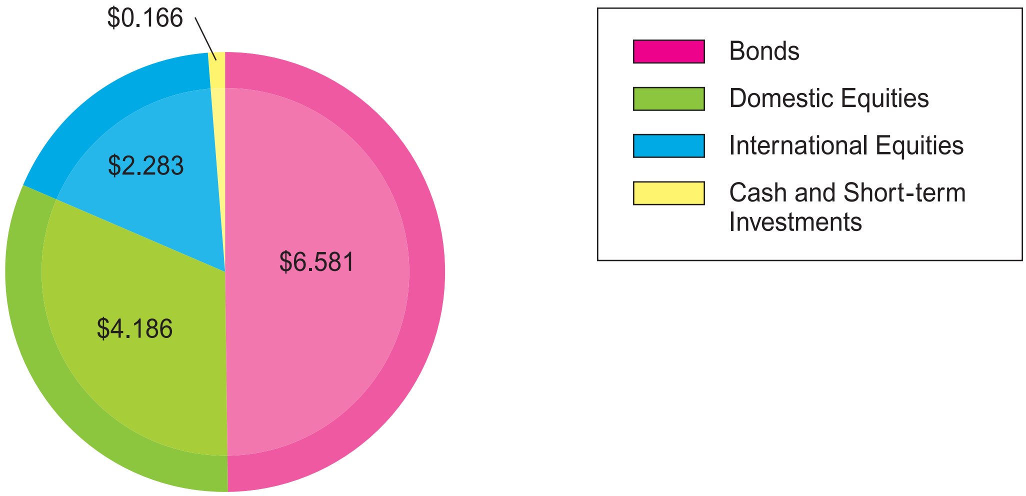
[7] **MSCI All Country World Ex-U.S. Index (MSCI ACWIF x U.S.)**—A capitalization-weighted index of stocks representing 47 developed and emerging country markets, excluding the U.S. market.

[8] **NCREIF Property Index (NPI)**—Appraisal-based valuations of privately-owned commercial real estate that consists of both equity and leveraged properties, reported on an unleveraged basis. Prior to 1/1/2006, 100 bps were deducted annually.

[9] **DJ Wilshire Real Estate Securities Index (RESI)**—Float-adjusted market capitalization index that is designed to serve as proxies for direct real estate investment by institutions. Prior to 7/1/2007, OPERS used the DJ RESI full market capitalization. Prior to 1/1/2006, 20 bps were deducted annually.

[10] **Custom Real Estate Index**—90% NCREIF adjusted for representative fees, plus 10% Wilshire RESI adjusted for representative fees. Prior to 1/1/2003, the Custom Real Estate Index was 60% NCREIF adjusted for representative fees, plus 20% S&P REIT Index (publicly traded real estate investment trust securities), plus 20% Giliberto-Levy Commercial Mortgage Performance Index (a representative portfolio of institutional grade, fixed-rate/fixed-term, commercial mortgage whole loan), adjusted for representative fees.

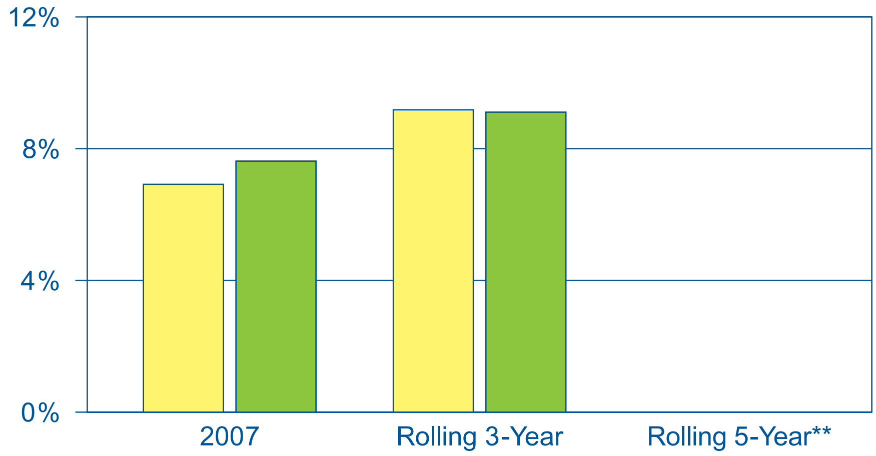
2006 Health Care Portfolio Asset Allocation (as of December 31, 2007) ($ in billions)



Investments Returns

The OPERS health care portfolio returned 6.87% in 2007. The overall portfolio return is compared to a composite benchmark return that could be achieved by a portfolio that is passively invested in the broad market, with percentage weights allocated to each asset class as specified in OPERS' *Statement of Investment Objectives and Policies.* The return of the policy benchmark for 2007 was 7.55%.

Investments Returns—Annual Rates of Return—Health Care Portfolio* (for the year ended December 31, 2007)



	2007	Rolling 3-Year	Rolling 5-Year**
OPERS Health Care Portfolio	6.87%	9.19%	0
Policy Benchmark Return	7.55%	9.12%	0

* Annual rates of return—The OPERS return is the combined result of the returns generated by health care investments based on a combination of time-weighted calculations and market-value-weighted combinations. The policy benchmark is derived by a market-value-weighted combination of the health care investments policy benchmarks. All returns are net of external manager fees, overdraft charges, debit interest, registration expenses and stamp duties and taxes spent on foreign securities.

** The Health Care portfolio was segregated from the Defined Benefit portfolio in 2005, thus the 5-year rolling return information is reflected in the Defined Benefit portfolio, page 84.

OPERS' Health Care Portfolio

Investment returns for the health care portfolio underlying asset class composites and their respective benchmarks are shown below.

Note: Calendar year 2005 marked the first year health care assets were separated from the defined benefit portfolio.

Schedule of Investment Results—Health Care Portfolio[1] (for the year ended December 31, 2007)

	2007	Rolling 3-Year	Rolling 5-Year
Total Health Care Portfolio	6.87%	9.19%	N/A
Health Care Portfolio Benchmark [1]	7.55	9.12	N/A
U.S. Equity Composite	5.17	8.87	N/A
U.S. Equity Composite Benchmark	5.14	8.89	N/A
Universal Bond Composite	5.32	4.83	N/A
Universal Bond Composite Benchmark	6.50	4.72	N/A
TIPS Portfolio	11.75	N/A	N/A
TIPS Portfolio Benchmark	11.63	N/A	N/A
Short Duration Bond Composite	3.03	N/A	N/A
Short Duration Bond Composite Benchmark	7.10	N/A	N/A
Non-U.S. Equity Composite	16.7	20.39	N/A
Non-U.S. Equity Composite Benchmark	16.66	19.89	N/A
REITS Composite	(18.22)	8.82	N/A
REITS Composite Benchmark	(17.86)	8.30	N/A
Cash Equivalents Composite	5.50	4.79	N/A
Cash Equivalents Composite Benchmark	5.00	4.31	N/A

Footnotes for Schedule of Investment Results—Health Care Portfolio

1 **Health Care Portfolio Benchmark**—The returns for this benchmark are derived from the asset class composite benchmark returns listed in the table above, the historical asset class target allocations listed in the following table and the asset class composite benchmark indexes listed in the subsequent table.

Historical Asset Class Target Allocations—Health Care Portfolio

Asset Class	2007	2006*	2005*
U.S. Equity	30.0%	34.6%	44.6%
Universal Bond	15.0	16.8	20.7
TIPS	20.0	15.4	5.5
Short Duration Bond	15.0	11.6	4.3
Non-U.S. Equity	15.0	16.8	20.9
REITS	5.0	4.7	4.0
Cash Equivalents	N/A	N/A	N/A
Total	**100%**	**100%**	**100%**

*Average target allocations that reflect monthly adjustments during the implementation of the Health Care Portfolio.

Historical Asset Class Composite Benchmark Indexes—Health Care Portfolio

Asset Class Composite Benchmarks	Asset Class Composite Benchmark Indices
U.S. Equity	Russell 3000 [2]
Global Bonds	Lehman Universal [3]
TIPS	Lehman U.S. TIPS [4]
Short Duration	Lehman Government 1-3 Year [5]
Non-U.S. Equity	MSCI ACWI U.S. [6]
REITS	DJ Wilshire RESI [7]
Cash Equivalents	90-day U.S. Treasury Bill [8]

The footnotes below provide definitions for the asset class composite benchmark indexes.

[2] **Russell 3000 Stock Index**—A capitalization-weighted stock index consisting of the 3,000 largest publicly traded U.S. stocks by capitalization. This index is a broad measure of the performance of the aggregate domestic equity market.

[3] **Lehman Universal Index**—A market-value-weighted index consisting of the Lehman Brothers Corporate, Government and Mortgage-Backed Indices. This index is the broadest available measure of the aggregate U.S. fixed income market.

[4] **Lehman U.S. TIPS Index**—This index consists of Inflation-Protection securities issued by the U.S. Treasury.

[5] **Lehman Government 1-3 Year**—Securities in the U.S. Government Index with a maturity from one up to (but not including) three years.

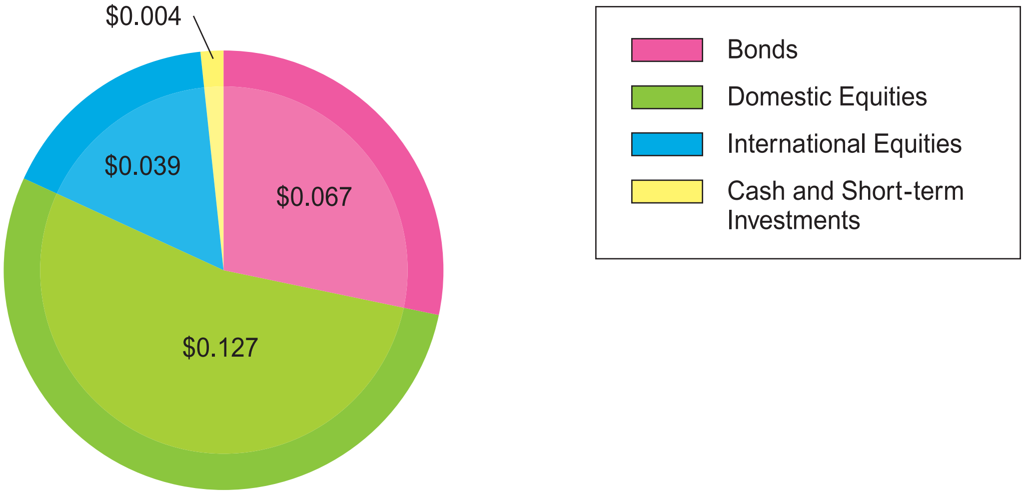
[6] **MSCI All Country World Ex-U.S. Index (MSCI ACWIF x U.S.)**—A capitalization-weighted index of stocks representing 47 developed and emerging country markets, excluding the U.S. market.

[7] **DJ Wilshire Real Estate Securities Index (RESI)**—Float-adjusted market capitalization index that is designed to serve as proxies for direct real estate investment by institutions. Prior to 7/1/2007, OPERS used the DJ RESI full market capitalization. Prior to 1/1/2006, 20 bps were deducted annually.

[8] **90-day U.S. Treasury Bill**—The 90-day Treasury Bill return as measured by Lehman Brothers.

OPERS' Defined Contribution Portfolio

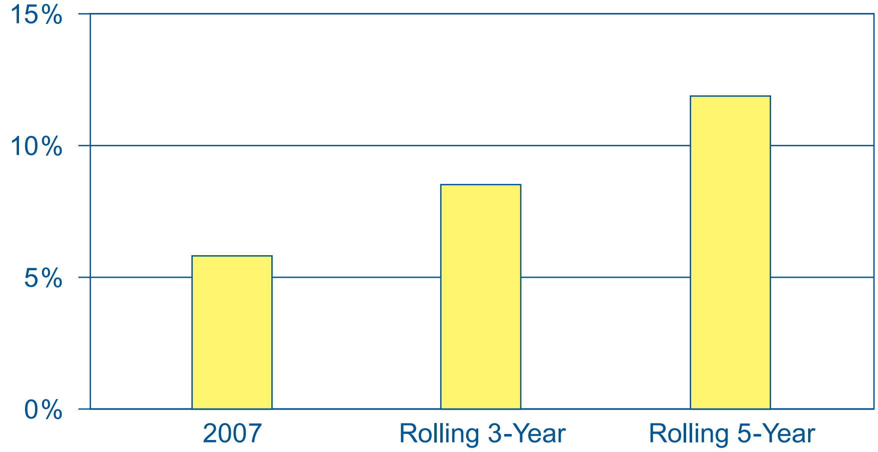
Defined Contribution Portfolio Asset Allocation (as of December 31, 2007) ($ in billions)



Investments Returns

The OPERS defined contribution portfolio returned 5.8% in 2007. The portfolio composite is derived from the individual investment option returns and their actual year-end market values. Members may not invest in this portfolio composite but may invest in the individual investment options as they choose. The returns for the OPERS investment options and their respective indexes are shown on the following page.

Investments Returns—Annual Rates of Return—Defined Contribution Portfolio*



	2007	Rolling 3-Year	Rolling 5-Year
OPERS Defined Contribution Portfolio	5.8%	8.5%	11.9%

*Annual rates of return—The OPERS return is the combined result of the returns generated by defined contribution investments based on a combination of time-weighted calculations and market-value-weighted combinations.

Historical returns for the Defined Contribution investments underlying asset class composites and their respective benchmarks are shown below.

Schedule of Investment Results—Defined Contribution Portfolio (for the year ended December 31, 2007)

	2007	Rolling 3-Year	Rolling 5-Year
Total Defined Contribution Portfolio	5.8%	8.5%	11.9%
Stable Value Portfolio	4.4	4.4	4.3
ML 3-Month Treasury Bill [1]	5.0	4.3	3.1
Bond Portfolio	4.1	3.9	4.6
Lehman Universal Index [2]	6.5	4.7	5.0
Stock Index Portfolio	5.2	8.9	13.6
Russel 3000 Stock Index [3]	5.1	8.9	13.6
Large Cap Portfolio	3.3	7.0	11.7
Russel 1000 Stock Index [4]	5.8	9.1	13.4
Small Cap Portfolio	(3.1)	6.3	15.0
Russel 2000 Stock Index [5]	(1.6)	6.8	16.3
Non-U.S. Equity Portfolio	17.2	19.5	22.4
MSCI ACWIF x U.S. [6]	16.7	19.9	24.0
Conservative Portfolio	4.7	5.9	7.6
Custom Conservative Index [7]	6.1	6.4	7.5
Moderate Portfolio	5.2	7.7	10.7
Custom Moderate Index [8]	6.4	8.2	10.9
Aggressive Portfolio	5.7	9.0	12.9
Custom Aggressive Index [9]	6.5	9.6	13.5

Footnotes for Schedule of Investment Results—Defined Contribution Portfolio

1 **ML 3-Month Treasury Bill**—The 3-Month Treasury Bill return as measured by Merrill Lynch.

2 **Lehman Universal Index**—A market-value-weighted index consisting of the Lehman Brothers Corporate, Government and Mortgage-Backed Indices. This index is the broadest available measure of the aggregate U.S. fixed income market.

3 **Russell 3000 Stock Index**—A capitalization-weighted stock index consisting of the 3,000 largest publicly traded U.S. stocks by capitalization. This index is a broad measure of the performance of the aggregate domestic equity market.

4 **Russell 1000 Stock Index**—A capitalization-weighted stock index consisting of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index.

5 **Russell 2000 Stock Index**—A capitalization-weighted stock index consisting of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

6 **MSCI All Country World Ex-U.S. Index (MSCI ACWIF x U.S.)**—A free float-adjusted market capitalization-weighted index of stocks representing 47 developed and emerging country markets, excluding the U.S. market.

7 **Custom Conservative Index**—35% ML 3-Month Treasury Bill, 35% LB Universal, 12% Russell 3000, 10% Russell 1000, 3% Russell 2000, 5% MSCI ACWI x U.S.

8 **Custom Moderate Index**—20% ML 3-Month Treasury Bill, 20% LB Universal, 25% Russell 3000, 20% Russell 1000, 5% Russell 2000, 10% MSCI ACWI x U.S.

9 **Custom Aggressive Index**—10% ML 3-Month Treasury Bill, 10% LB Universal, 30% Russell 3000, 25% Russell 1000, 10% Russell 2000, 15% MSCI ACWI x U.S.

Ohio Investments

The 10 largest direct investments in the state of Ohio, measured as the market value of our investment in the securities of firms headquartered in Ohio, totaled approximately $1,070 million at the end of the year.

The 10 largest indirect investments, measured as the market value of our investment in the securities of 10 companies with the largest employment presence in the state, totaled approximately $1,414 million. Employment presence is measured by the number of persons employed at a business located in Ohio, as defined by the Office of Strategic Research, Ohio Department of Development. Firms with the largest employment presence in Ohio employed approximately 211,000 people in Ohio.

Top Ohio Holdings (for the year ended December 31, 2007)

Direct		Indirect		
Largest Firms Headquartered in Ohio	Fair Value	Firms With Largest Employment Presence	Ohio Employment Estimated Headcount	Fair Value
Procter & Gamble	$528,667,270	Wal-Mart	52,000	$202,269,407
FirstEnergy	122,649,798	Kroger	36,500	68,767,983
American Electric Power Co.	82,866,725	Bob Evans Farms	17,500	2,448,099
Cardinal Health	81,792,808	JP Morgan Chase	17,100	64,059,757
Kroger	68,767,983	United Parcel Service	15,130	78,611,503
Eaton Corp	50,171,879	Sears	15,000	10,426,653
Macy's	43,589,956	Target	15,000	153,054,138
Goodyear Tire & Rubber	32,333,007	National City	14,250	14,687,019
Progressive	30,610,898	Nationwide	14,135	10,417,969
KeyCorp	28,567,017	General Electric	14,000	809,362,841
Total	**$1,070,017,341**	**Total**	**210,615**	**$1,414,105,368**

Investment Objectives and Policies

The investment powers and fiduciary responsibilities of Ohio Public Employees Retirement System Board of Trustees (OPERS Board of Trustees) are governed by Section 145.11 of the Ohio Revised Code and the requirements of the OPERS Code of Ethics and Personal Trading Policy, and applicable state statutes. The OPERS Board of Trustees shall discharge their duties solely in the interest of participants and beneficiaries, for the exclusive purpose of providing benefits and defraying reasonable expenses of administering OPERS, with care, skill, prudence, and diligence of a prudent person, by diversifying the investments.

The OPERS Board of Trustees reviews all policies and approves changes or additions as appropriate. The Investment staff fulfills the mandates and obligations described in the policies and recommends changes to the OPERS Board of Trustees, as appropriate.

The OPERS Board of Trustees believes OPERS' assets should be managed in a fashion that reflects OPERS' unique liabilities, funding resources and portfolio size, by incorporating accepted investment theory and reliable, empirical evidence. The OPERS Board of Trustees ensures adequate risk control of the defined benefit, health care and defined contribution portfolios through diversification, portfolio guidelines, risk budgeting, compliance and monitoring.

The purpose of OPERS' policies is to provide a broad strategic framework for managing portfolios. Portfolio-related policies are summarized below. Approved OPERS Board of Trustees asset class policies are summarized beginning on page 97 and are posted on the OPERS Web site, www.OPERS.org, where they can be viewed in their entirety.

Defined Benefit Investment Policies

Investment Objective

The primary objective of the defined benefit portfolio is to secure statutory benefits provided by OPERS, earning sufficient returns to improve benefits periodically and to keep OPERS' costs reasonable for employees and employers.

Asset Allocation and Performance Objectives

The approved OPERS Board of Trustees asset allocation establishes a framework for OPERS that has a high likelihood of realizing OPERS' investment objective. The defined benefit portfolio's performance objectives are to exceed the OPERS performance benchmark, net of investment expenses over five-year periods; and exceed the actuarial interest rate (currently 8%) over a reasonable longer-time horizon. The following tables list the defined benefit portfolio asset allocation and performance benchmarks for each asset class.

Defined Benefit Asset Allocation

Asset Class	Target Allocation	Range	Asset Class
Domestic Equities	43%	+/– 4%	Russell 3000 Stock Index
Opportunistic Fund	N/A	0 to 3	Customized Benchmark
International Equities	20	+/– 4	MSCI All Country World Free Index Ex-U.S.
Real Estate	8	+/– 4	Custom Real Estate Index
Private Equities	5	+/– 4	Russell 3000 Stock Index + 300 basis points
Bonds	24	+/– 4	Lehman U.S. Universal Index (60%) Lehman Long Government/Credit Index (40%)
Cash	N/A	0 to 5	91-day U.S. Treasury Bill
Total	**100%**		

Rebalancing

The staff shall ensure conformance with the asset allocation policy through monthly review. The OPERS Board of Trustees expects the Investment staff to ensure compliance with the target asset allocation percentages specified above at reasonable costs and in the best interest of OPERS.

The OPERS Board of Trustees establishes the asset allocation targets and ranges and reviews them periodically. A comprehensive review of investment policy designed to assess the continuing appropriateness of investment policy is typically done every three to five years.

Health Care Investment Policies

Investment Objective

The primary objective of the health care portfolio is to secure health care benefits for eligible members, which is provided as a discretionary benefit. The assets of the health care portfolio shall be invested with the objectives of a) preservation of capital and b) maintaining a reasonable solvency period as defined by the OPERS Board of Trustees from time to time.

Asset Allocation and Performance Objectives

The approved OPERS Board of Trustees asset allocation establishes a framework for OPERS that has a high likelihood of realizing OPERS' investment objective. The health care portfolio's performance objective is to exceed the OPERS performance benchmark. The following tables list the asset allocation and performance benchmarks for each asset class.

Health Care Asset Allocation

Asset Class	Target Allocation	Range	Asset Class
Domestic Equities	30%	+/– 3%	Russell 3000 Stock Index
International Equities	15	+/– 3	MSCI All Country World Free Index Ex-U.S.
REITS	5	+/– 3	Wilshire Real Estate Securities Index
Bonds	15	+/– 3	Lehman U.S. Universal Index
TIPS	20	+/– 3	Lehman U.S. TIPS Index
Short-Duration Bonds	15	+/– 3	Lehman 1-3 Year Government Bond Index
Cash	< 1	0 to 5	91-day U.S. Treasury Bill
Total	**100%**		

Rebalancing

The staff shall ensure conformance with the asset allocation policy through monthly review. The OPERS Board of Trustees expects the Investment staff to ensure compliance with the target asset allocation percentages specified above at reasonable costs and in the best interest of OPERS.

The OPERS Board of Trustees establishes the asset allocation targets and ranges and reviews them periodically. The OPERS Board of Trustees will review, at least annually, the investment policy and asset allocation target and ranges in conjunction with the actuarial assessment of the solvency of the fund.

Defined Contribution Investment Policies

Investment Objective

The defined contribution portfolio investment options are intended to be primary retirement savings vehicles for members. The long-term objectives of the defined contribution portfolios are to offer members and beneficiaries a diversified mix of investment options that span the risk-return spectrum, avoid excessive risk, provide long-term rates of return with low fees and allow meaningful, independent control.

Asset Allocation

The approved OPERS Board of Trustees asset allocation for the OPERS pre-mix portfolios presented below establishes a framework for members using the defined contribution portfolio investment options that have a high likelihood of enabling members to realize their investment objectives.

Defined Contribution Asset Allocation

	OPERS' Pre-Mix Portfolios					
	Conservative		Moderate		Aggressive	
OPERS' Funds	Target	Range	Target	Range	Target	Range
Stable Value	35%	+/– 2%	20%	+/– 1%	10%	+/– 1%
Bond	35	+/– 2	20	+/– 2	10	+/– 1
Stock Index	12	+/– 2	25	+/– 4	30	+/– 5
Large Cap	10	+/– 2	20	+/– 3	25	+/– 4
Small Cap	3	+/– 1	5	+/– 1	10	+/– 3
Non-U.S. Stock	5	+/– 1	10	+/– 2	15	+/– 3

Rebalancing

The ranges specified for the OPERS pre-mix portfolios are a function of the expected volatility of each asset class and the proportion of the total fund allocated to the asset class. The staff shall ensure conformance of the OPERS pre-mix portfolios with the asset allocation policy through quarterly review.

Performance Objectives and Risk Management

The defined contribution portfolio investment options are to exceed the OPERS performance benchmarks over five-year periods. The following tables list the performance benchmarks for each investment option.

Defined Contribution Market Indexes and Peer Universes

Asset Class	Market Index	Peer Universe
Stable Value	Custom Stable Value Index	Stable Value
Bond	Lehman U.S. Universal	Core Bond
Stock Index	Russell 3000	Core Equity
Large Cap	Russell 3000	Large Cap Core
Small Cap	Russell 3000	Small Cap Core
Non-U.S. Stock	MSCI All Country World Free Index Ex-U.S.	Core International

Domestic Equities

The Domestic Equities program is expected to out perform the Russell 3000 Index by at least 20 basis points annualized over a three-to-five year market cycle, net of fees, with a tracking error generally between 30 and 70 basis points.

The active component is expected to deliver excess returns primarily through an optimal mix of large cap exposure versus small cap exposure and traditional fundamental analysis versus quantitative approaches incorporating both internal and external money managers. The active component's tracking error will generally range between 100 and 300 basis points.

The index component is expected to bring the overall risk tolerances within the specified limits, as set by the risk budgeting process at the OPERS total fund level. The primary vehicle to achieve this objective is an internally managed Russell 3000 Index portfolio shown to deliver low tracking error and index-like returns. The projected tracking error ceiling is 15 basis points.

International Equities

The International Equities program is expected to out perform the Morgan Stanley Capital International All Country World Free Index Ex-U.S. (ACWI x U.S.) by at least 75 basis points annualized over a three-to-five year market cycle, net of fees, with a tracking error generally within 300 basis points.

The Non-U.S. Equity program utilizes both index and active management styles and is currently managed 100% through external investment managers. The active managers are selected for their expertise and the ability to add alpha with an allocation set at 80% of the portfolio.

Active managers within the ACWI x U.S. category are permitted to invest in emerging markets on an opportunistic or tactical basis up to a prescribed limit. The Non-U.S. Equity program includes strategic allocations to small cap stocks and emerging markets with a target of 3% and 5% through dedicated active managers, respectively. The allocation to growth and value styles through dedicated active managers should be within a range of plus or minus 5% of their weights in the ACWI x U.S. benchmark.

Asset Class Policies

Bonds

The Bonds program, which includes the Global Bonds Universal portfolio, the Long Duration portfolio, the Treasury Inflation Protected Securities (TIPS) portfolio, and the Short Duration portfolio, is expected to out perform their respective benchmarks by at least 15 to 32 basis points annualized over a three-to-five year market cycle, net of fees.

The Bonds program utilizes active and passive management strategies through internal and external managers. The internal core portfolio uses a risk-controlled active strategy focusing on investment grade securities. Currently, external managers are used for the high yield and emerging debt sectors, which require specialized expertise. The Long Duration, the TIPS, and the Short Duration portfolios are internally managed using risk controlled active strategies.

Real Estate

The private market Real Estate program is expected to meet or exceed the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index (NPI) over rolling five-year periods, net of manager fees. Leverage will be limited to 40% loan to value of the aggregate private market Real Estate program and 70% loan to value for an individual, directly held investment.

The private market Real Estate program uses active management strategies through external managers with single manager exposure limited to 20% of the private market Real Estate program. At least 80% of the private market Real Estate investments will be in apartment, industrial, office and retail assets. Single direct investments are limited to the lesser of 5% of the private market Real Estate target allocation or $300 million. Commingled fund commitments are limited to the lesser of 5% of the private market Real Estate target allocation or $400 million.

The public market Real Estate program is expected to meet or exceed the Dow Jones Wilshire Real Estate Securities Index (WRESI) by 50 basis points annualized over rolling five-year periods, net of fees, with a tracking error generally within 200 basis points.

The public market Real Estate program may engage in active and passive management strategies through internal and external managers. Liquidity, diversification and single security risk are controlled at an aggregate level within a reasonable tolerance of the benchmark to minimize biases and unintended portfolio mismatches.

Private Equities

The Private Equities program is expected to out perform the Russell 3000 Index plus 300 basis points on a long-term, 7-10 year, rolling basis with an internal rate of return (IRR) cash flow method.

The Private Equities program exclusively uses active management strategies and is 100% externally managed with single partnership exposure limited to 25% or $200 million of the Private Equity program. Risk is also managed beyond manager and firm exposure through a combination of quantitative and qualitative constraints for liquidity, vintage, currency, industry, leverage and geography. Diversification will be achieved by investing in partnerships that are complementary in nature regarding fund size, sector and strategic focus, including corporate finance, venture capital and special situations.

Cash Management

The Cash Management program actively invests cash collateral to the respective benchmarks of each portfolio within established risk parameters. Interest rate, credit and liquidity risk are managed through a combination of quantitative and qualitative constraints.

Derivatives

Derivatives may be used to facilitate cost-effective and timely investment and risk management as well as to provide for trading efficiency, enhance or manage the risk/return profile of individual securities or portfolios.

Of the market value of the asset class, exposure for derivatives positions will not exceed 10% and currency hedges will not exceed 20%.

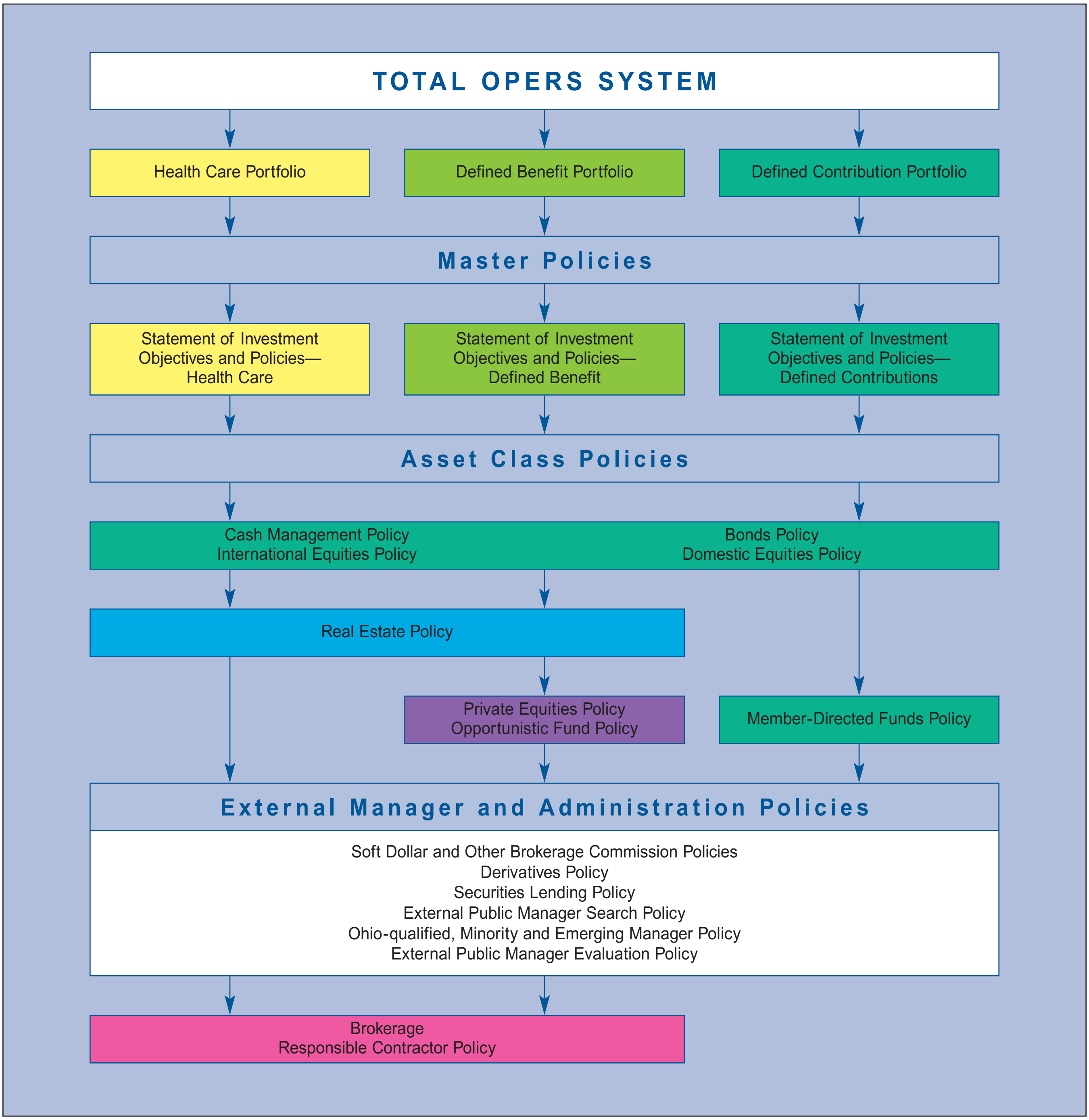
Securities Lending

The securities lending program actively lends securities through various programs to qualified borrowers in order to provide incremental income to the respective asset classes. Staff will assess the performance of the securities lending program on a quarterly basis.

Cash reinvestment risk, counterparty risk and liquidity risk is managed through a combination of quantitative and qualitative constraints. Excess collateral, marked to market daily, is held for each loan in the amount of 102% for domestic securities and 105% for international securities. The maximum percentage of assets that may be on loan is 50% of the total plan while the maximum amount that may be on loan with any one borrower is 10% of the total plan.

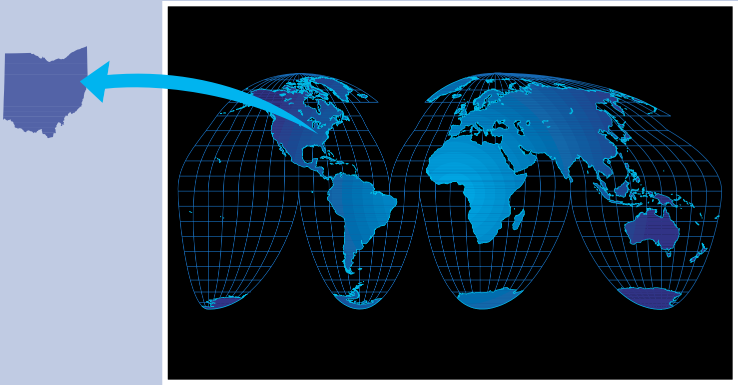
Structure and Relationship of Investment Policies

The following exhibit illustrates the structure and relationship of the 19 investment policies within the total OPERS system and its three investment portfolios.



OPERS

Actuarial Section



Ohio Economic Quick Facts

Ohio is an important economic engine across many sectors. Review these quick facts about Ohio; it's an impressive state offering outstanding educational, business and quality-of-life opportunities.

- During their careers, Ohio's public employees help fuel Ohio's economy by providing services from transportation to law enforcement, from health care to public libraries—all help ensure a stable infrastructure for Ohio's economy.
- Ohio is fifth in the nation for Fortune 500 companies.*
- Ohio's economy exceeds $418 billion, making it seventh in the nation for total output.*
- Ohio's manufacturing sector is third in the U.S.*
- Ohio has 132 colleges and universities that, annually, graduate more than 50,000 people into the workforce.
- Ohio has more than five million skilled workers; that's more than the entire population of many other states.*
- Strategically located between the U.S. grain belt and the most populated areas of the East Coast, Ohio is a food-processing powerhouse. The Ohio food-processing industry employs 62,000 in 1,057 production plants.
- More than 560,000 Ohioans are employed in the travel and tourism sector; Ohio's hospitality, arts, recreational and outdoor activities attract visitors from neighboring states, across the nation, and around the world.
- Contributing to the recreational opportunities within the state, the Ohio Department of Natural Resources, an OPERS-reporting employer, owns and manages more than 590,000 acres of land including 74 state parks, 20 state forests, 127 state nature preserves, and 120 wildlife areas.

*Statistic from Ohio Department of Development Web site.

Report of the Actuary

GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries

One Towne Square
Suite 800
Southfield, MI 48076-3723

248.799.9000 phone
248.799.9020 fax
www.gabrielroeder.com

November 26, 2007

The Retirement Board
Ohio Public Employees Retirement System
277 East Town Street
Columbus, Ohio 43215

Dear Board Members:

The basic financial objective of the Ohio Public Employees Retirement System (OPERS) is to establish and receive contributions which:

- when expressed in terms of percents of active member payroll will remain approximately level from generation to generation, and
- when combined with present assets and future investment return will be sufficient to meet the financial obligations of OPERS to present and future retirees and beneficiaries.

The financial objective is addressed within the annual actuarial valuation. The valuation process develops contribution rates that are sufficient to fund the plan's current cost (i.e., the costs assigned by the valuation method to the year of service about to be rendered), as well as to fund unfunded actuarial accrued liabilities as a level percent of active member payroll over a finite period. The most recent valuations were completed based upon population data, asset data, and plan provisions as of December 31, 2006.

The plan administrative staff provides the actuary with data for the actuarial valuation. The actuary relies on the data after reviewing it for internal and year-to-year consistency. The actuary summarizes and tabulates population data in order to analyze longer-term trends.

The actuary prepared the following supporting schedules for the Comprehensive Annual Financial Report:

Actuarial Section

Summary of Actuarial Assumptions
Individual Employee Pay Increases
Percent Separating Within Next Year
Percent of Eligible Active Members Retiring Next Year
Analysis of Financial Experience

Financial Section

Schedule of Funding Progress

The Retirement Board
November 26, 2007
Page 2

OPERS Staff prepared the schedules showing the trend of short-term solvency based upon material prepared by the actuary.

Assets are valued on a market related basis that recognizes each year's difference between actual and assumed investment return over a closed four-year period.

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. The Board adopts these assumptions after considering the advice of the actuary and other professionals. The assumptions comply with the requirements of Statement 25 of the Governmental Accounting Standards Board. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed. The December 31, 2006 valuations were based upon assumptions that were recommended in connection with a study of experience covering the 2001-2005 period.

Pension experience was favorable during 2006, with investment return close to 15% being a primary factor. The amortization period for unfunded liabilities remained below 30 years. The solvency period in the retiree health plan also improved since the prior valuation.

Based upon the results of the December 31, 2006 valuations, we are pleased to report to the Board that with respect to pension benefits, the Public Employees Retirement System of Ohio is meeting its basic financial objective and continues in sound condition in accordance with actuarial principles of level percent of payroll financing. The Health Plan will need to be the subject of continuing review as envisioned in the Health Care Preservation Plan (HCPP), but it has improved since our previous measurement.

Respectfully submitted,

Norman L. Jones, F.S.A., M.A.A.A.

Brian B. Murphy, F.S.A., M.A.A.A.

NLJ/BBM:vmb

Gabriel Roeder Smith & Company

Summary of Assumptions

The actuarial information presented in the 2007 *Comprehensive Annual Financial Report* is based on the System's most current actuarial valuation data of December 31, 2006.

During 2006, the OPERS actuary completed an experience study for the period January 1, 2001 through December 31, 2005. This study compared the actual results for that time period to the key assumptions used in the actuarial valuation. As a result of the study, OPERS updated assumptions used for withdrawal rates, disability, mortality, and retirement experience. The net impact of the changes in these demographic assumptions was to decrease the 2005 funded ratio from 89.1% to 87.2%. The new assumptions were incorporated into the 2006 actuarial valuation. The OPERS Board of Trustees approved and adopted the following methods and assumptions in 2006 after consulting with the Actuary. These methods and assumptions apply to both the Traditional Pension Plan and the Combined Plan.

Funding Method

An individual entry age actuarial cost method of valuation is used in determining benefit liabilities and normal cost. Differences between assumed and actual experience (actuarial gains and losses) become part of actuarial accrued liabilities. Unfunded actuarial accrued liabilities are amortized to produce payments (principal and interest), which are level percents of payroll contributions.

Economic Assumptions

The following economic assumptions were used by the actuary:

- ***Investment Return***—8.00% compounded annually, net after administrative expenses.
- ***Wage Inflation Rate***—4.00% compounded annually. The wage inflation is defined to be the portion of total pay increases for an individual that are due to macroeconomic forces including productivity, price inflation, and labor market conditions. The wage inflation rate does not include pay changes related to individual merit and seniority effects.
- ***Assumed Real Rate of Return***—4.00% compounded annually. The assumed real rate of return is defined as the investment return of 8.00%, less the wage inflation rate of 4.00%.
- ***Active Member Population***—Consists of the sum of the active members in the Traditional and Combined pension plans, and is assumed to remain constant. For purposes of financing the unfunded liabilities, total payroll is assumed to grow at the wage inflation rate of 4.00% per year.
- ***Individual Employee Pay Increases***—An active employee's pay is assumed to increase each year, in accordance with an age-based table. Part of the assumed increase is for merit and/or seniority increases, and the balance recognizes the wage inflation rate. The following table describes annual increase percents for sample ages.

Individual Employee Pay Increases

Age	Merit and Seniority				Wage Inflation	Total Increase Next Year			
	State	Local	Public Safety	Law		State	Local	Public Safety	Law
30	3.00%	3.00%	4.00%	4.00%	4.00%	7.00%	7.00%	8.00%	8.00%
40	1.80	1.80	0.85	0.85	4.00	5.80	5.80	4.85	4.85
50	1.20	1.20	0.50	0.50	4.00	5.20	5.20	4.50	4.50
60	0.70	0.70	0.50	0.50	4.00	4.70	4.70	4.50	4.50

- ***Turnover***—Probabilities of separation from OPERS covered employment before age-and-service retirement because of employment termination (withdrawal from service), death, or disability. The separation probabilities are based on historical trends of OPERS actual experience, without consideration of the manner in which the members' accounts are distributed.

Percent Separating Within Next Year—Withdrawal from Employment

Sample Ages	Years of Service	Withdrawal							
		State		Local		Public Safety		Law Enforcement	
		Men	Women	Men	Women	Men	Women	Men	Women
	0	40.00%	40.00%	40.00%	40.00%	16.00%	18.00%	15.00%	18.00%
	1	25.00	25.00	25.00	25.00	12.00	12.00	9.00	12.00
	2	15.00	17.00	15.00	17.00	8.00	8.00	7.00	8.00
	3	10.00	12.00	10.00	12.00	7.00	7.00	5.00	7.00
	4	8.00	9.00	8.00	9.00	7.00	7.00	5.00	7.00
30	5 & over	5.44	7.28	5.90	7.04	3.90	3.16	2.66	2.90
40	5 & over	3.32	3.88	3.32	4.18	2.20	2.80	1.48	1.50
50	5 & over	2.18	2.88	2.50	3.14	1.60	2.00	1.20	1.20
60	5 & over	2.10	2.70	2.50	3.00	1.60	2.00	1.20	1.20

Percent Separating Within Next Year—Death or Disability

Sample Ages	Years of Service	Death		Disability					
		All Divisions		State		Local		Law Enforcement	
		Men	Women	Men	Women	Men	Women	Men	Women
25	5 & over	0.04%	0.01%	0.15%	0.15%	0.13%	0.12%	0.20%	0.20%
35	5 & over	0.08	0.03	0.32	0.32	0.28	0.21	0.90	0.90
45	5 & over	0.15	0.08	0.72	0.72	0.62	0.45	1.50	1.50
55	5 & over	0.36	0.19	1.36	1.36	1.34	0.98	3.10	3.10
60	5 & over	0.67	0.35	2.20	2.20	1.54	1.35	4.00	4.00

The turnover probabilities in the above table estimate the number of active members who will separate from employment based on the criteria of age, gender, and years of service. These members may be eligible for a refund of their account or an annuity benefit depending on the nature of the separation. The method of distribution and the resulting liabilities are calculated for this population based on the following assumptions (see next page):

Summary of Assumptions

- ***Withdrawal from Service***—Assumes that members terminating before age 35, members terminating with less than five years of service, and a percentage of all other members will withdraw their contributions and forfeit their entitlement to an employer financed benefit. The percentage withdrawing their contributions is 100% at age 35 and is reduced for each year of age after 35, becoming 0% at age 55 (age 45 for law division members).
- ***Death-in-Service and Disability Benefits***—Assumes that members with at least five years of service will elect to receive an annuity benefit. It is assumed that Combined Plan members will transfer to, and take a benefit from, the Traditional Plan, unless a lump sum distribution from the Combined Plan would have a greater value.

Assets Valuation Method

For actuarial purposes, the Funding Value of Defined Benefit Assets recognizes assumed investment returns fully each year. Differences between actual and assumed investment returns are phased in over a closed four-year period. Funding value is not permitted to deviate from market value by more than 12%. The Traditional and Combined Plan retiree post employment health care funding value of assets is developed independently beginning with the December 31, 2004 valuation.

Valuation Data

The demographic and financial data used in the actuarial valuation were provided to the Actuary by the System's administrative staff. The Actuary examined the data for general reasonableness and year-to-year consistency, but did not audit the information.

Decrement Assumptions

The probabilities used by the Actuary related to specific risk areas are displayed in the following tables.

- ***Mortality***—The tables used in evaluating age and service and survivor benefit allowances to be paid were 110% of rates in the RP-2000 Mortality table for males and 100% of the rates in the RP-2000 tables for females with 15 years of projected mortality improvements. The mortality rates used in evaluating disability allowances were the RP-2000 mortality table for disabled lives, set back four years for males and set forward four years for females.
- ***Retirement***—Probabilities of age-and-service retirement applicable to members eligible to retire are as shown in the following schedule.

Percent of Eligible Active Members Retiring Next Year

With Unreduced Age-and-Service Retirement Benefits

Members may retire with no reduction in benefits if they have the following total years of service credit and have attained division specific minimum ages:

- State and Local—30 years of service at any age;
- Public Safety—25 years of service and attained the age of 52;
- Law Enforcement—25 years of service and attained the age of 48.

Retirement Age	State		Local		Public Safety	Law Enforcement
	Men	Women	Men	Women		
45-47	40%	30%	30%	30%		
48-51	40	30	30	30	30%	20%
52	35	30	30	30	30	20
53	35	30	30	30	30	22
54	35	30	30	30	25	22
55	30	30	30	30	25	22
56-57	25	30	28	30	25	22
58	25	30	28	30	20	22
59	25	30	25	30	20	25
60	30	35	25	30	35	30
61	30	35	25	30	35	20
62-63	30	35	35	30	35	25
64	35	35	30	30	35	25
65	30	30	20	20	35	30
66	25	20	20	20	35	30
67-69	20	20	15	15	35	30
70-74	20	20	15	15	100	100
75 & over	100	100	100	100	100	100

Percent of Eligible Active Members Retiring Next Year

With Reduced Age-and-Service Retirement Benefits

Members who have a minimum of 25 years of total service credit and who have attained the age of 55 for State and Local or 48 for Public Safety, may retire with a reduced benefit.

Retirement Age	State		Local		Public Safety
	Men	Women	Men	Women	
48-51	N/A	N/A	N/A	N/A	15%
55-59	11%	11%	10%	12%	N/A
60	11	12	10	12	N/A
61	11	14	10	12	N/A
62-63	16	15	15	12	N/A
64	16	15	12	12	N/A

Actuarial Valuation Data

The following tables display the actuarial valuation data for the active and retired members of the Traditional Pension and Combined Plans.

Actuarial Valuation Data — Traditional Plan

Valuation Year	Active Members				Retired Lives		
	Number	Annual Payroll ($ millions)	Average Pay	Percent Increase in Average Pay	Number*	Annual Allowance ($ millions)	Average Allowance
2006	356,430	$11,971	$33,586	2.12%	159,039	$2,852	$17,934
2005	353,708	11,633	32,890	1.99	153,935	2,645	17,186
2004	350,835	11,313	32,246	2.08	149,296	2,443	16,365
2003	350,022	11,056	31,589	3.00	145,263	2,265	15,592
2002	365,424	11,207	30,668	2.49	141,019	2,080	14,750
2001	360,313	10,782	29,924	7.74	136,456	1,894	13,884

*Retired lives number represents an individual count of the retirees and beneficiaries receiving benefits.

Actuarial Valuation Data — Combined Plan

Valuation Year	Active Members				Retired Lives		
	Number	Annual Payroll ($ millions)	Average Pay	Percent Increase in Average Pay	Number*	Annual Allowance ($ millions)	Average Allowance
2006	5,700	$204	$35,789	4.82%	1	$0	$1,311
2005	5,096	174	34,144	7.99			
2004	4,452	141	31,618	3.68			
2003	3,562	109	30,497	N/A			

*Retired lives number represents an individual count of the retirees receiving benefits.

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls

The tables below display the changes in the retiree population that occurred each year within the Traditional Pension and Combined Plans. The Annual Allowances in the Rolls at End of the Year and the Average Annual Allowances represent the value of pension payments for the retiree population on the rolls at December 31, 2007.

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls — Traditional Plan

	Added to Rolls		Removed from Rolls		Rolls at End of Year			
Year Ended	Number*	Annual Allowances	Number*	Annual Allowances	Number*	Annual Allowances	Percentage Increase in Annual Allowances	Average Annual Allowances
2007	9,734	$230,402,943	5,576	$82,605,482	156,258	$3,035,850,431	7.9%	$19,428
2006	8,970	204,877,271	3,973	55,836,612	152,100	2,813,496,710	7.3	18,498
2005	9,394	217,934,811	5,047	65,360,194	147,103	2,621,820,175	9.1	17,823
2004	8,289	181,295,319	3,992	50,013,593	142,756	2,402,846,883	7.7	16,832
2003	8,424	191,332,574	5,150	61,786,975	138,459	2,231,545,677	8.6	16,117
2002	9,777	210,068,126	5,204	58,068,189	135,185	2,055,447,445	10.6	15,205

*Represents a count of the retired members' accounts under which either the member or the member's beneficiaries are receiving benefits. Fiscal years 2002-2006 have been restated.

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls — Combined Plan

	Added to Rolls		Removed from Rolls		Rolls at End of Year			
Year Ended	Number*	Annual Allowances	Number*	Annual Allowances	Number*	Annual Allowances	Percentage Increase in Annual Allowances	Average Annual Allowances
2007	1	$2,001			2	$3,312	152.7%	$1,656
2006	1	1,311			1	1,311		1,311

*Represents a count of the retired members' accounts under which either the member or the member's beneficiaries are receiving benefits.

Short-Term Solvency Test

The OPERS funding objective is to pay for retirement benefits through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the System are level in concept and soundly executed, the System will pay all promised benefits when due—*the ultimate test of financial soundness.*

A short-term solvency test is one means of checking a plan's progress under its funding program. In a short-term solvency test, the plan's present assets (cash and investments) are compared to: 1) active and inactive member contributions on deposit; 2) the liabilities for future benefits payable to present retired lives; 3) the liabilities for service already rendered by active/inactive members.

In a plan that has been following the discipline of level percent of payroll financing, the liabilities for member contributions on deposit (1) and the liabilities for future benefits payable to present retired lives (2) will be fully covered by existing assets (except in rare circumstances). In addition, the liabilities for service already rendered by active/inactive members (3) will be partially covered by the remaining value of actuarial assets at year-end. Generally, if the plan has been using level cost financing, the funded portion of (3) will increase over time. It is rare for Column (3) to be fully funded.

The tables below display the results of the Short-Term Solvency Test for asset values in the Traditional Pension and Combined defined benefit plans, based on the actuarial value of assets as of year end.

Accrued Pension Liabilities ($ in millions) — Traditional Plan

Valuation Year	Aggregate Accrued Liabilities for: (1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active/Inactive Members (Employer-financed Portion)	Valuation Assets*	Portions of Accrued Liabilities Covered by Reported Assets: (1)	(2)	(3)
2006	$10,374	$30,636	$25,078	$61,235	100%	100%	81%
2005***	9,810	28,373	24,264	54,433	100	100	67
2005**	9,810	27,925	23,364	54,433	100	100	71
2004	9,340	25,697	22,536	50,430	100	100	68
2003	8,897	23,728	22,148	46,746	100	100	64
2002	8,514	21,205	21,153	43,706	100	100	66
2001	7,991	19,087	20,414	48,749	100	100	106

* Does not include assets set aside to pay post-employment health care benefits.
** Results from original valuation prior to restatement after completion of experience study.
*** Revised from results reported in 2006 CAFR due to updating actuarial assumptions based on experience study.

Accrued Pension Liabilities ($ in millions) — Combined Plan

Valuation Year	Aggregate Accrued Liabilities for: (1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active/Inactive Members (Employer-financed Portion)	Valuation Assets*	Portions of Accrued Liabilities Covered by Reported Assets: (1)	(2)	(3)
2006	N/A	$0	$72	$61	N/A	100%	84%
2005***	N/A	N/A	51	40	N/A	N/A	78
2005**	N/A	N/A	47	40	N/A	N/A	85
2004	N/A	N/A	31	22	N/A	N/A	71
2003	N/A	N/A	18	9	N/A	N/A	50

* Does not include assets set aside to pay post-employment health care benefits.
** Results from original valuation prior to restatement after completion of experience study.
*** Revised from results reported in 2006 CAFR due to updating actuarial assumptions based on experience study.

Analysis of Financial Experience

The following tables display the actual financial experience in relation to the actuarially assumed experience for each of the defined benefit plans. Actuarial gains and losses in accrued liabilities result from differences between the assumed experience and actual experience.

Analysis of Financial Experience — Traditional Plan

Type of Activity	Gain (or Loss) for Year ($ in millions)			
	2006	2005*	2004	2003
Age-and-Service Retirements If members retire at older ages than assumed, there is a gain. If younger ages, a loss.	($32.1)	($26.7)	$23.7	$11.4
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	3.0	(25.6)	(9.8)	(30.4)
Death-In-Service Annuities If survivor claims are less than assumed, there is a gain. If more claims, a loss.	14.3	23.1	35.7	7.6
Other Separations If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.	(134.4)	(112.1)	18.9	(122.2)
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	373.3	302.3	733.1	301.4
Investment Return If there is greater investment return than assumed, there is a gain. If less return, a loss.	3,332.2	705.9	503.2	(33.1)
Gain (or Loss) During Year from Financial Experience	$3,556.3	$866.9	$1,304.8	$134.7

*Information prior to completion of experience study.

Analysis of Financial Experience — Combined Plan

Type of Activity	Gain (or Loss) for Year ($ in millions)			
	2006	2005*	2004	2003
Age-and-Service Retirements If members retire at older ages than assumed, there is a gain. If younger ages, a loss.	($0.01)	($0.01)	N/A	N/A
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	0.89	(0.12)	N/A	N/A
Death-In-Service Annuities If survivor claims are less than assumed, there is a gain. If more claims, a loss.	0.14	(0.03)	N/A	N/A
Other Separations If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.	(3.15)	(1.30)	N/A	N/A
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	0.15	(0.66)	N/A	N/A
Investment Return If there is greater investment return than assumed, there is a gain. If less return, a loss.	(0.09)	(0.05)	N/A	N/A
Gain (or Loss) During Year from Financial Experience	($2.07)	($2.17)	N/A	N/A

*Information prior to completion of experience study.

Actual vs. Recommended Contribution Rates

The Board of Trustees adopted all contribution rates as recommended by the actuary.

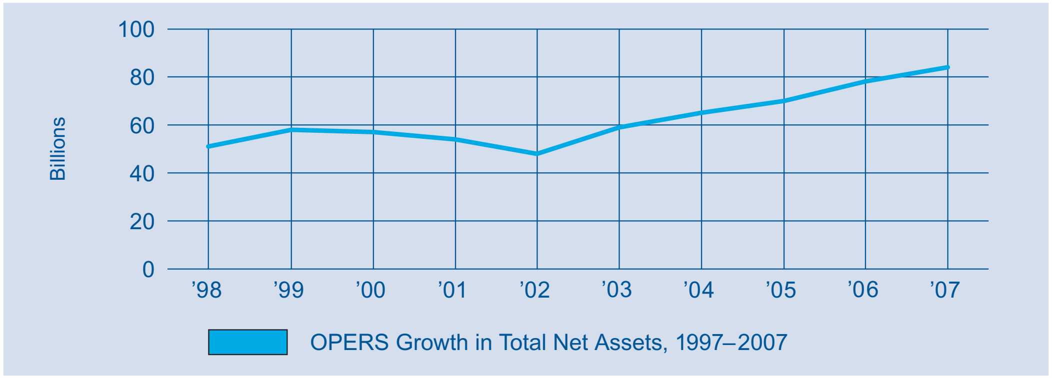
Statistical Section

A Historical Perspective on the Growth of OPERS

A historical perspective provides understanding about OPERS' steady growth. Since established in 1935 to provide a secure retirement for public employees, OPERS has grown steadily in many areas including number of individuals served, number of plans offered, asset base and number of reporting employers.

One of the most important gauges for the System is the overall growth of the asset base. OPERS has three main asset sources: employer contributions, employee contributions and the income derived from carefully investing these contributions. Income from investments provides OPERS with 75% of the amount needed to meet its pension obligations.

As an organization, OPERS has anticipated, prepared for and experienced periods of robust and not-so-robust growth. Through careful administration, strategic planning and visionary management, OPERS has been positioned in the national and global economy to take advantage of times of vigorous growth and positioned itself to effectively weather market downturns. As a result, overall, OPERS has experienced a positive trend throughout its history.



The objectives of the statistical section are to provide additional historical perspective, context, and relevant details to assist readers in using information in the financial statements, notes to the financial statements, and required supplementary information in order to understand and assess the System's overall financial condition. In support of these objectives, OPERS reports information in this section in compliance with GASB Statement 44, *Economic Condition Reporting: The Statistical Section.* This statement establishes standardized reporting requirements relative to the supplementary information provided in this section.

The schedules and graphs beginning on page 115 show financial trend information about the growth of OPERS' assets for the past 10 years. These schedules provide detailed information about the trends of key sources of additions and deductions to the System's assets, which assist in providing a context framing how OPERS' financial position has changed over time. The financial trend schedules presented are:

- Net Assets by Plan
- Changes in Net Assets, and
- Benefits and Refunds by Type.

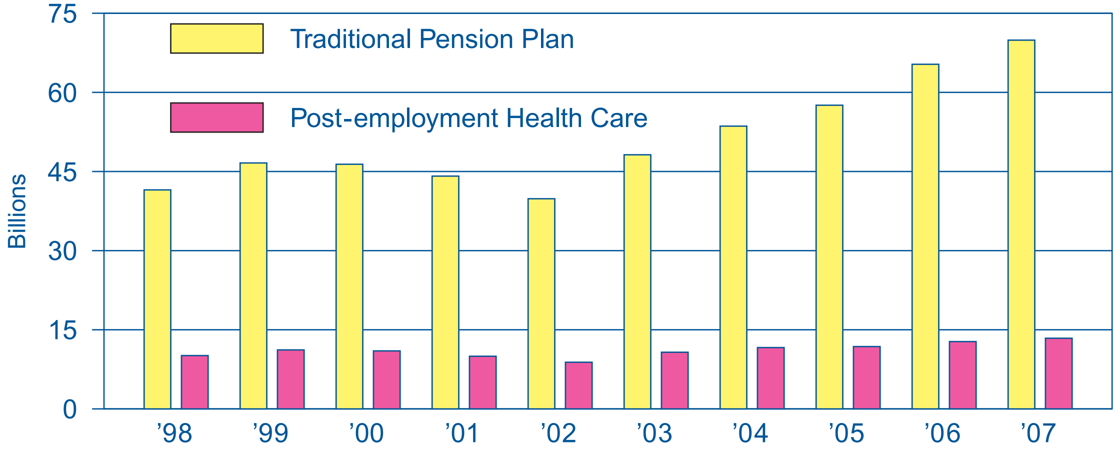
The schedules on page 126 compare the pension assets accumulated to cover the projected pension liabilities that are ultimately due at retirement for each of the defined benefit plans and the corresponding funded ratio. The schedule on page 127 displays similar information for OPERS' health care assets and projected liabilities. The Health Care Solvency schedule shows the estimated number of years for which assets are available to cover the projected liabilities. OPERS' target is to maintain a rolling 20-40 years of available solvency.

The schedules beginning on page 128 show demographic and economic information and operating information. The demographic and economic information is designed to assist in understanding the environment in which OPERS operates. The operating information is intended to provide contextual information about OPERS' operations to assist in assessing the System's economic condition. The demographic and economic information and the operating information presented includes:

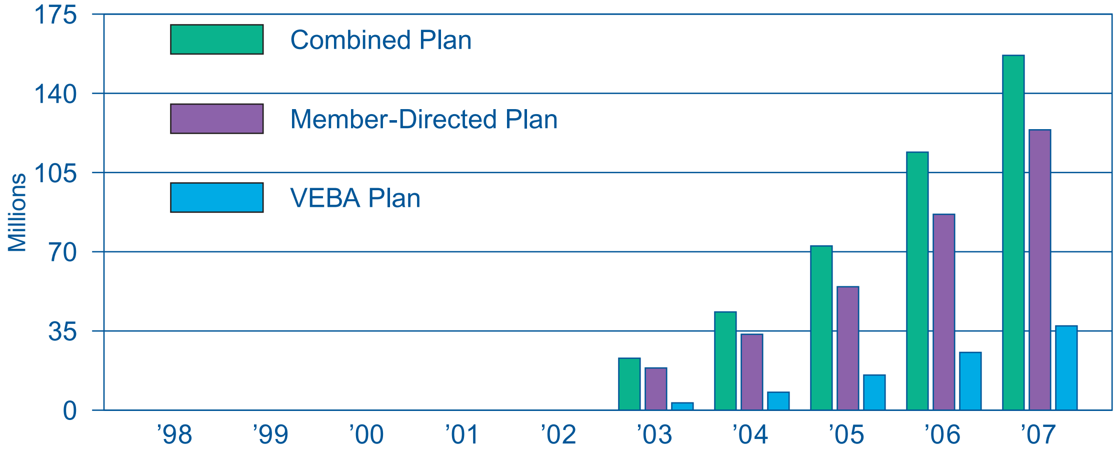
- Number of Benefit Recipients by Category,
- Schedule of Benefit Recipients by Benefit Type and Amount,
- Number of New Pension Benefit Recipients,
- Schedule of Average Benefit Payments,
- Member Count by Plan,
- OPERS' Financial Impact by County,
- Distribution of Benefit Recipients by Location,
- Contribution Rates,
- Number of Employer Units,
- Principal Participating Employers,

All non-accounting data is derived from OPERS internal sources.

Net Assets by Plan — Traditional, Post-employment Health Care



Net Assets by Plan — Combined, Member-Directed, VEBA



Net Assets by Plan (last ten years)

Year	Traditional Pension Plan	Post-employment Health Care	Combined Plan	Member-Directed Plan	VEBA Plan	Total Net Assets
2007	$69,959,641,078	$13,282,947,482	$156,864,566	$123,946,918	$37,227,685	$83,560,627,729
2006	65,297,352,893	12,838,059,079	113,999,034	86,524,882	25,331,889	78,361,267,777
2005	57,662,214,741	11,845,713,012	72,499,607	54,502,026	15,377,190	69,650,306,576
2004	53,554,315,210	11,609,113,358	43,463,455	33,579,873	7,978,960	65,248,450,856
2003	48,239,335,328	10,813,803,449	22,890,488	18,464,414	3,181,305	59,097,674,984
2002	39,100,014,979	8,886,282,086	N/A	N/A	N/A	47,986,297,065
2001	44,036,346,352	9,936,383,994	N/A	N/A	N/A	53,972,730,346
2000	46,261,950,182	10,965,429,369	N/A	N/A	N/A	57,227,379,551
1999	46,782,213,151	11,163,213,257	N/A	N/A	N/A	57,945,426,408
1998	41,443,240,834	10,011,840,228	N/A	N/A	N/A	51,455,081,062

Changes in Net Assets (last ten fiscal years)

Year	2007	2006*	2005*	2004*
Traditional Pension Plan				
Additions:				
Members' contributions	$1,183,959,051	$1,065,862,778	$965,977,835	$958,095,802
Employers' contributions	1,051,808,289	1,092,998,459	1,106,755,953	1,057,429,880
Contracts and other receipts	105,157,859	122,076,019	112,227,300	118,205,826
Net income (loss) from investing activity	5,717,111,026	8,529,935,923	4,860,636,257	5,886,688,477
Other income, net	40,061	194,492	432,175	(107,798)
Interplan activity	4,969,740	4,520,387	1,593,458	3,510,475
Total additions to plan net assets	8,063,046,026	10,815,588,058	7,047,622,978	8,023,822,662
Deductions:				
Pension benefits	3,136,978,910	2,906,857,436	2,679,084,743	2,454,131,826
Refunds	213,007,451	228,034,617	215,398,602	207,121,141
Administrative expenses	50,053,260	44,854,241	44,375,744	47,589,813
Interplan activity	718,220	703,612	864,358	0
Total deductions from plan net assets	3,400,757,841	3,180,449,906	2,939,723,447	2,708,842,780
Net increase (decrease)	4,662,288,185	7,635,138,152	4,107,899,531	5,314,979,882
Net assets held in trust, beginning of year	65,297,352,893	57,662,214,741	53,554,315,210	48,239,335,328
Net assets held in trust, end of year	$69,959,641,078	$65,297,352,893	$57,662,214,741	$53,554,315,210
Post-employment Health Care				
Additions:				
Members' contributions	$79,198,959	$71,718,182	$63,408,347	$58,975,931
Employers' contributions	695,967,837	538,312,995	457,325,506	461,788,996
Contracts and other receipts	45,534,017	93,724,104	7,234,092	20,897,027
Medicare Part D reimbursements	59,075,120	58,987,181	0	0
Net income (loss) from investing activity	858,614,433	1,471,059,831	868,900,661	1,297,291,883
Other income, net	70,498	1,306,783	548,364	0
Total additions to plan net assets	1,738,460,864	2,235,109,076	1,397,416,970	1,838,953,837
Deductions:				
Health care benefits	1,282,776,044	1,231,870,038	1,152,941,961	1,040,949,675
Administrative expenses	10,796,417	10,892,971	7,875,355	2,694,253
Total deductions from plan net assets	1,293,572,461	1,242,763,009	1,160,817,316	1,043,643,928
Net increase (decrease)	444,888,403	992,346,067	236,599,654	795,309,909
Net assets held in trust, beginning of year	12,838,059,079	11,845,713,012	11,609,113,358	10,813,803,449
Net assets held in trust, end of year	$13,282,947,482	$12,838,059,079	$11,845,713,012	$11,609,113,358

*Additions restated to delineate contracts and other receipts; years prior to 2004 are not restated.

Changes in Net Assets (continued)

2003	2002	2001	2000	1999	1998
$1,006,863,812	$1,094,343,553	$931,050,640	$879,844,987	$839,186,449	$799,281,516
1,026,594,837	1,109,983,205	977,289,237	718,807,713	935,429,954	886,684,170
0	0	0	0	0	0
9,603,775,739	(4,841,899,792)	(1,954,230,267)	(353,942,104)	5,211,527,606	4,094,859,358
411,093	623,421	664,919	884,651	1,785,346	237,360
8,754,777	0	0	0	0	0
11,646,400,258	(2,636,949,613)	(45,225,471)	1,245,595,247	6,987,929,355	5,781,062,404
2,236,477,663	2,060,130,216	1,880,704,941	1,656,264,159	1,505,940,162	1,402,239,075
192,768,335	187,051,815	262,681,258	81,830,345	120,631,961	125,609,907
57,195,937	52,199,729	36,992,160	27,763,712	22,384,915	19,811,891
20,637,974	0	0	0	0	0
2,507,079,909	2,299,381,760	2,180,378,359	1,765,858,216	1,648,957,038	1,547,660,873
9,139,320,349	(4,936,331,373)	(2,225,603,830)	(520,262,969)	5,338,972,317	4,233,401,531
39,100,014,979	44,036,346,352	46,261,950,182	46,782,213,151	41,443,240,834	37,209,839,303
$48,239,335,328	$39,100,014,979	$44,036,346,352	$46,261,950,182	$46,782,213,151	$41,443,240,834
$0	$0	$0	$0	$0	$0
579,904,361	573,038,298	431,103,750	452,867,242	392,459,727	379,761,098
0	0	0	0	0	0
0	0	0	0	0	0
2,258,066,075	(843,065,908)	(763,575,827)	(89,166,082)	1,284,270,009	1,951,002,761
0	0	0	0	0	0
2,837,970,436	(270,027,610)	(332,472,077)	363,701,160	1,676,729,736	2,330,763,859
907,769,092	776,006,852	693,484,110	559,606,294	523,599,349	440,596,663
2,679,981	4,067,446	3,089,188	1,878,754	1,757,358	1,718,984
910,449,073	780,074,298	696,573,298	561,485,048	525,356,707	442,315,647
1,927,521,363	(1,050,101,908)	(1,029,045,375)	(197,783,888)	1,151,373,029	1,888,448,212
8,886,282,086	9,936,383,994	10,965,429,369	11,163,213,257	10,011,840,228	8,123,392,016
$10,813,803,449	$8,886,282,086	$9,936,383,994	$10,965,429,369	$11,163,213,257	$10,011,840,228

Changes in Net Assets (last five fiscal years*)

Year	2007	2006	2005	2004	2003
Combined Plan					
Additions:					
Members' contributions	$21,907,704	$17,367,629	$13,720,773	$11,104,158	$8,658,022
Employers' contributions	19,241,579	17,689,420	15,632,184	12,164,161	8,451,197
Contracts and other receipts	347,280	427,966	263,142	310,255	150,574
Net income (loss) from investing activity	9,866,238	14,041,870	5,420,080	4,282,641	3,077,753
Interplan activity	411,764	420,198	425,831	0	10,300,381
Total additions to plan net assets	51,774,565	49,947,083	35,462,010	27,861,215	30,637,927
Deductions:					
Pension benefits	5,451	552	0	0	0
Refunds	2,707,630	1,910,107	1,390,162	601,042	49,490
Administrative expenses	3,890,828	4,510,803	4,432,803	5,032,027	4,480,051
Interplan activity	2,305,124	2,026,194	602,893	1,655,177	3,217,900
Total deductions from plan net assets	8,909,033	8,447,656	6,425,858	7,288,246	7,747,441
Net increase (decrease)	42,865,532	41,499,427	29,036,152	20,572,969	22,890,486
Net assets held in trust, beginning of year	113,999,034	72,499,607	43,463,455	22,890,486	0
Net assets held in trust, end of year	$156,864,566	$113,999,034	$72,499,607	$43,463,455	$22,890,486
Member-Directed Plan					
Additions:					
Members' contributions	$21,478,344	$16,130,744	$12,162,247	$10,113,067	$7,676,192
Employers' contributions	21,048,014	16,363,129	12,435,161	10,026,114	7,462,827
Contracts and other receipts	453,716	161,894	332,927	60,434	49,551
Net income (loss) from investing activity	5,860,816	10,529,166	4,078,183	3,423,731	2,753,472
Interplan activity	278,478	345,750	355,531	0	10,337,593
Total additions to plan net assets	49,119,368	43,530,683	29,364,049	23,623,346	28,279,635
Deductions:					
Pension benefits	10,836	1,125	0	0	0
Refunds	5,377,667	5,191,909	3,447,236	2,055,789	391,773
Administrative expenses	3,601,327	3,882,917	4,128,233	4,898,872	5,098,717
Interplan activity	2,707,502	2,431,876	866,427	1,553,226	4,324,731
Total deductions from plan net assets	11,697,332	11,507,827	8,441,896	8,507,887	9,815,221
Net increase (decrease)	37,422,036	32,022,856	20,922,153	15,115,459	18,464,414
Net assets held in trust, beginning of year	86,524,882	54,502,026	33,579,873	18,464,414	0
Net assets held in trust, end of year	$123,946,918	$86,524,882	$54,502,026	$33,579,873	$18,464,414
VEBA Plan					
Additions:					
Employers' contributions	$10,239,742	$8,115,698	$7,252,580	$5,855,862	$4,361,974
Contracts and other receipts	1,972	474	300	321	147
Net income (loss) from investing activity	2,601,189	2,987,872	1,041,393	719,839	413,434
Interplan activity	70,864	0	82,996	0	0
Total additions to plan net assets	12,913,767	11,104,044	8,376,969	6,576,022	4,775,555
Deductions:					
Health care benefits	53,812	12,850	1,757	0	0
Administrative expenses	964,159	1,011,842	852,844	1,476,295	382,104
Interplan activity	0	124,653	124,138	302,072	1,212,146
Total deductions from plan net assets	1,017,971	1,149,345	978,739	1,778,367	1,594,250
Net increase (decrease)	11,895,796	9,954,699	7,398,230	4,797,655	3,181,305
Net assets held in trust, beginning of year	25,331,889	15,377,190	7,978,960	3,181,305	0
Net assets held in trust, end of year	$37,227,685	$25,331,889	$15,377,190	$7,978,960	$3,181,305

*Plans commenced January 1, 2003.

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Benefits by Type (last ten years)

Year	2007	2006	2005	2004
Traditional Pension Plan				
Pension benefits:				
Annuities	$2,471,628,553	$2,295,237,290	$2,107,916,570	$1,921,376,875
Disabilities	500,045,797	454,254,591	418,066,051	384,376,167
Other systems	13,929,119	11,090,453	11,331,852	13,431,599
Survivors	144,011,334	138,952,075	134,275,593	127,926,096
Death	6,891,186	7,033,516	7,237,063	6,831,559
QEBA***	472,921	289,511	257,614	189,530
Total pension benefits	**$3,136,978,910**	**$2,906,857,436**	**$2,679,084,743**	**$2,454,131,826**
Post-employment Health Care				
Health care benefits:				
Medicare Part B (statutorily required)	$99,175,973	$92,268,184	$80,094,041	$67,295,184
Medical	749,174,151	711,461,624	669,663,632	578,796,744
Prescription drug	431,405,495	428,140,230	403,184,288	394,857,747
Allowance payment to RMA**	3,020,425			
Total health care benefits	**$1,282,776,044**	**$1,231,870,038**	**$1,152,941,961**	**$1,040,949,675**
Combined Plan*				
Pension benefits:				
Annuities and installment payments	$5,451	$552	$0	$0
Total pension benefits	**$5,451**	**$552**	**$0**	**$0**
Member-Directed Plan*				
Pension benefits:				
Annuities and installment payments	$10,836	$1,125	$0	$0
Total pension benefits	**$10,836**	**$1,125**	**$0**	**$0**
VEBA Plan*				
Health care benefits:				
Medical and prescription drug	$53,812	$12,850	$1,757	$0
Total health care benefits	**$53,812**	**$12,850**	**$1,757**	**$0**

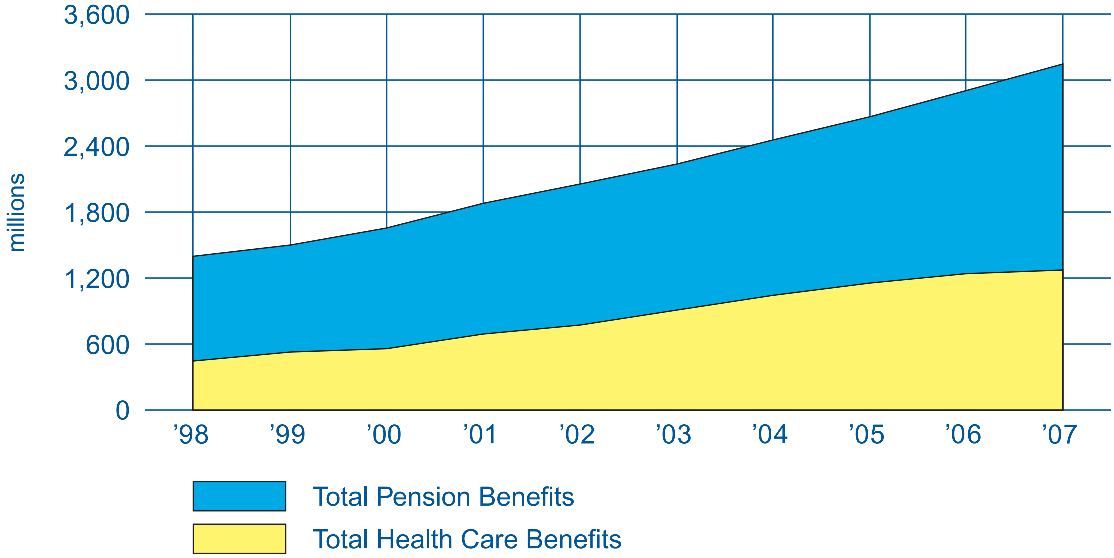
*Plan commenced January 1, 2003.
**Retiree Medical Account (RMA) commenced January 1, 2007.
***QEBA commenced in 2000 with retroactive payments made in 2004.

Benefits by Type (continued)

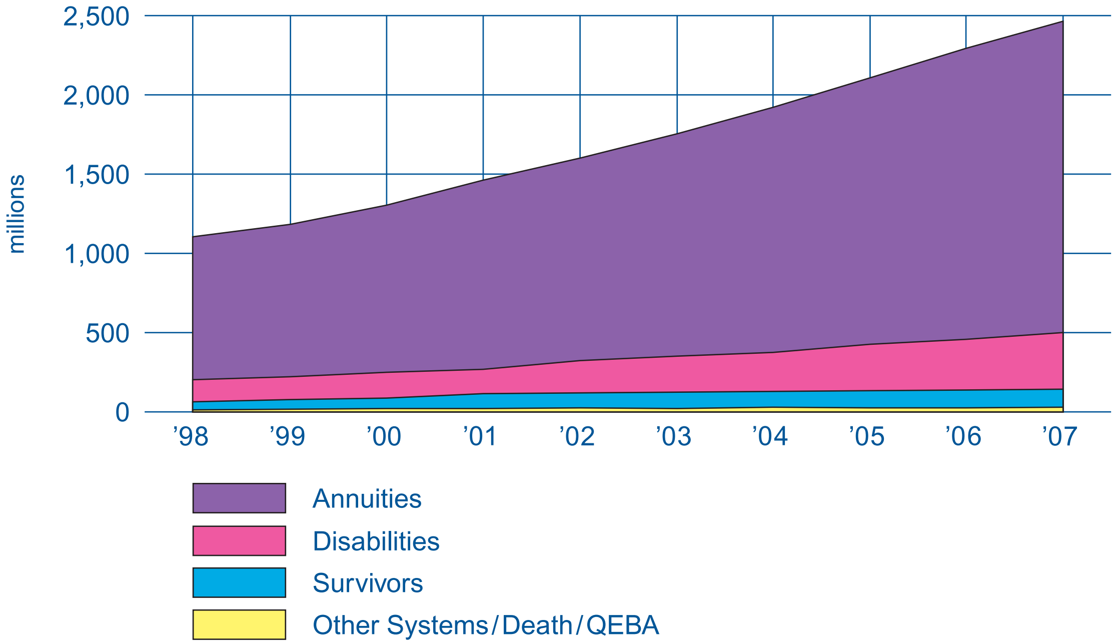
2003	2002	2001	2000	1999	1998
$1,746,038,446	$1,603,187,593	$1,464,902,740	$1,300,982,670	$1,189,128,416	$1,109,378,935
352,768,476	319,946,811	287,759,349	251,751,580	224,029,395	204,540,532
7,812,726	11,242,369	6,984,942	7,767,254	6,688,026	5,937,875
123,185,630	118,754,718	114,098,852	89,297,851	79,786,105	76,059,739
6,672,385	6,998,725	6,959,058	6,464,804	6,308,220	6,321,994
$2,236,477,663	**$2,060,130,216**	**$1,880,704,941**	**$1,656,264,159**	**$1,505,940,162**	**$1,402,239,075**
$58,704,582	$53,572,102	$49,192,479	$44,470,799	$43,954,974	$42,076,921
489,843,513	408,221,504	377,912,277	308,735,099	281,725,956	242,210,735
359,220,997	314,213,246	266,379,354	206,400,396	197,918,419	156,309,007
$907,769,092	**$776,006,852**	**$693,484,110**	**$559,606,294**	**$523,599,349**	**$440,596,663**
$0					
$0					
$0					
$0					
$0					
$0					

These are graphic representations of the Benefits by Type data detailed on page 120.

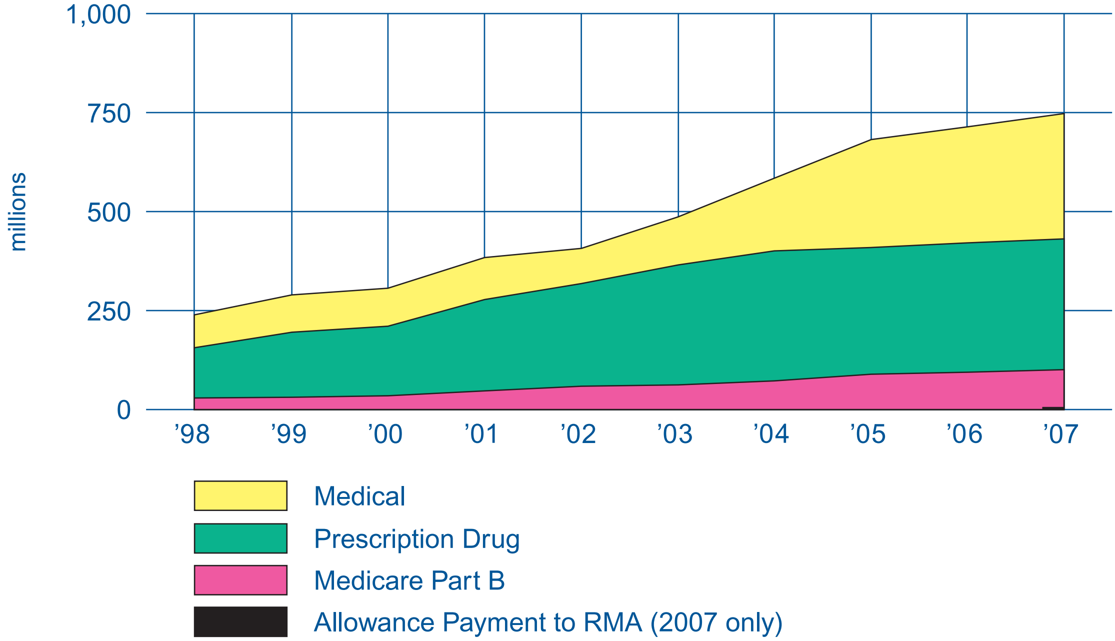
Benefits by Type



Pension Benefits by Type



Health Care Benefits by Type



Refunds by Type (last ten years)

Year	2007	2006	2005	2004
Traditional Pension Plan				
Refunds:				
Separation	$188,635,768	$200,138,152	$189,019,842	$177,227,660
Beneficiaries	18,538,167	18,458,336	18,510,705	19,872,224
Other	5,833,515	9,465,306	7,868,055	10,021,257
Total refunds	**$213,007,451**	**$228,061,794**	**$215,398,602**	**$207,121,141**
Combined Plan*				
Refunds:				
Separation	$2,665,357	$1,910,107	$1,346,396	$595,651
Beneficiaries	42,273	0	39,498	2,642
Other	0	0	4,268	2,749
Total refunds	**$2,707,630**	**$1,910,107**	**$1,390,162**	**$601,042**
Member-Directed Plan*				
Refunds:				
Separation	$5,367,368	$5,183,325	$3,351,568	$2,028,036
Beneficiaries	10,299	8,584	88,410	10,316
Other	0	0	7,258	17,437
Total refunds	**$5,377,667**	**$5,191,909**	**$3,447,236**	**$2,055,789**

*Plans commenced January 1, 2003.

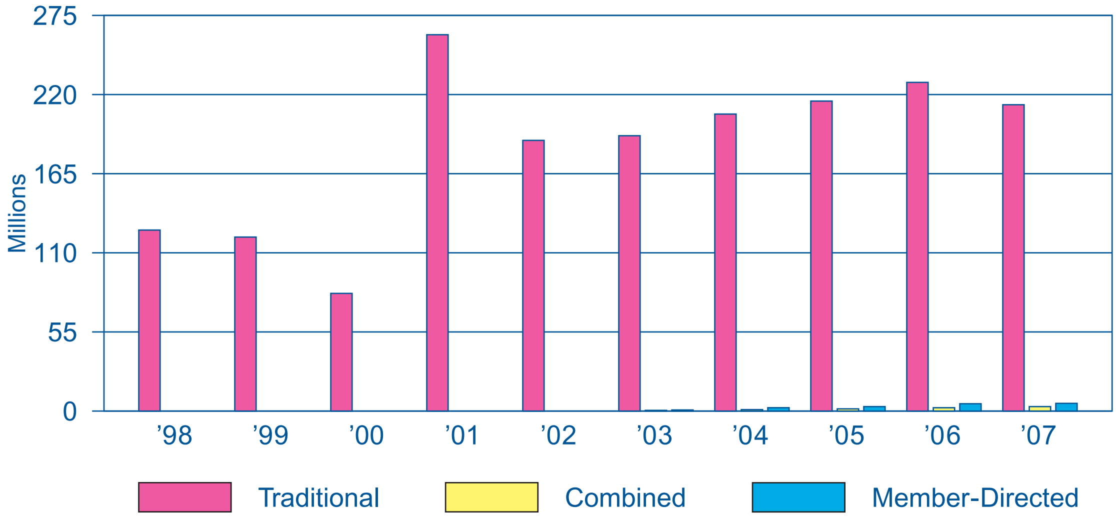
Number of Refund Payments by Plan (last ten years)

Year	Traditional Pension Plan	Combined Plan	Member-Directed Plan	Total
2007	23,679	378	739	24,796
2006	26,276	383	937	27,596
2005	28,013	253	580	28,846
2004	37,728	151	436	38,315
2003	37,022	21	79	37,122
2002	32,186	N/A	N/A	32,186
2001	40,615	N/A	N/A	40,615
2000	31,157	N/A	N/A	31,157
1999	36,442	N/A	N/A	36,442
1998	38,299	N/A	N/A	38,299

Refunds by Type (continued)

2003	2002	2001	2000	1999	1998
$150,846,499	$159,348,529	$231,665,029	$69,381,933	$101,426,721	$116,866,392
28,263,206	15,180,435	22,378,095	2,374,820	4,477,399	5,824,082
13,658,630	12,522,851	8,638,134	10,073,592	14,727,841	2,919,433
$192,768,335	**$187,051,815**	**$262,681,258**	**$81,830,345**	**$120,631,961**	**$125,609,907**
$47,738					
0					
1,752					
$49,490					
$389,565					
0					
2,208					
$391,773					

Refunds by Plan



Pension Assets vs Pension Liabilities* (last ten years, $ in millions) — Traditional and Combined Plan

Year	2006	2005**	2004	2003	2002	2001*	2000*	1999	1998*	1997
Pension assets	$61,296	$54,473	$50,452	$46,746	$43,706	$48,748	$46,844	$43,060	$38,360	$33,846
Accrued liabilities	66,161	61,146	57,604	54,774	50,872	47,492	46,347	43,070	37,714	34,971
Unfunded liabilities	4,865	6,673	7,152	8,028	(7,166)	1,256	497	(10)	646	(1,125)
Funded ratio	92.65%	89.09%	87.58%	85.34%	85.91%	102.64%	101.07%	99.98%	101.71%	96.78%

*The Combined Plan commenced January 1, 2003.
**Information prior to completion of experience study.

Pension Assets vs Pension Liabilities (last ten years, $ in millions) — Traditional Plan

Year	2006	2005**	2004	2003	2002	2001*	2000*	1999	1998*	1997
Pension assets	$61,235	$54,433	$50,430	$46,737	$43,706	$48,748	$46,844	$43,060	$38,360	$33,846
Accrued liabilities	66,089	61,099	57,573	54,756	50,872	47,492	46,347	43,070	37,714	34,971
Unfunded liabilities	(4,854)	(6,666)	(7,143)	(8,019)	(7,166)	1,256	497	(10)	646	(1,125)
Funded ratio	92.66%	89.09%	87.59%	85.36%	85.91%	102.64%	101.07%	99.98%	101.71%	96.78%

*Pension assets were in excess of accrued liabilities.
**Information prior to completion of experience study.

Pension Assets vs Pension Liabilities* (last four years, $ in millions) — Combined Plan

Year	2006	2005**	2004	2003
Pension assets	$61	$40	$22	$9
Accrued liabilities	72	47	31	18
Unfunded liabilities	(11)	(7)	(9)	(9)
Funded ratio	84.72%	85.11%	70.97%	50.00%

*The Combined Plan commenced January 1, 2003.
**Information prior to completion of experience study.

Health Care Assets vs Liabilities ($ in millions) Post-employment Health Care

Year	2006	2005*	2004
Health care assets	$12,025	$11,070	$10,816
Accrued liabilities	30,748	31,307	29,479
Unfunded liabilities	(18,723)	(20,237)	(18,663)
Funded ratio	39.11%	35.36%	36.69%

*Information prior to completion of experience study.

Health Care Solvency Period

Year	Estimated Years of Solvency
2006	27
2005	18
2004	17
2003	18
2002	14
2001*	21

*Data not available prior to 2001.

Self-funding Rate*

Year	Self-funding Rate
2006	8.1%
2005**	9.0

*The self-funding rate is the percentage of contribution required to fund health care indefinitely without regard to repayment of the liability within 30 years.

**Data not available prior to 2005.

Contribution Rate

Year	Annual Required Contribution Rate
2007	16.35%
2006*	16.64

*Data not available prior to 2006.

% of Contribution Rate

Year	% of Contribution Rate Funding Health Care
2007**	5.5 %
2006	4.50
2005	4.00
2004	4.00
2003	5.00
2002	5.00
2001*	4.30

*Data not available prior to 2001.

**The portion of the employer contribution rate allocated to fund health care was 5% for the period January 1, 2007 through June 30, 2007 and increased to 6% for the period July 1, 2007 through December 31, 2007. The overall effective rate for the year was 5.5%.

Number of Benefit Recipients by Category

Note: The values included in the following tables represent the number of individuals receiving benefit payments. One retiree account may be issued to multiple recipients or beneficiaries. See the Schedule of Retirees and Beneficiaries Added to and Removed from Rolls on page 110 for the number of retiree accounts distributed as monthly benefits as of December 31, 2007.

Traditional Pension Plan

Year End	Annuities	Disabilities	Survivors	Total
2007	126,002	22,108	13,232	161,342
2006	122,021	21,563	13,161	156,745
2005	118,099	20,732	12,927	151,758
2004	114,698	19,758	12,510	146,966
2003	112,247	18,859	12,537	143,643
2002	109,565	17,809	12,291	139,665
2001	105,876	16,727	12,166	134,769
2000	103,680	15,811	11,937	131,428
1999	101,345	14,868	11,785	127,998
1998	99,619	14,146	11,653	125,418

Combined Plan**

Year End	Annuities
2007	2
2006	1

Member-Directed Plan**

Year End	Annuities	Installment Payments	Total
2007	2	2	4
2006	0	1	1

**Plan commenced January 1, 2003.

Number of Covered Lives by Category

Note: The values included in the following tables represent the number of lives covered by OPERS' health care coverage and the number of Member-Directed Plan members eligible to draw on their VEBA accounts.

Post-employment Health Care

Year End	Total Covered Lives
2007	204,514
2006	200,494
2005	194,773
2004	189,227
2003	179,182
2002	170,945
2001*	161,664

*Data not available prior to 2001.

VEBA Plan**

Year End	Total Covered Lives
2007	176
2006	293
2005	185
2004	75
2003	9

**Plan commenced January 1, 2003.

Schedule of Benefit Recipients by Benefit Type and Amount

Note: The values included in the following tables represent the number of individuals receiving benefit payments. One retiree account may be issued to multiple recipients or beneficiaries. See the Schedule of Retirees and Beneficiaries Added to and Removed from Rolls on page 110 for the number of retiree accounts distributed as monthly benefits as of December 31, 2007.

Schedule of Benefit Recipients by Benefit Type and Amount — Traditional Pension Plan

As of December 2007

Amount of Monthly Benefit	Annuities	Disabilities	Survivors	Number of Recipients
$1-299	12,507	431	769	13,707
300-499	10,427	493	2,376	13,296
500-999	25,094	2,570	5,956	33,620
1,000-1,499	20,343	4,953	2,324	27,620
1,500-1,999	16,041	5,092	951	22,084
2,000 and over	41,590	8,569	856	51,015
Totals	**126,002**	**22,108**	**13,232**	**161,342**

Combined Plan

Amount of Monthly Benefit	Annuities
$1-299	2
300-499	0
500-999	0
1,000-1,499	0
1,500-1,999	0
2,000 and over	0
Totals	2

Member-Directed Plan

Year End	Annuities	Installment Payments	Total
$1-299	2	0	2
300-499	0	0	0
500-999	0	0	0
1,000-1,499	0	0	0
1,500-1,999	0	0	0
2,000 and over	0	0	0
Various	0	2	2
Totals	2	2	4

Member-Directed and Combined Plan members have the ability to annuitize all or a portion of their Defined Contribution account at OPERS for a defined benefit.

Combined Plan annuities represent the number of age-and-service benefits and those electing to annuitize through OPERS. Combined Plan members eligible for Disability and Survivor Benefits are transferred to the Traditional Plan before benefits are paid.

Member-Directed annuities represent the number electing to annuitize through OPERS. Member-Directed installment payments are for members who elected to receive periodic installment payments from OPERS' third-party administrator.

Number of New Pension Benefit Recipients

Note: The values included in the following tables represent the number of individuals receiving benefit payments. One retiree account may be issued to multiple recipients or beneficiaries. See the Schedule of Retirees and Beneficiaries Added to and Removed from Rolls on page 110 for the number of retiree accounts distributed as monthly benefits as of December 31, 2007.

Traditional Pension Plan

Year End	Annuities	Disabilities	Survivors	Total
2007	7,701	1,429	731	9,861
2006	7,457	1,644	707	9,808
2005	7,257	1,734	729	9,720
2004	7,222	1,664	565	9,451
2003	6,559	1,833	770	9,162
2002	7,600	1,799	700	10,099
2001	5,999	1,650	754	8,403
2000	6,065	1,739	655	8,459
1999	5,387	1,474	652	7,513
1998	5,490	1,487	579	7,556

Combined Plan

Year End	Annuities
2007	1
2006	1

Member-Directed Plan

Year End	Annuities	Installment Payments	Total
2007	2	1	3
2006	0	1	1

Member-Directed and Combined Plan Members have the ability to annuitize all or a portion of their Defined Contribution account at OPERS.

The number of members reported for the Combined Plan include the number receiving their age-and-service benefits and those electing to annuitize through OPERS. Combined Plan members eligible for Disability and Survivor Benefits are transferred to the Traditional Plan before benefits are paid.

Member-Directed annuities represent the number electing to annuitize through OPERS. Member-Directed installment payments are for members who elected to receive periodic installment payments from OPERS' third-party administrator.

Schedule of Average Benefits*** (last ten years) — Traditional Plan Only

Retirement Effective Dates		Years Credited Service 5-9	10-14	15-19	20-24	25-30	30+
2007	Average Monthly Benefit*	$766	$816	$1,099	$1,519	$2,063	$2,977
	Average Final Average Salary	$31,484	$34,991	$40,020	$44,015	$48,653	$54,941
	Number of Active Recipients	853	1,558	1,165	1,131	1,240	3,787
2006	Average Monthly Benefit*	$731	$688	$1,015	$1,406	$1,994	$2,871
	Average Final Average Salary	$28,806	$30,409	$37,248	$40,359	$46,316	$52,998
	Number of Active Recipients**	607	1,349	986	993	1,383	3,198
2005	Average Monthly Benefit*	$766	$723	$1,013	$1,407	$1,987	$2,891
	Average Final Average Salary	$28,702	$32,126	$36,360	$39,854	$46,151	$52,805
	Number of Active Recipients**	645	1,317	987	954	1,319	3,442
2004	Average Monthly Benefit*	$784	$618	$985	$1,377	$1,889	$2,788
	Average Final Average Salary	$29,654	$27,902	$34,872	$38,429	$43,826	$50,600
	Number of Active Recipients**	520	1,215	1,016	932	1,282	3,072
2003	Average Monthly Benefit*	$736	$658	$1,040	$1,386	$1,944	$2,885
	Average Final Average Salary	$25,541	$29,196	$35,115	$37,183	$42,518	$49,747
	Number of Active Recipients**	642	1,254	1,037	944	1,230	3,131
2002	Average Monthly Benefit*	$703	$611	$965	$1,290	$1,855	$2,667
	Average Final Average Salary	$25,392	$27,426	$33,170	$34,733	$41,607	$46,883
	Number of Active Recipients**	579	1,295	1,069	1,079	1,393	3,489
2001	Average Monthly Benefit*	$635	$621	$953	$1,286	$1,777	$2,554
	Average Final Average Salary	$24,281	$28,405	$32,628	$35,007	$39,560	$45,092
	Number of Active Recipients	470	1,079	890	929	1,098	2,561
2000	Average Monthly Benefit*	$529	$546	$860	$1,195	$1,674	$2,483
	Average Final Average Salary	$22,833	$25,995	$29,947	$32,448	$37,508	$44,155
	Number of Active Recipients	443	1,114	880	896	974	2,313
1999	Average Monthly Benefit*	$468	$545	$835	$1,135	$1,497	$2,316
	Average Final Average Salary	$22,725	$26,514	$29,828	$32,856	$35,701	$42,948
	Number of Active Recipients	446	1,095	846	897	960	2,079
1998	Average Monthly Benefit*	$385	$498	$781	$1,108	$1,434	$2,176
	Average Final Average Salary	$20,226	$24,160	$28,008	$31,530	$34,492	$40,098
	Number of Active Recipients	426	1,197	931	877	939	1,991

*Average Monthly Benefit includes post retirement and yearly 3% cost-of-living increases for new benefit recipients each year.
**Number of Active Recipients restated to include retirements initiated in prior years that are "Finaled" in reported year.
***All years begin January 1 and end December 31.

Member Count—Pension Plans — Total All Pension Plans*

Year End	Active	Inactive	Benefit Recipients	Total
2007	382,177	364,823	161,348	908,348
2006	381,464	346,697	156,747	884,908
2005	381,413	327,864	151,758	861,035
2004	375,076	313,248	146,966	835,290
2003	368,996	302,546	143,643	815,185
2002	402,041	255,528	139,665	797,234
2001	411,076	224,677	134,769	770,522
2000	399,919	220,189	131,428	751,536
1999	383,286	207,345	127,998	718,629
1998	371,563	192,273	125,418	689,254

*Prior to 2003, includes Traditional Pension Plan only. Effective 2003, includes the Traditional Pension Plan, the Combined Plan, and the Member-Directed Plan.

Member Count—Pension Plans — Traditional Plan

Year End	Active	Inactive	Benefit Recipients	Total
2007*	368,780	362,742	161,342	892,864
2006*	369,728	345,070	156,745	871,543
2005*	371,148	326,528	151,758	849,434
2004*	366,470	312,480	146,966	825,916
2003*	361,704	302,221	143,643	807,568
2002	402,041	255,528	139,665	797,234
2001	411,076	224,677	134,769	770,522
2000	399,919	220,189	131,428	751,536
1999	383,286	207,345	127,998	718,629
1998	371,563	192,273	125,418	689,254

*Effective 2003, members actively contributing under more than one employer code are counted only once.

Member Count—Pension Plans — Combined Plan*

Year End	Active	Inactive	Benefit Recipients	Total
2007	6,244	659	2	6,905
2006	5,609	519	1	6,129
2005	5,026	414	0	5,440
2004	4,223	232	0	4,455
2003	3,590	92	0	3,682

*Plan commenced January 1, 2003.

Member Count—Pension Plans — Member-Directed Plan*

Year End	Active	Inactive	Benefit Recipients	Total
2007	7,153	1,422	4	8,579
2006	6,127	1,108	1	7,236
2005	5,239	922	0	6,161
2004	4,383	536	0	4,919
2003	3,702	233	0	3,935

*Plan commenced January 1, 2003.

Member Counts

Note: The values included in the previous and following tables represent the number of individuals receiving benefit payments. One retiree account may be issued to multiple recipients or beneficiaries. See the Schedule of Retirees and Beneficiaries Added to and Removed from Rolls on page 110 for the number of retiree accounts distributed as monthly benefits as of December 31, 2007.

Member Count—Health Care Plans — Total All Health Care Plans*

Year End	Active	Inactive	Benefit Recipients	Total
2007	6,942	1,440	204,690	213,072
2006	5,742	1,122	200,787	207,651
2005	5,004	858	194,958	200,820
2004	4,282	506	189,302	194,090
2003	3,586	27	179,191	182,804
2002	N/A	N/A	170,945	170,945
2001	N/A	N/A	161,664	161,664

*Prior to 2003, includes the Post-employment Health Care Plan only. Effective 2003, includes the Post-employment Health Care Plan and the VEBA Plan.

Member Count—Health Care Plans — Post-employment Health Care

Year End	Active	Inactive	Benefit Recipients	Total
2007	N/A	N/A	204,514	204,514
2006	N/A	N/A	200,494	200,494
2005	N/A	N/A	194,773	194,773
2004	N/A	N/A	189,227	189,227
2003	N/A	N/A	179,182	179,182
2002	N/A	N/A	170,945	170,945
2001*	N/A	N/A	161,664	161,664

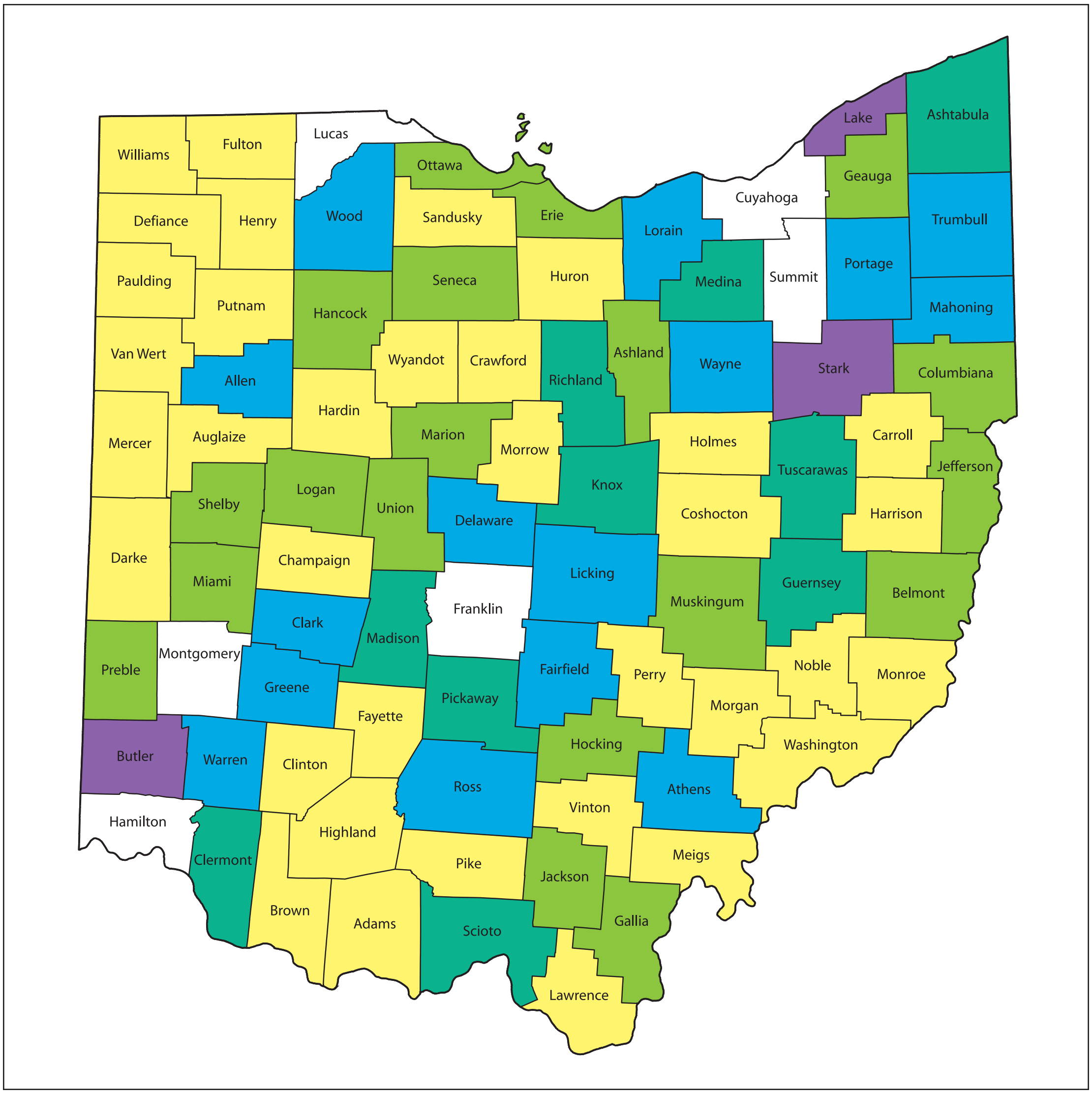
*Data not available prior to 2001. Benefit Recipients is defined as the number of covered lives.

Member Count—Health Care Plans — VEBA Plan*

Year End	Active	Inactive	Benefit Recipients	Total
2007	6,942	1,440	176	8,558
2006	5,742	1,122	293	7,157
2005	5,004	858	185	6,047
2004	4,282	506	75	4,863
2003	3,586	27	9	3,622

*Plan commenced January 1, 2003.

OPERS' Financial Impact, by County

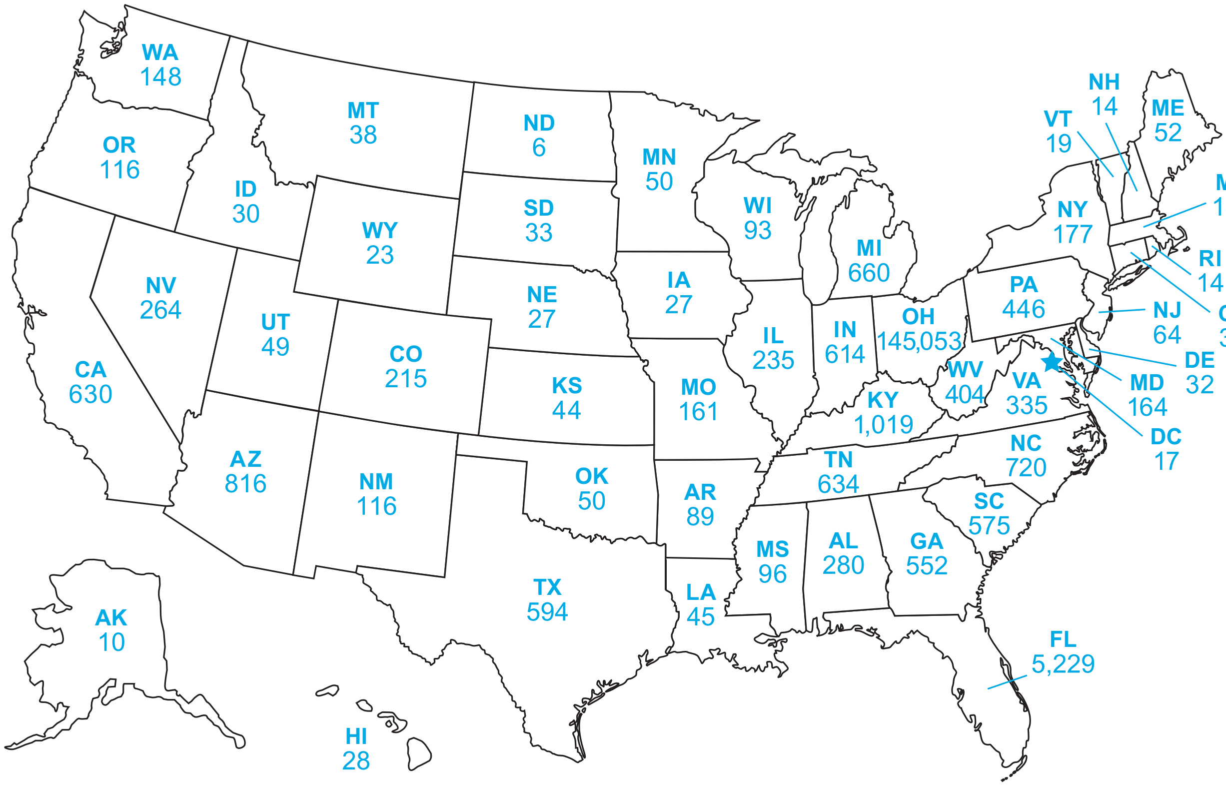


Color Key

- $0-$10 million
- $10-$15 million
- $15-$25 million
- $25-$50 million
- $50-$100 million
- $100 million +

Of the 161,348 retirees and beneficiaries in the OPERS system, 145,054, or 89.9%, remain Ohio residents. Pension benefit payments approaching $2.8 billion this year are distributed throughout Ohio, representing OPERS' impact on the state's economy.

Ohio Pension Benefit Recipients—U.S. Distribution



Recipients Outside United States

Australia 5
Austria 2
Belgium 1
Brazil 2
Canada 22
China 1
Costa Rica 3
Croatia 1
Czech Republic 3
Egypt 1
England 7
France 3
Germany 4
Greece 2
Guam 1
Hungary 1
Israel 5
Italy 6
Japan 1
Latvia 1
Lebanon 3
Lithuania 1
Mexico 2
Netherlands 1
New Zealand 1
Nicaragua 1
Norway 1
Philippines 5
Puerto Rico 9
Romania 1
Scotland 1
Serbia 1
Singapore 1
Slovak Republic 1
South America 1
Spain 5
Thailand 1
United Kingdom 1
Uruguay 1
Virgin Islands 5
West Indies 2

Contribution Rates — Traditional Plan

	Year	Member Rates	Employer Rates: Current: Normal	Employer Rates: Current: Health	Employer Rates: Current: Survivor Benefits	Employer Rates: Unfunded Liability: Past Service	Total Employer Rates	Total Aggregate Employer and Member Rates
State	2007	9.50%	3.80%	6.00%***	0.41%	3.56%	13.77%	23.27%
	2006	9.00	5.26	4.50	0.41	3.37	13.54	22.54
	2005	8.50	5.29	4.00	0.41	3.61	13.31	21.81
	2004	8.50	5.53	4.00	0.42	3.36	13.31	21.81
	2003	8.50	5.75	5.00	0.42	2.14	13.31	21.81
	2002	8.50	6.27	5.00	0.72	1.32	13.31	21.81
	2001	8.50	6.96	4.30	0.72	1.33	13.31	21.81
	2000*	8.50	4.90	4.30	0.51	0.94	10.65	19.15
	1999	8.50	5.62	4.20	0.59	2.90	13.31	21.81
	1998	8.50	5.62	4.20	0.59	2.90	13.31	21.81
Local	2007	9.50%	3.63%	6.00%***	0.47%	3.75%	13.85%	23.35%
	2006	9.00	5.10	4.50	0.47	3.63	13.70	22.70
	2005	8.50	5.19	4.00	0.47	3.89	13.55	22.05
	2004	8.50	5.45	4.00	0.47	3.63	13.55	22.05
	2003	8.50	5.66	5.00	0.48	2.41	13.55	22.05
	2002	8.50	6.26	5.00	0.72	1.57	13.55	22.05
	2001	8.50	6.96	4.30	0.72	1.57	13.55	22.05
	2000*	8.50	4.92	4.30	0.51	1.11	10.84	19.34
	1999	8.50	5.57	4.20	0.58	3.20	13.55	22.05
	1998	8.50	5.57	4.20	0.59	3.19	13.55	22.05
Law Enforcement	2007	10.10%	7.09%	6.00%***	0.53%	3.55%	17.17%	27.27%
	2006	10.10	8.10	4.50	0.53	3.80	16.93	27.03
	2005	10.10	8.11	4.00	0.54	4.05	16.70	26.80
	2004	10.10	8.23	4.00	0.54	3.93	16.70	26.80
	2003	10.10	8.34	5.00	0.54	2.82	16.70	26.80
	2002	10.10	10.02	5.00	0.85	0.83	16.70	26.80
	2001	10.10	10.62	4.30	0.88	0.90	16.70	26.80
	2000*	9.00	9.76	4.30	0.81	0.83	15.70	24.70
	1999	9.00	9.61	4.20	0.88	2.01	16.70	25.70
	1998	9.00	9.61	4.20	0.89	2.00	16.70	25.70
Public Safety	2007	9.75%	6.51%	6.00%	0.65%	4.01%	17.17%	26.92%
	2006	9.00	8.43	4.50	0.61	3.39	16.93	25.93
	2005	9.00	8.11	4.00	0.54	4.05	16.70	25.70
	2004	9.00	8.23	4.00	0.54	3.93	16.70	25.70
	2003	9.00	8.34	5.00	0.54	2.82	16.70	25.70
	2002	9.00	10.01	5.00	0.98	0.71	16.70	25.70
	2001**	9.00	10.90	4.30	0.89	0.61	16.70	25.70

*One-time employer contribution rate rollback.

**HB 416 separated the Law Enforcement program into two divisions effective January 1, 2001.

***The health care contribution rate increased from 5% to 6% effective July 1, 2007.

Contribution Rates — Combined Plan

	Year	Member Rates	Employer Rates: Pension	Employer Rates: Health	Employer Rates: Mitigation Rate	Total Employer Rates	Total Rates
State	2007	9.50%	7.23%	6.00%	0.54%	13.77%	23.27%
	2006	9.00	8.50	4.50	0.54	13.54	22.54
	2005	8.50	9.31	4.00	0.00	13.31	21.81
	2004	8.50	9.31	4.00	0.00	13.31	21.81
	2003	8.50	8.31	5.00	0.00	13.31	21.81
Local	2007	9.50%	7.15%	6.00%	0.70%	13.85%	23.35%
	2006	9.00	8.50	4.50	0.70	13.70	22.70
	2005	8.50	9.55	4.00	0.00	13.55	22.05
	2004	8.50	9.55	4.00	0.00	13.55	22.05
	2003	8.50	8.55	5.00	0.00	13.55	22.05

Contribution Rates — Member-Directed Plan

	Year	Member Rates	Employer Rates: Pension	Employer Rates: VEBA	Employer Rates: Mitigation Rate	Total Employer Rates	Total Rates
State	2007	9.50%	8.73%	4.50%	0.54%	13.77%	23.27%
	2006	9.00	8.50	4.50	0.54	13.54	22.54
	2005	8.50	8.50	4.81	0.00	13.31	21.81
	2004	8.50	8.50	4.81	0.00	13.31	21.81
	2003	8.50	8.50	4.81	0.00	13.31	21.81
Local	2007	9.50%	8.65%	4.50%	0.70%	13.85%	23.35%
	2006	9.00	8.50	4.50	0.70	13.70	22.70
	2005	8.50	8.50	5.05	0.00	13.55	22.05
	2004	8.50	8.50	5.05	0.00	13.55	22.05
	2003	8.50	8.50	5.05	0.00	13.55	22.05

Number of Employer Units — All Plans*

Year	State	County	Law Enforcement	Municipalities	Villages	Miscellaneous	Libraries	Townships	Totals
2007	273	241	245	251	671	465	254	1,314	3,714
2006	276	238	244	253	671	459	254	1,312	3,707
2005	277	239	247	255	671	454	257	1,312	3,712
2004	268	240	241	255	672	456	256	1,314	3,702
2003	268	239	247	255	673	450	257	1,313	3,702
2002	263	237	251	256	671	450	256	1,312	3,696
2001	266	239	255	258	665	442	256	1,309	3,690
2000	318	243	232	334	673	414	257	1,312	3,783
1999	332	247	233	337	673	406	257	1,312	3,797
1998	327	247	233	338	672	400	256	1,312	3,785

*The number of employer units exceeds the number of reporting employers as some employers report multiple divisions or agencies. The number of employers reporting at December 31, 2007 was 3,270.

Principal Participating Employers

Participating Government	2007 Covered Employees	2007 Rank	2007 Percentage of Total System	2005* Covered Employees	2005* Rank	2005* Percentage of Total System
The Ohio State University	24,517	1	6.42%	23,696	1	6.21%
Cuyahoga County	9,592	2	2.51	10,062	2	2.64
City of Cleveland	6,218	3	1.63	6,569	3	1.73
Metrohealth Medical Center	6,020	4	1.58	5,988	6	1.57
Franklin County	5,918	5	1.55	6,551	4	1.72
Ohio Dept. of Transportation	5,835	6	1.53	6,297	5	1.65
University of Cincinnati	5,681	7	1.49	5,083	9	1.33
Hamilton County	5,452	8	1.43	5,951	7	1.56
City of Columbus	5,357	9	1.40	5,864	8	1.54
Montgomery County	4,046	10	1.06	4,896	10	1.28
All Other (see table below)	303,541	N/A	79.40	300,456	N/A	78.78
Total	382,177	N/A	100.00%	381,413	N/A	100.00%

*Information not available prior to 2005.

Principal Participating Employers — All Other Categories

Participating Government	2007 Number	2007 Employees	2005 Number	2005 Employees
State	270	87,993	274	84,251
County	237	74,168	235	72,861
Municipalities	249	55,106	253	55,711
Miscellaneous	464	30,874	453	33,975
Libraries	254	15,559	257	15,405
Townships	1,314	15,076	1,312	15,108
Villages	671	14,992	671	15,222
Law Enforcement/Public Safety	245	9,774	247	7,923
Total	3,704	303,541	3,702	300,456

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Plan Statement

Recent Efforts to Keep Health Care Viable

Access to quality health care is a growing national concern. And, the world is closely watching how the U.S. is managing this challenge. Although OPERS exists solely to provide a secure retirement for Ohio's public employees, it has also traditionally provided health care benefits as well—something that is neither guaranteed nor mandated.

The Board of Trustees recognized the importance of access to health care to a retiree's financial status and directed the management and staff to proactively position a stand-alone health care fund that would help provide stability and sustainability for health care options for retirees—without eroding the integrity of the pension funds.

Establishing a prudent financial framework for the Health Care Fund is a considerable challenge. The time horizon is more immediate than that of the pension fund (which enjoys an infinite time horizon as well as a strong tradition of success). In addition, the need for funds from the Health Care Fund has proven to be more immediate and less predictable than the need for funds from the pension fund.

However, even with these considerable challenges in mind, OPERS has made significant progress toward a sustainable health care fund.

Here's a snapshot of OPERS' recent efforts to keep health care coverage viable:

- In 2005, health care assets were separated from the pension fund assets, for investment purposes and a separate investment policy was established to maintain the integrity of the pension funds and provide sustainability for health care.
- In 2007, OPERS established an innovative partnership with other Ohio retirement systems. Called Rx Ohio Collaborative (ROC), an estimated $160 million in savings will be achieved by realizing economies-of-scale savings for prescription drug purchases and implementing proven cost-effective savings plans.
- In 2007, the Health Care Preservation Plan was implemented that allocates health care funds to retirees based on years of service.

These efforts were noted in a recent publication from the Pew Charitable Trusts. Ohio was recognized in the States to Watch section of Promises with a Price, Public Sector Retirement Benefits from The Pew Center on the States with the comment, "Only a small number of states have accumulated significant assets to offset their OPEB obligations. Ohio, which had $11.1 billion saved as of fiscal year 2006, has accumulated much more than even the next closest state (Alaska at $2.2 billion)."

Health care access is an ongoing priority at OPERS, as well as in the nation. OPERS is actively engaged with local and federal legislators and working to address health care issues on a national level.

The Ohio Public Employees Retirement System (OPERS or System) was created by the Ohio General Assembly to provide retirement, disability, and survivor benefit programs for the public employees of Ohio. This summary outlines the Ohio law that regulates OPERS; however, it cannot and does not change any of the provisions of the Ohio Revised Code (ORC).

All public employees, except those covered by another state retirement system in Ohio or by the Cincinnati Retirement System, are required to become contributing members of OPERS when they begin public employment, unless they are exempted or excluded.

The law provides for optional membership for elected public officials. Students, not already members, working for the public school, college, or university that they are attending may be exempt from contributing to OPERS by filing a request for exemption within the first month of employment.

OPERS provides special retirement coverage for certain law enforcement officers whose primary duties are to preserve the peace, to protect life and property, and to enforce the laws of Ohio. These individuals, who must have a Peace Officer's Training School Certificate, are covered if they were hired on or after the dates of the enabling legislation. If they were employed before the legislation was enacted, coverage was optional. If they did not elect law enforcement coverage, they remained under the regular OPERS schedule of benefits.

Plan Types

For more than 70 years OPERS has provided members with retirement benefits under a defined benefit plan, known as the Traditional Pension Plan.

In 2000, legislation required OPERS to establish one or more defined contribution plans to be offered to members in addition to the existing Traditional Pension Plan. OPERS began offering three retirement plans to its members on January 1, 2003. The plans include the Traditional Pension Plan, the Member-Directed Plan, and the Combined Plan. A brief overview of each plan is provided below.

The Traditional Pension Plan

The Traditional Pension Plan is a defined benefit plan under which a member's retirement benefit is based on a formula. The formula is determined by the years of contributing service and the average of the three highest years of earnable salary (or final average salary). The OPERS investment professionals manage the investment of employee and employer contributions to ensure that funds are available to pay the formula benefit.

The Member-Directed Plan

The Member-Directed Plan is a defined contribution plan under which employee and employer contributions are deposited into a member's individual OPERS account and the member directs the investment by selecting from nine professionally managed OPERS investment options. The member's retirement distribution is based on employee and vested employer contributions, and the gains and losses on those contributions.

The Combined Plan

The Combined Plan is a retirement plan with both a defined benefit and a defined contribution component. Under the defined benefit portion of the Combined Plan, the member's retirement benefit is determined by a reduced formula (similar to the Traditional Pension Plan). OPERS' investment professionals manage the investment of the employer contributions to ensure that funds are available to pay the reduced-formula benefit. Under the defined contribution portion of the Combined Plan, employee contributions are deposited into the member's individual account and the member directs the investment by selecting from nine professionally managed OPERS investment options. The defined contribution portion of the member's retirement distribution is based on employee contributions, and the gains and losses on those contributions.

Contributions

Employers are required to make contributions to the System on the basis of a percentage of reportable payroll and at a rate based upon the recommendations of OPERS' actuary. Penalties and interest are added for late payments. The state contribution rate for 2007 is 13.77%, and local employers contribute 13.85%. Employers in the law enforcement and public safety divisions contribute 17.17%.

The 2007 employee contribution rate for state and local members is 9.50% of earnable salary. Members in the public safety division contribute 9.75% and law enforcement division members pay 10.1% of earnable salary. Individual accounts for each member of OPERS are maintained and funds contributed by members of the Traditional Pension Plan are fully refundable at service termination or death. The refund value of contributions made by members of the Combined Plan and the Member-Directed Plan are subject to changes (gains or losses) that occur as a result of the member's selected investment options. Each year, by the end of April, members of the Traditional Pension Plan and the Combined Plan are sent a statement of their individual account and an estimate of their projected future retirement benefit, as of the previous December 31. Members in the Member-Directed Plan and the Combined Plan receive quarterly statements showing the value of contributions in their defined contribution account and the investment gains and losses on those contributions. A report disclosing the financial status of the System and describing major developments during the year at OPERS is sent along with the statement of account.

Benefits under the Traditional Pension Plan or the Combined Plan

Age-and-Service Retirement

Members are eligible to retire at age 60 with at least five years of total service credit. They may retire with a reduced benefit as early as age 55 with 25 years of service. Members with 30 years of total service credit may retire at any age with no reduction in benefit. Service credit allowed under Chapter 145 of the ORC includes:

1. Service for the state of Ohio or an Ohio political subdivision for which contributions have been paid;
2. Certain military service which interrupted contributing public service;
3. Any out-of-public service period of three years or less during which the member was receiving an award under Workers' Compensation;
4. Previously unreported service in Ohio;

5. Service purchased by the member for:
   a. Other military service that is not being used for other retirement programs, except Social Security;
   b. Prisoner-of-war service;
   c. An authorized leave of absence which did not exceed one year;
   d. Comparable public service that is not being used for other retirement programs, except Social Security, performed outside Ohio or with the federal government or for which contributions were made to an Ohio municipal retirement system;
   e. Restoration of previously refunded service;
   f. Restoration of previously refunded service from the Ohio Police and Fire, Ohio State Highway Patrol, or City of Cincinnati Retirement System, not being used for any other retirement benefit;
   g. Service which was previously covered by a valid exemption under OPERS;
   h. The amount of 35% additional credit on completed terms of full-time contributing elective service, or board, commission, or other public body service by members who are appointed by the governor with the advice and consent of the Senate;
6. Service purchased by an employer under a retirement incentive plan.

A choice of several retirement plans is available. The choices include benefits payable throughout the member's lifetime (Single Life Benefit), or in a lesser amount during the individual's life but continuing after the member's death to a joint survivor. The joint survivor selections include: Life with 50% to Surviving Spouse, Life with Selected Percent to Survivor, Life with 100% to Survivor, or Life with Multiple Survivors.

A benefit payable under Life with 50% to Surviving Spouse, Life with Selected Percent to Survivor, Life with 100% to Survivor, or Life with Multiple Survivors is the actuarial equivalent of the Single Life Benefit, but the payment to the member is reduced because it is based on the combined life expectancies of the member and the beneficiaries. A sixth payment plan, Life with Fixed Period is also the actuarial equivalent of the Single Life Benefit, but the payment is calculated to provide for the fixed period of payment.

Life with Multiple Survivors is an option available to members whose retirement is effective on or after November 1, 2006. The payment plan is a multiple joint survivorship annuity providing benefits to the member throughout their lifetime, with payments continuing to the member's surviving beneficiaries after the member's death. The member may designate from two to four beneficiaries, with each receiving at least 10% of the benefit (exceptions are court ordered spousal benefits). Total allocations to all beneficiaries may not exceed 100% of the benefit.

Effective January 1, 2004, OPERS established a Partial Lump-Sum Option Payment (PLOP) for certain retirees and benefit recipients. The PLOP is an option at retirement and allows a recipient to receive a lump-sum benefit payment along with a reduced monthly retirement allowance. The PLOP cannot be less than six times, or more than 36 times, the monthly amount that would be payable to the member under the plan of payment selected, and cannot result in a monthly allowance that is less than 50% of that monthly amount. The total amount paid as a lump sum and a monthly benefit is the actuarial equivalent of the amount that would have been paid had the lump sum not been selected.

Benefit payments vary in amount depending on length of public service, final average salary (FAS), age, and plan of payment selection. FAS is determined by taking the average of the three highest years of earnable salary. The age-and-service formula benefit cannot exceed 100% of the FAS (law enforcement is 90%) or the limits under Internal Revenue Code Section 415.

Disability Benefits

OPERS' members are eligible for one of two disability programs, the original plan or the revised plan. Employees who had contributions on deposit with OPERS on July 29, 1992 had a one-time opportunity to select coverage under one of these programs. Employees hired after July 29, 1992 are covered only under the revised plan. There are a number of features common to both plans.

A member who has at least five years of contributing service credit and who becomes permanently disabled due to a mentally or physically disabling condition for the performance of duty may apply to OPERS for monthly disability benefits. Members in the law enforcement division do not need five years of service credit to apply for disability if the disabling condition was the result of an on-duty illness or injury.

Application must be made within two years from the date the member's contributing service ended, unless the Board of Trustees determines that the member was physically or mentally incapacitated for duty and unable to make an application. The member must not be receiving an age-and-service retirement benefit or have received a refund of their accumulated contributions. If the Board of Trustees approves the disability application and the member is otherwise eligible, the benefit is effective the first day of the month following the member's service termination. A disability benefit recipient may be required to undergo a medical examination at least once a year. A disability benefit terminates under either plan if the member is no longer disabled, returns to public service, chooses to begin receiving an age-and-service benefit, dies, or requests termination of benefit.

Members covered under the original plan must apply for disability benefits prior to turning age 60. Under the original plan, the amount of the disability allowance is based on the member's final average salary (FAS) and total service credit, plus the length of time between the effective date of disability and age 60. The disability benefit cannot exceed 75%, nor be less than 30% of the member's FAS. The disability benefit continues for the member's lifetime as long as the qualifying disability persists. The benefit is funded by the employee's accumulated contributions and reserves accumulated from employer contributions. The benefit is fully taxable until age 60, and then a specified dollar amount each month, representing the return of previously taxed contributions is tax-free. For a law enforcement member disabled due to an on-duty injury or illness, 30% of the benefit payment is excludable from taxable income.

Under the revised plan, the benefit is based on the member's FAS and years of service with OPERS with no early retirement reductions, and cannot be less than 45% or exceed 60% of FAS. The benefit is funded by reserves accumulated from employer contributions, and is fully taxable as long as it is received. For a law enforcement member disabled due to an on-duty injury or illness, 45% of the benefit payment is excludable from taxable income.

Benefits under the revised plan are payable until age 65 or for a definite period, whichever comes first. When the disability benefit ends, the member may apply for a service retirement benefit or a refund of their employee contribution account. The service retirement benefit amount is the greater of: a) 2.2% of FAS multiplied by the years of service (contributing and disability) not to exceed 45% of FAS; or b) the regular or law enforcement benefit calculation using only the member's years of contributing service.

Survivor Benefits

A member's beneficiary is determined by statutory automatic succession unless a specific designation is made in writing on a form provided by OPERS. Listed below is the order of automatic succession under Ohio law:

1. Spouse,
2. Children,
3. Dependent parents,
4. If none of the above, parents share equally in a refund of the account, and
5. If none of the foregoing, a refund of the account is paid to the estate.

Qualified beneficiaries will be eligible to receive monthly survivor benefits if, at the time of the member's death, at least one of the following qualifications was met:

1. The member had 18 months of Ohio service credit with three of those months within the two and one-half years immediately before death, or
2. The member was receiving a disability benefit from OPERS, or
3. The member was eligible for retirement but did not retire and continued to work.

At the member's death, if none of these qualifications were met a refund of the member's OPERS account value as defined by the Ohio Revised Code, may be made. The member's beneficiary may choose a refund of the member's account only if there are no children eligible for monthly benefits. If the member dies while receiving a disability benefit under the original plan and eligible survivors select a cash refund of the account, the amount is reduced by the amount of disability benefits that have already been paid. There is no reduction in amount if the member dies while receiving a benefit under the revised disability plan or while still working.

Qualified surviving spouses (with no children eligible for monthly benefits) may receive a benefit representing the greater of $250 a month or an annual benefit equal to 25% of the decedent's FAS. If the decedent had 20 or more years of service, the percent of FAS increases with each year of service over 20 up to a maximum of 60%. Benefits begin when a qualified surviving spouse reaches age 62, or at any age if the decedent had 10 or more years of Ohio service credit, qualifying children, or the spouse is adjudged physically or mentally incompetent. Benefits to a qualified survivor terminate when the survivor ceases to meet eligibility requirements.

If a deceased member was eligible for a service retirement benefit at time of death, a surviving spouse or other sole dependent beneficiary may elect to receive a monthly benefit calculated as though the member had retired and elected the Life with 100% to Survivor payment plan. This joint survivor option provides a monthly allowance that continues through the beneficiary's lifetime. The beneficiary also has the option of electing a PLOP.

A child of a deceased member may qualify for monthly benefits if the child has never been married and is under age 18, or 22 if a qualified student attending an accredited school. A child who is adjudged physically or mentally incompetent at the time of the member's death is eligible for benefits regardless of age. Benefits terminate upon the child's first marriage, adoption by someone other than a step-parent, abandonment, death, or during active military service.

A dependent parent is one who received at least one-half support from the member during the 12 months preceding the member's death. A dependent parent may receive survivor benefits if age 65 or older, or at any age if adjudged physically or mentally incompetent at the time of the member's death. Parent survivor benefit payments terminate upon the parent's death or remarriage.

Additional Benefits

- ***Health Care Coverage***—With two exceptions, OPERS-provided health care benefits are neither a guaranteed nor statutorily required benefit. Medicare Part B reimbursements (see below) and Medicare Part A equivalent coverage for non-Medicare eligible retirees and their eligible dependents are provided by statute. Currently, members applying for age-and-service retirement who have 10 or more years of Ohio service credit have access to OPERS provided health care coverage on a subsidized basis. These 10 years may not include out-of-state and/or military service purchased after January 29, 1981, service granted under an early retirement incentive plan, or credit purchased after May 4, 1992 for exempt service. Access to health care coverage is also available for disability recipients and primary survivor recipients. Dependents of eligible recipients as defined by the health care plan, may be covered through additional premiums. Qualified benefit recipients may also have access to alternative health care plans (HMOs) offered by OPERS.

  Members with less than 10 years of service credit at age-and-service retirement may obtain access to independent health care coverage offered by OPERS' health care administrators. This coverage is neither offered by OPERS nor is it the responsibility of the System. OPERS does not subsidize this insurance, nor does it pay premiums or claims, or withhold any premiums for this coverage.

  Effective January 1, 2007, OPERS implemented the Health Care Preservation Plan (HCPP) to improve the long-term solvency of the health care fund. The plan provides monthly allowances for health care coverage for retirees and their dependents based on the retiree's years of service. Members who were eligible to retire on January 1, 2007 with at least 10 years of service (Group 1) receive an allowance equal to 100% of the cost of health care coverage in 2007. Members hired prior to January 1, 2003 but eligible to retire after January 1, 2007 (Group 2), receive allowances ranging from 50% to 100% of the cost of health care coverage. Members hired after January 1, 2003 (Group 3) receive allowances ranging from 25% to 100%. The allowances for Groups 2 and 3 increase with each year of service up to the maximum of 100% with 30 years of service. Coverage for the retiree's dependents is similarly phased.

  The monthly allowances must be used for the purchase of medical and prescription drug coverage. The plan features a choice of three levels of coverage with varying costs, co-pays, deductibles, and out of pocket maximums. If the cost of the coverage level selected exceeds the retiree's monthly allowance, the difference is billed to the retiree. Monthly allowances that exceed the cost of coverage are deposited to a Retiree Medical Account (RMA). The retiree may use the funds in the RMA to pay for health care expenses not covered by the plan. Recipients with household income below 150% of the poverty level may apply for a 30% reduction in the cost of premiums.

  Recipients also have access to dental, vision, and long term care coverage. These are fully insured products with the retiree paying the total cost of coverage.

- ***Medicare Part B***—Recipients and their covered dependents who are enrolled in the OPERS health care plan must enroll in Medicare B (medical) when they become eligible, even if they are covered by health care through their current employer. If the retiree and/or their dependents are eligible for Medicare Part B and do not enroll in the plan or terminate their Medicare B coverage, the OPERS plan will estimate the amount Medicare B would have paid and deduct this amount from the OPERS covered payment.
- ***Medicare Part B Reimbursement***—OPERS reimburses Medicare Part B recipients for the basic premium cost for as long as the recipient is enrolled in Medicare B. Retirees are required to provide proof of enrollment in Medicare Part B as well as confirmation that the retiree is not receiving reimbursement or payment from another source. The premium reimbursement is added to the monthly benefit.
- ***Cost-of-Living Adjustment***—When a benefit recipient has received benefits for 12 months, an annual 3% cost-of-living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement.
- ***Death Benefit***—Upon the death of an age-and-service or disability benefit recipient, a lump-sum death benefit is paid to the qualified beneficiary. The benefit ranges from $500 to $2,500 based on the recipient's years of service credit.
- ***Qualified Excess Benefit Arrangement (QEBA)***—Total benefit payments to an individual are subject to the limitations identified in Section 415(b) of the Internal Revenue Code. In 2003, OPERS implemented a Qualified Excess Benefit Arrangement that allows OPERS recipients to receive the amount of their calculated benefit that exceeds the IRS limits.

Refunds

A refund may be issued after three months have elapsed since the member terminated OPERS covered service. For members of the Traditional Pension Plan, the refund value is equal to their accumulated contributions plus interest. Members of the Combined Plan and the Member-Directed Plan may refund their defined contribution account balances equal to their accumulated contributions net of investment gains or losses. Members of the Traditional Pension Plan and the Combined Plan may also qualify for an additional payment calculated on their eligible contributions. If the member has at least five but less than 10 years of service credit in the plan, the additional amount is 33% of the member's eligible contributions. Members with at least 10 years of service credit in the plan may receive an additional amount equal to 67% of eligible contributions.

Under the Traditional Pension Plan, full recovery of all employee contributions to OPERS is guaranteed. If the Traditional Pension Plan member is also a member of the State Teachers Retirement System of Ohio Defined Benefit Plan or the School Employees Retirement System of Ohio, an application for refund must be filed with all system(s) in order to receive a refund from OPERS. It the employee is eligible for a monthly retirement benefit and is legally married at the time the refund is filed, spousal consent is required.

Refunded service credit may be restored if the member returns to OPERS-covered employment for at least 18 months. The amount refunded, plus interest and additional payment (if applicable), must be repaid for service credit to be restored.

Benefits under the Member-Directed Plan

Retirement

Members participating in the Member-Directed Plan are eligible to retire after they reach age 55. At the time these members file their applications for retirement, they may select one of several distribution options for payment of the vested portion of their individual OPERS accounts. Options include the purchase of a monthly annuity from OPERS (which includes joint and survivor options), partial lump-sum payments (subject to limitations), payments for a fixed period, payments of a specific monthly amount, or a combination of these options. Members also may defer payment of their individual OPERS account.

Disability and Survivor Benefits

Participants in the Member-Directed Plan are not eligible for disability or survivor benefits. In the event of disability or death, the vested portion of the participant's accounts is available for refund to the member or qualified beneficiaries.

Additional Benefit

- ***Health Care Coverage***—For members participating in the Member-Directed Plan, a portion of the employer contribution is credited to a Voluntary Employees' Beneficiary Association (VEBA) account in the member's name. Members become 30% vested in this account after three years of participation in the Member-Directed Plan. Vesting continues at a rate of 10% for each subsequent year of participation until the member is fully vested after 10 years. Upon refund or retirement, vested contributions in the VEBA may be used for the payment of qualified health, dental, and vision care expenses.

Refunds

Members participating in the Member-Directed Plan may receive employee contributions net of investment gains or losses earned on those contributions. Depending on length of participation in the Member-Directed Plan, a member may also receive a portion of the employer contributions, plus any investment earnings, based on the following schedule:

Years of Participation	Percent Vested
1 year	20%
2 years	40%
3 years	60%
4 years	80%
5 or more years	100%

Coverage and Benefits for Re-employed Retirees

After a member retires, re-employment in an OPERS-covered job, including service in an elected position, is permitted but may affect continuing receipt of an age-and-service retirement benefit. Contributions must begin from the first day of re-employment. However, members who are re-employed anytime within the first two months after their effective retirement benefit date will forfeit their retirement allowance during this two-month period. This prohibition applies even if salary is waived for the two-month forfeiture period. Forfeiture of the retirement allowance will interrupt the retiree's health care coverage. Contributions remitted during the two-month forfeiture period will also not be included in the calculation of a Money Purchase Plan annuity benefit.

An OPERS retiree or a retiree from another Ohio retirement system who returns to OPERS-covered employment as an elected official is treated as a re-employed retiree. However, if a member covered for non-elected official service is also an elected official contributing to Social Security for the elected position, the elected service has no affect on the OPERS retirement. Subsequent elected service will not be considered re-employment for OPERS purposes.

A retiree cannot continue to receive benefits and work as an independent contractor under a contract for any period of time for the employer from which they retired. This prohibition is applicable regardless of the number of hours or days actually worked. A retiree may be compensated under a contract for services as an independent contractor for another public employer. If this occurs within the first two months of retirement, he or she will forfeit their pension benefits for the entire period of service as an independent contractor.

Upon termination of re-employment, retirees under age 65 may receive a refund of their employee contributions made during the period of re-employment, plus interest. Retirees age 65 and older may receive an annuity benefit that is based on the amount of their employee contributions during the period of re-employment plus interest, and an equal amount from the employer's contribution. Payment options are the same as those described under the Age-and-Service Retirement information described above.

OPERS

277 East Town Street
Columbus, Ohio 43215-4642
1-800-222-PERS (7377)
www.opers.org

Our Vision Statement

To be a top-tier retirement system providing quality retirement, disability, survivor, and health care benefits and services.