Dear Fellow Members:

It’s a pleasure to share with you this 2017 Popular Annual Financial Report. Our theme, Focused Forward: Every step makes a difference, conveys the impact of our 2017 accomplishments. We know that each step—seemingly small or impressively large—makes a difference. We know that only with well-planned, well-executed steps can we continue to evolve and change for the future. The steps reported here for 2017 clearly illustrate our forward focus—a focus critical to our continued ability to deliver on our commitment of providing a secure retirement for all members—present and future.

Our Tradition of Focusing Forward

OPERS has always focused forward. We know that only by anticipating change and identifying necessary steps to adapt has the System endured. OPERS began operations in 1935. Since then, the ongoing commitment to evolving for the future has guided this System. That strong focus has made it possible to make decisions enabling OPERS to be an outstanding financial steward of the funds entrusted to the organization. When change has been necessary, we have initiated solutions only after careful consideration of all options. The Legislature, Board and members have trusted OPERS to review the pension plans to ensure sustainability and fairness. As a result, we are able to plan for the future, avoiding the crisis situations that could jeopardize OPERS financial stability.

As with all years, 2017 brought anticipated and unanticipated challenges and provided significant opportunities. We focused on maximizing the opportunities and minimizing the impact of unexpected events. For your review, here are highlights of 2017.

• Cost-of-Living Adjustment—After extensive evaluation, the System sought to modify the annual cost-of-living adjustment. The proposed changes would have modified the cost-of-living adjustment for all retirees and linked the annual cost-of-living adjustment percentage increase to the Consumer Price Index capped at 2.5 percent. Additional incremental changes were provided for such as automatic cost-of-living adjustment changes for significant economic changes—such as extremely high inflationary periods. Similar to the pension and health care changes made in 2012, the proposed legislation was undertaken to improve the financial stability of the System. Although approved by the OPERS Board, the proposed changes have not yet been approved by the General Assembly.

• Health Care Changes—Although health care is neither mandated nor guaranteed, we recognize the importance of providing access to meaningful health care. However, we also must recognize the escalating cost of maintaining that access as expenses will continue to grow with the number— and life expectancies— of our retirees. We implemented changes in 2016 that continued to reap savings in 2017. In 2016, the OPERS Medicare Connector was fully deployed providing more than 143,000 Medicare-eligible OPERS retirees and dependents with access to an individualized health care plan and a prescription drug plan from the open market. This solution, along with other changes to the health care program, saved OPERS more than $12 billion, with more than $625 million occurring in 2016 and 2017.

• Financial Reporting—Also in 2017, OPERS was required to implement extensive financial reporting standards, issued by the Governmental Accounting Standards Board (GASB), for other post-employment benefits (OPEB), such as health care. OPERS has been working to ensure all affected employers will be well-positioned to implement the new standards in 2018.

• Internal processes and investment in technology—We work to provide excellent service to ever-increasing numbers without the commensurate increase in staff. The internal technology and business process redesign project attained its targeted 2017 milestones designed to provide more responsive features and better service for our members. The positive impact both in terms of superior service and personnel savings has been realized—we forecast a decrease of approximately $2.4 million in personnel expenses with the elimination of 32 vacant positions.

We must take the steps and make the decisions that will carry this organization forward so that we can deliver on our commitment of providing financial security in retirement for all generations of OPERS members. We have a responsibility to look forward and prepare for the challenges we see, not wait for them to occur. We will continue to focus forward with the resolve to keep evolving so that OPERS remains strong. We are honored to be associated with, appreciate and acknowledge the efforts of all involved as, together, we prepare for and step into the future.

Respectfully submitted,

Karen E. Carracher
Executive Director

Jennifer H. Starr, CPA
Chief Financial Officer

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Focused on the Strength of the System and Future Projections

Pension Financials: Each step we take is designed to keep this organization balanced between strengthening our financial position while continuing to provide for current and future retirees and their beneficiaries.

When comparing pension commitments to assets available (funded ratio), we have a good, but not great, ratio. That ratio moved from 80 percent in 2016 to 81 percent in 2017. This means the System has 81 percent of the assets necessary to fund the liability that will come due in future years for both active and retired members.

This change is especially significant because the slight increase comes after extremely strong investment returns in 2017. Even after a year of good returns, OPERS still carries a $1 billion pension commitment (unfunded liability).

What this means to members: By law, OPERS is obligated to pay the benefits that have commenced with retirees. Each year, to make these payments, funds are transferred from the active member employer fund (the Employers' Accumulation Fund) to the pension funds (the Annuity and Pension Reserve Fund and the Survivors' Benefit Fund). Thus, the active member funding is 49 percent as of December 31, 2017, compared to 46 percent as of December 31, 2016. The amortization period reflects how much time will be needed to fund remaining liabilities. The current OPERS amortization period of 18 years is within the statutorily required 30-year window.

Health Care Financials: OPERS has a tradition of anticipating escalating expenses and proactively working toward funding those expenses. OPERS is not required to provide health care. However, we recognize that providing meaningful access to health care is an important element of financial security for retirees. OPERS has established a plan of pre-funding and continuously evaluating the health care program in an effort to continue health care offerings for current and future generations of retirees.

What this means to members: Health care funding cannot be allowed to jeopardize the pension funding. To decrease the pension liability, all available funding has been allocated to the pension fund starting in 2016. In the absence of employer contributions (by law, the only funding that can be used toward health care), the health care fund is currently enhanced solely by investment returns and has approximately 12 years of solvency under the current health care program design.

As of the December 31, 2016 health care actuarial funding valuation (the most recent), OPERS was 60.7 percent funded.

Investment results: Approximately two-thirds of OPERS revenue, from which benefits are paid, is generated from investment returns.

The growing retiree base, retirees living longer in retirement, and the escalating health care costs continue to place unprecedented drains on income generated from investments. Our long-term investment goal is to attain targeted results so that secure retirement benefits for our members can be provided. Sustaining this goal means we focus on the long-term market view—but understand that year-to-year market fluctuations happen.

What this means to members: The 2017 market delivered strong returns—the OPERS total portfolio return for 2017 was 16.62 percent, better than the anticipated benchmark return of 15.11 percent.

One step at a time

In school, small experiences create the foundation for higher learning. Few children taking their first steps to their first day of school think about advanced calculus or college graduation. Similarly, few public employees are actually thinking about retirement on the first day of public employment.