OPERS Report – January 2023

The OPERS Board met in January to review recommendations and approve the following:

- A proposed asset allocation for the Defined Benefit (DB) Fund, which included small changes to the allocation of Public Fixed Income and decreases Risk Parity. NEPC and Staff also recommended increasing the allocation to alternatives.
- A new target asset allocation for the Health Care Fund that changes the percentages for Public Equity (+1%), and decreases Opportunistic Alternatives (-1%). Public Fixed Income percentages for Core Bonds will be decreased by 1%, while Investment Grade Credit will be increased by 2%, and EM Debt will decrease by 1%. According to NEPC investment advisors, the Health Care Fund maintains a very high liquidity profile and with no allocations for private Real Estate or Private Equity.

OPERS staff and consultants presented economic outlook reports and financial updates. Highlights from these presentations included the following:

- Nick Kotsonis, OPERS' Sr. Investment Analyst, presented an economic outlook that predicted a recession and job losses in the coming year. He expects fixed income assets to have better returns in the coming year.
- David Wang, Chief China Economist at Credit Suisse, gave a report on China's Economic outlook. He reported that the biggest challenge that China faces right now is how to get more productivity from a shrinking labor force. He cited three ways to boost labor productivity:
    - Increase capital-labor ratio
    - Better education
    - Innovation – increase the speed of technology progress
- OPERS' Chief Investment Officer, Paul Greff, reported that "staff produced a -12% return for the Defined Benefit Fund, below the 6.9% target return. The results were similar for the Health Care Fund, which returned -15%, falling below its target return of 6.0%. As of December 31, 2022, net assets of the Defined Benefit Fund and the Health Care Fund were $93 billion and $12 billion, respectively, behind the asset growth targets for both funds."
- Karen Carraher, OPERS' Executive Director, reported that "The *Consolidated Appropriations Act of 2023 (HR 2617)* included legislation (SECURE 2.0) that will increase the Required Minimum Distribution (RMD) age to 75 by 2033, in two tiers:
    - Individuals who turn age 72 on or after January 1, 2023, and age 73 on or before December 31, 2032 will see their RMD age increased to age 73.
    - Individuals who turn age 74 on or after January 1, 2033, who will see their RMD age increase to age 75."

Interesting Facts:

- Approximately 87% of stock market assets are held by 10% of U.S. households.

Submitted by Darian Torrance