OPERS

Ohio Public Employees Retirement System

The Comprehensive **Annual Financial Report**

For the Years Ended December 31, 2004 & 2003

This report was prepared under the direction of the OPERS Finance Division

277 East Town Street, Columbus, Ohio 43215-4642

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OPERS

Ohio Public Employees Retirement System

The Comprehensive Annual Financial Report 2004

Introductory Section

The OPERS Retirement Board

(front row, left to right) Warren W. Tyler, investment expert–Treasurer of State appointee; Charlie Adkins, representing state college and university employees; C. Scott Johnson, director of the Ohio Department of Administrative Services; Barbara J. Thomas, representing county employees; Robert C. Smith, investment expert–gubernatorial appointee

(back row, left to right) Cinthia Sledz, representing miscellaneous employees; Zuheir Sofia, investment expert–General Assembly appointee; Ken Thomas, representing municipal employees; Ronald C. Alexander (chair), representing state employees; Sharon M. Downs (vice chair), representing retirees; James R. Tilling, representing retirees–gubernatorial appointee

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

In 2004, as a result of recent legislation, the Retirement Board was reorganized and expanded to 11 members to ensure representation of all stakeholders. With its expansion, seven of the 11 members are elected by the groups they represent: college/university employees, state employees, miscellaneous employees, county employees, municipal employees and two members representing retirees. Three individuals with investment expertise are appointed by Ohio's Governor, Treasurer, and jointly by the Ohio Senate and House. The Retirement Board is completed with the Director of the Ohio Department of Administrative Services.

The Retirement Board appoints the Executive Director, an actuary and other advisors necessary for the transaction of business. The Retirement Board meets monthly and receives no compensation, but is reimbursed for necessary expenses. By law, the State Treasurer is custodian of OPERS' funds.

Organizational Structure

THE OPERS RETIREMENT BOARD

Laurie Fiori Hacking
Executive Director

Greg Januszewski
Internal Auditor

THE OPERS EXECUTIVE STAFF*

Blake Sherry
Chief Operating Officer

Jennifer Hom
Acting Director—Investments

Karen E. Carraher
Director—Finance

Julie Reneau
Director—Benefits

Scott Streator
Director—Health Care

Open
Director—IT

Auditors

KPMG, LLP
Columbus, Ohio (under contract with the Auditor of State)

Advisors

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

Investment Policy Advisors to the Retirement Board-
EnnisKnupp+Associates
Chicago, Illinois

These individuals held the positions identified and had significant impact on the 2004 results reported here.

Dan Drake
Director—Benefits
from 1989 to 2004

Neil Toth
Director—Investments
from 1999 to 2004

*As of April 2005

Letter of Transmittal

OPERS Ohio Public Employees Retirement System

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

April 26, 2005

Dear Chairman and Members of the Retirement Board:

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, 2004 and 2003. Responsibility for both the accuracy of the data, as well as the completeness and fairness of the presentation, rests with OPERS management. We believe this report reflects our adherence to the OPERS Retirement Board's directives—specifically, that OPERS management maintains the highest standards of prudent stewardship of OPERS' assets and delivers dedicated service to our members and our retirees.

Historical Overview

OPERS was established January 1, 1935 to provide retirement benefits for employees of the state of Ohio. From 1935 to the present the System has, overall, experienced strong growth which has enabled us to provide benefit and service enhancements for members and retirees. In 1938, the System expanded to include employees of counties, municipalities, health departments and park and conservancy districts. Membership was made optional for elected officials in 1941. Survivor benefits became part of the OPERS benefit structure in 1951. Although not mandated, access to and a subsidy toward health care benefits were provided for retirees beginning in the 1970s. In 1982, a Law Enforcement Division was established. The System attained full-funding status in the late 1990s and maintained that status for three years before the downturn in the financial markets. Legislation enacted in 2000 enhanced benefits for active members and retirees and required two new retirement plans (the Member-Directed Plan and the Combined Plan) to be established. These plans were announced in 2002 and implemented in 2003. Also in 2003, members in the Member-Directed plan were provided with a tax-deductible medical savings account option. In 2004, recognizing that health care benefits are an important—but not mandated—benefit for retirees, the Health Care Preservation Plan (HCPP) was established. HCPP is designed to help maintain the solvency of the OPERS Health Care Fund. The HCPP is more fully discussed later in this letter.

Our Mission

Our mandate is for OPERS to provide retirement, disability and survivor benefit protection for hundreds of thousands of public employees throughout the state; our tradition has been to meet that mandate. Employees, and their employers, pay into the System during employees' working years. OPERS, in turn, pays benefits to these members throughout their retirement and to qualified beneficiaries after death.

Currently, OPERS serves more than 650,000 members and provides more than 147,000 retirees and surviving beneficiaries with monthly benefits. In addition, the System currently works with more than 3,200 public employers. As of December 31, 2004, OPERS managed an asset base of more than $65 billion.

For additional information on benefits available, see the Plan Statement section of this document on page 112.

Membership
Participating employers are divided, for actuarial purposes, 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 112.

Annual Report Organization
This Annual Report is divided into six sections: (1) an Introductory Section, which contains the administrative organization, the Certificate of Achievement for Excellence in Financial Reporting, the Public Pension Coordinating Council Achievement Award, the Distinguished Budget Presentation Award and our Letter of Transmittal; (2) a Financial Section, which contains the report of the Independent Auditors, Management's Discussion and Analysis, the financial statements of the System and required supplementary information; (3) an Investment Section, which contains a report on investment activity, investment policies, investment results, and various investment schedules; (4) an Actuarial Section, which contains an Actuary's Certification Letter and the results of the annual actuarial valuation; (5) a Statistical Section, which includes significant data pertaining to the System, and (6) the System's Plan Statement.

2004 Year in Review: Accomplishments and Initiatives
OPERS was established and exists solely for the purpose of providing retirement, disability and survivor benefits to Ohio's public employees. This purpose continues to be our central focus, as demonstrated by the accomplishments and initiatives of 2004.

Health Care Preservation Plan
Perhaps the most important and far-reaching initiative of 2004 was the approval of the Health Care Preservation Plan (HCPP) in September by the Retirement Board. Health care benefits are neither guaranteed nor mandated by statute (except for Medicare Part-B reimbursement and Medicare Part-A equivalent coverage for non-Medicare eligible retirees and their spouses and dependents). However, the Retirement Board and staff recognize the importance of post-retirement health care coverage for members and benefit recipients. With the important step of approving the HCPP, the Retirement Board has decisively moved to help ensure that health care benefits can be provided, to the extent that funds are available, well into the future.

Development of the HCPP began in 2003, when the Retirement Board directed staff to develop a plan to ensure a lasting program through an ongoing evaluation of OPERS' health care program and its solvency. Putting together a plan aimed at preserving the solvency of the OPERS Health Care Fund was a challenging task, one that required significant effort from staff and strong direction from the Retirement Board and input from our members, retirees, and employer groups. Ultimately, as has become the tradition at OPERS, the collaborative effort of every division was needed to accomplish this project. The project was accomplished with a precedent-setting outreach program where, working in multi-function teams, many members of the OPERS staff and Retirement Board reached out to all stakeholders—including members, retirees, employers, legislators and a host of representatives from various constituency groups to ensure all voices were heard.

Why was HCPP approved in 2004? In the past few years, all retirement systems have been challenged by several forces that have reduced the systems' assets available to provide health care benefits. The market downturn of 2000-2002 took a serious toll on pension plans throughout the U.S., and OPERS was no exception. Poor returns, combined with skyrocketing health care costs, a trend toward earlier retirement, increased longevity and the baby-boomer generation "coming of age" are all factors that have placed significant pressures on the OPERS Health Care Fund. Indeed, analysis indicated that OPERS' Health Care Fund could have been almost exhausted in approximately 15 years if nothing were done.

By moving to establish the HCPP, the Retirement Board has provided a viable mechanism for addressing these challenges. The scope of variables included within HCPP builds on the Choices plan adopted by the Retirement Board in 2001. The changes provided by HCPP include altering the health care benefits plan design (increasing deductibles, coinsurance and cost sharing), eligibility (requiring longer length of service to qualify), wellness and prevention programs and strategic and visionary initiatives such as health care industry reform and legislative action. Most importantly, the HCPP is flexible, providing for an annual review that will enable OPERS to take advantage of marketplace changes by increasing or decreasing the rate at which these changes are implemented. The HCPP provides for incremental increases for both the employer and employee contribution rates—up to the maximum allowed by law—beginning in January 2006. It is significant to note that these increases are the first contribution rate increases in more than 27 years.

The positive impact of HCPP is already apparent. OPERS experienced a 3.3% decrease in 2004 costs for retiree prescription drugs compared to a 14% increase nationwide. Under the HCPP, OPERS realized a 6.1% increase in costs for total health care, comparing favorably to the national increase of 12.7%. While a significant portion of this decrease comes from several cost-saving initiatives that were in process, the HCPP is a more complete and structured plan for reducing health care expenditures and extending the life of the Health Care Fund.

As an organization, adopting the HCPP in 2004 signaled a renewed, increased dedication to improving member health as a means to reduce future costs. Several new initiatives designed to reward and support members for becoming better, more informed, health care consumers started in 2005 as a result of this work. OPERS is well on its way to establishing a rolling 20-year solvency as a result of the important action taken in 2004. The HCPP's goal is for OPERS to have reserves set aside to fund 20 years of future health care expenditures.

Although the development and approval of the HCPP was an important priority for 2004, it was not the only accomplishment achieved. Customer service, cost containment and, where possible, enhanced benefits were also targeted as priorities.

Options for Members

In 2003, OPERS implemented two new pension plans, the Member-Directed (defined contribution) Plan and the Combined Plan (hybrid defined contribution and defined benefit plan) which, with the Traditional Pension Plan, gave qualifying members three retirement plan options. In conjunction with the Member-Directed Plan, OPERS established a Voluntary Employees Beneficiary Association (VEBA) to provide a funding mechanism for health care for members of the Member-Directed Plan. Initially, participation in the VEBA is limited to participants in the Member-Directed Plan. However, OPERS is pursuing legislation to permit participants in all three retirement plans to voluntarily contribute to the VEBA to help fund health care during retirement.

The Retirement Board supported legislation requiring the System to establish a Partial Lump-Sum Option Plan (PLOP) for benefit payments no later than July 1, 2004. In reality, the OPERS PLOP was rolled out in 2003—well ahead of the mandated delivery date. PLOP allows age-and-service retirees to choose to take part of their retirement benefit in a lump sum at the beginning of retirement. If a member chooses to take a lump-sum option, the amount of the monthly pension benefit paid to the member would be actuarially reduced, so no additional costs to the System are incurred. The amount payable under the PLOP is limited to a minimum of 6 months and a maximum of 36 months worth of the original unreduced monthly pension benefit. The Partial Lump-Sum Option Plan provides additional choices to OPERS members without adding actuarial costs to the System.

Customer Service Initiatives

At the ongoing direction of and with input from the Retirement Board, OPERS management establishes strategic plans annually to ensure all organizational activities are cost effective and customer-service oriented.

Many initiatives completed in 2004 will enable OPERS to continue to exceed customer service standards, even though the number of members and retirees is expected to grow rapidly over the next 40 years, peaking at more than 360,000 benefit recipients in 2043. These initiatives, combined with a continued focus on operational efficiency which will be achieved through increased use of information technology, will allow the System to service the increased number of members and retirees without increasing the staff correspondingly.

Member Benefits System

In February 2005, OPERS retirees gained access to the Internet-based Member Benefit System (MBS), which enables retirees to access personal account information whenever they choose. The new initiative has proven to be popular with retirees; more than 8,000 accessed the MBS system within the first two months of availability. MBS provides maximum convenience because it allows both members and retirees to view their personal account information via the OPERS Web site, 24 hours a day/7 days a week. Routine requests are handled quickly because the MBS allows retirees to print income verification letters and request specific forms. MBS also gives retirees an online message center—enabling them to ask specific questions about retirement accounts in a secure format. Future enhancements to MBS are already planned and include adding additional features for retirees such as online health care open enrollment. Currently, almost 110,000 members and retirees have registered to use MBS.

Mandatory Direct Deposit

Continuing to seek ways to reduce costs and better serve retirees, the OPERS Retirement Board voted in 2004 to make the use of direct deposit mandatory for all those receiving a benefit from OPERS. All OPERS benefit recipients were to begin using direct deposit as of Jan. 1, 2005, thus eliminating the use of paper checks for OPERS retirement benefit payments. Materials and labor costs for processing paper checks were estimated to be more than $600,000 each year—a number that would have been expected to grow as baby boomers retire. Cost savings to the System is only one of the advantages of this program. By switching to direct deposit, benefit recipients will no longer bear the risk of theft, non-delivery, or loss of checks. The Retirement Board did provide for limited exceptions to the direct deposit provision.

Impact of Legislation

Traditionally, OPERS has had strong and effective working relationships with federal, state and local lawmakers—the activities of 2004 continued to build on that tradition. The ongoing goal of OPERS advocacy efforts is to ensure that any proposed statute and/or changes to current laws are in the best interest of our members and employers.

OPERS has worked diligently, and collaboratively, to ensure the position of pension systems has been heard at both the federal and state levels on health care issues. The results have been significant. Because of strong advocacy efforts, public sector plans originally excluded from the recently enacted Medicare Part D drug reimbursement plan were included in the final legislation. Beginning in 2006, OPERS will be able to use the new federal program to offset a portion of prescription drug costs. Estimates indicate an annual potential savings of approximately $60 million, which will help extend the solvency period of the OPERS Health Care Fund.

In 2004, at the state level, there were two pension bills enacted that will provide additional flexibility for members when choosing retirement options or designating beneficiaries. Also in 2004, legislation was approved that changed the governance policies under which OPERS operates. Changes included an expanded Retirement Board with the addition of three new members with investment expertise.

Legislative and Advocacy Focus for 2005

At both the federal and state levels, OPERS will continue to pursue a number of important legislative initiatives that would have a positive impact on the funded status of the System.

At the state level, OPERS will advocate legislation that would change the due date for transmittal of employer contributions, making employer contributions available for investment by OPERS in a more timely fashion thereby improving the funded status of the system. Other legislative proposals under consideration include increasing the minimum earnable salary necessary to earn full-time service credit and changes in the interest paid on the OPERS additional annuity program.

At the federal level, OPERS will continue to be active in shaping national policies, especially working with national coalitions to represent and increase the voice of public sector health care plans with regard to health care reform. Additionally, OPERS expects to work at the federal level to ensure that mandatory Social Security coverage for public employers is not a part of Social Security reform.

Internal Controls

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.

Accounting System and Reports

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

Additions to Plan Net Assets

Although the next two charts are found again in the Management's Discussion and Analysis section, each is included here to enhance understanding of this overview.

The collection of employer and employee contributions, as well as income from investments, provides the reserves needed to finance retirement benefits. Contributions, investment, and other income for fiscal year 2004 totaled $9.8 billion.

Revenues—Additions to Fiduciary Net Assets

For the Years Ended December 31, 2004, 2003 and 2002

	2004	2003	2002	Amount Increase/ (Decrease) from 2003 to 2004	Percent Increase/ (Decrease) from 2003 to 2004
Employer Contributions	$ 1,606,120,209	$ 1,626,778,671	$ 1,683,021,503	$ (20,658,462)	(1.3%)
Member Contributions	1,041,342,350	1,023,394,823	1,094,343,553	17,947,527	1.8%
Net Investment Income	7,192,406,571	11,868,086,475	(5,684,965,700)	(4,675,679,904)	(39.4%)
Miscellaneous Income	(107,798)	411,093	623,421	(518,891)	(126.2%)
Total	**$9,839,761,332**	**$14,518,671,062**	**$(2,906,977,223)**	**$(4,678,909,730)**	**(32.2%)**

Investments returned 12.5% and added $7.2 billion to assets. Although these returns were excellent and well above the national benchmark, total revenues for 2004 were $4.7 billion, or 32.2% less than 2003 totals. This is primarily due to lower investment returns in 2004 as compared to 2003—a year when OPERS generated 25.3% in investment returns, the second-highest annual return rate ever generated by OPERS. The investment returns are more fully explained in the Investment Section, beginning on page 55.

Employer and member contributions totaled $2.65 billion in 2004, which is at the same level as in 2003. The flat contribution levels from 2003 to 2004 are a result of many variables such as a membership base that grew only slightly coupled with the turnover of many long-term, higher compensated, employees. Additionally, although complete data is not available to OPERS to explain the reasons, it should be noted that members' average salaries were slightly lower in 2004 at $32,663 rather than the average of $34,981 during 2003.

Both member and employer contributions for the year ended December 31, 2004 include year-end accruals based upon estimates derived from historical payment patterns. (Contributions on member salaries are due 30 days after the month salaries are earned, and employer contributions are due 90 days after the calendar quarter in which the associated member salaries were earned.) Contribution rates remained unchanged during 2004.

Deductions to Plan Net Assets

As touched on previously, the principal purpose for which the System was created was to provide retirement, disability and survivor benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, refunds of contributions to terminated employees, and the cost of administering the System.

Expenses—Deductions in Fiduciary Net Assets

For the Years Ended December 31, 2004, 2003 and 2002

	2004	2003	2002	Amount Increase/ (Decrease) from 2003 to 2004	Percent Increase/ (Decrease) from 2003 to 2004
Benefits	$3,417,516,226	$3,144,246,755	$2,836,137,068	$273,269,471	8.7%
Refunds	209,777,972	193,209,598	187,051,815	16,568,374	8.6%
Administrative Expenses	61,691,260	69,836,790	56,267,175	(8,145,530)	(11.7%)
Total	**$3,688,985,458**	**$3,407,293,143**	**$3,079,456,058**	**$281,692,315**	**8.3%**

Expenses for fiscal year 2004 totaled $3.7 billion, an increase of 8.3% over 2003. The increase is primarily due to an increase in the number of benefit recipients. The number of benefit recipients increased 2.3% from 143,643 in 2003 to 146,966 in 2004. In addition, as anticipated, there was an increase in retiree health care expenses from $908 million in 2003 to $963 million in 2004 due to health care inflation and an increase in the number of covered lives. OPERS' 2004 administrative expenses, including investment expenses totaling $85.1 million, reflect a decrease of $1.8 million, or -2.1%, when compared to fiscal year 2003 expenses. The decrease in administrative expenses is attributable to across-the-board efforts to reduce costs by eliminating non-critical expenses and lower depreciation expenses. Administrative expenses are detailed in the Financial Section on page 52.

For a complete analysis of the additions and deductions to the Plan Net Assets, please see Management's Discussion and Analysis beginning on page 23.

Funding and Reserves

Funds, derived from the excess of revenues over expenses, are accumulated by the System in order to meet current and future benefit obligations to retirees and beneficiaries. The higher the level of funding, the larger the accumulation of assets, hence, the greater the investment income potential. Continuous improvement in the funding of the System is sought through the accumulation of adequate reserves, higher investment earnings and effective cost-containment programs.

The latest actuarial valuation, dated December 31, 2003, indicates that the actuarial value of pension liabilities exceeds the actuarial value of pension assets by $8.03 billion. This actuarial valuation reflects the poor financial market performance and corresponding investment losses experienced from 2000 through 2002. OPERS actuarial policy requires that investment income gains and loses be recognized (smoothed) over a four-year period. Accordingly, even though 2003 and 2004 were excellent years for investment performance, the phase in of prior years' losses continued to negatively impact the actuarial value of pension assets. As a result, the System's actuarial pension liabilities are 85% funded and the accrued unfunded actuarial liability will be funded or amortized in 29 years, which is within the required 30-year limit stipulated in state statute. The Management's Discussion and Analysis, starting on page 23, has a more in-depth discussion of OPERS' funded status. Also see page 50 for complete information for OPERS funding years by employment division.

Investments

The System's investments are governed by Section 145.11 of the Ohio Revised Code (ORC). This section of the ORC requires a "prudent person" standard be applied to all investment decisions. The prudent person standard establishes a standard for all fiduciaries, which includes anyone who has authority over the System's investments. Under the prudent person standard, fiduciaries are to "discharge their duties solely in the interest of the fund participants and beneficiaries and with the degree of diligence, care and skill which prudent persons would ordinarily exercise under similar circumstances in a like position." The OPERS Retirement Board determines the asset allocation strategy for the System's investments. That asset allocation strategy requires a prudent diversification of investments enabling OPERS to reduce 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 on page 67 of this report.

For the year ended December 31, 2004, total return on investments was 12.50%, the second consecutive year of strong investment returns after the three-year down markets of 2000-2002. OPERS ended the year with net assets of approximately $65.2 billion, an increase of $6.1 billion over the 2003 year-end net assets of $59.1 billion. The annualized rate of return for the total plan (Defined Benefit and Defined Contribution plans combined) over the past three years was 7.98%, and 3.59% over the past five years.

As with all OPERS divisions, cost control was and continues to be a priority in the investment area. By using internal investment staff and by enhancing technology, OPERS achieved significant cost savings throughout 2004.

Please see the Investment Section, starting on page 55, for a more comprehensive discussion of OPERS' investment program.

Awards

Recent events in both the public and private sectors have clearly demonstrated the importance of adhering to the highest possible fiscal standards. OPERS was honored to have been recognized for its achievements by the following distinguished regulatory agencies.

Certificate of Achievement

In 2004, and for the 21st consecutive year, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Ohio Public Employees Retirement System for its Annual Report for the fiscal year ended December 31, 2003. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Annual Report, with contents that meet or exceed program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid only for one year. We believe our current report continues to conform to the Certificate of Achievement Program requirements. The 2004 Annual Report will be submitted to the GFOA.

Distinguished Budget Presentation Award

OPERS was again recognized with GFOA's Distinguished Budget Presentation Award in 2004. The award recognizes significant achievement in creating a budget that meets the highest principles of governmental budgeting. The budget must meet nationally recognized guidelines assessing the budget as a policy document, a financial plan, an operations guide and a communications vehicle.

Public Pension Principles Achievement Award

OPERS was awarded the Public Pension Coordinating Council's Public Pension Principles 2004 Achievement Award. This award is presented bi-annually and recognizes the achievement of high professional standards in the areas of benefits, actuarial valuations, financial reporting, investments and disclosures to members.

Also in 2004, OPERS was recognized with the Public Funds Choice Award for the OPERS Retirement Plan Selection Kit created to help members select a retirement plan. This distinction was given as part of the Eddy Awards; the Eddy Awards recognize sponsors of defined contribution plans that have superior education programs for members.

Professional Services

Professional services are provided to the Ohio Public Employees Retirement System by consultants appointed by the Retirement Board to aid in efficient and effective management of the System. Actuarial services are provided by Gabriel, Roeder, Smith & Company; Southfield, Michigan. The investment advisor to the Retirement Board is EnnisKnupp+Associates; Chicago, Illinois. The financial records of the System were audited by KPMG LLP, Certified Public Accountants; Columbus, Ohio, under contract with the Auditor of the State of Ohio. OPERS also retains the services of independent consultants for the Member-Directed and Combined plans’ investment options. In addition, both the Real Estate and Private Equity Portfolios within the Investment Division have retained the services of consultants.

Acknowledgments

The preparation of this report reflects the combined efforts of the System's staff under the direction of the Retirement Board. 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.

This report is being mailed to all employer units of the System, each state legislator, and other interested parties.

Respectfully submitted,

Laurie Fiori Hacking

LAURIE FIORI HACKING
Executive Director

Karen E. Carraher

KAREN E. CARRAHER, CPA
Director—Finance

KAREN E. CARRAHER, CPA
Director—Finance

LAURIE FIORI HACKING
Executive Director

Fiduciary Responsibilities

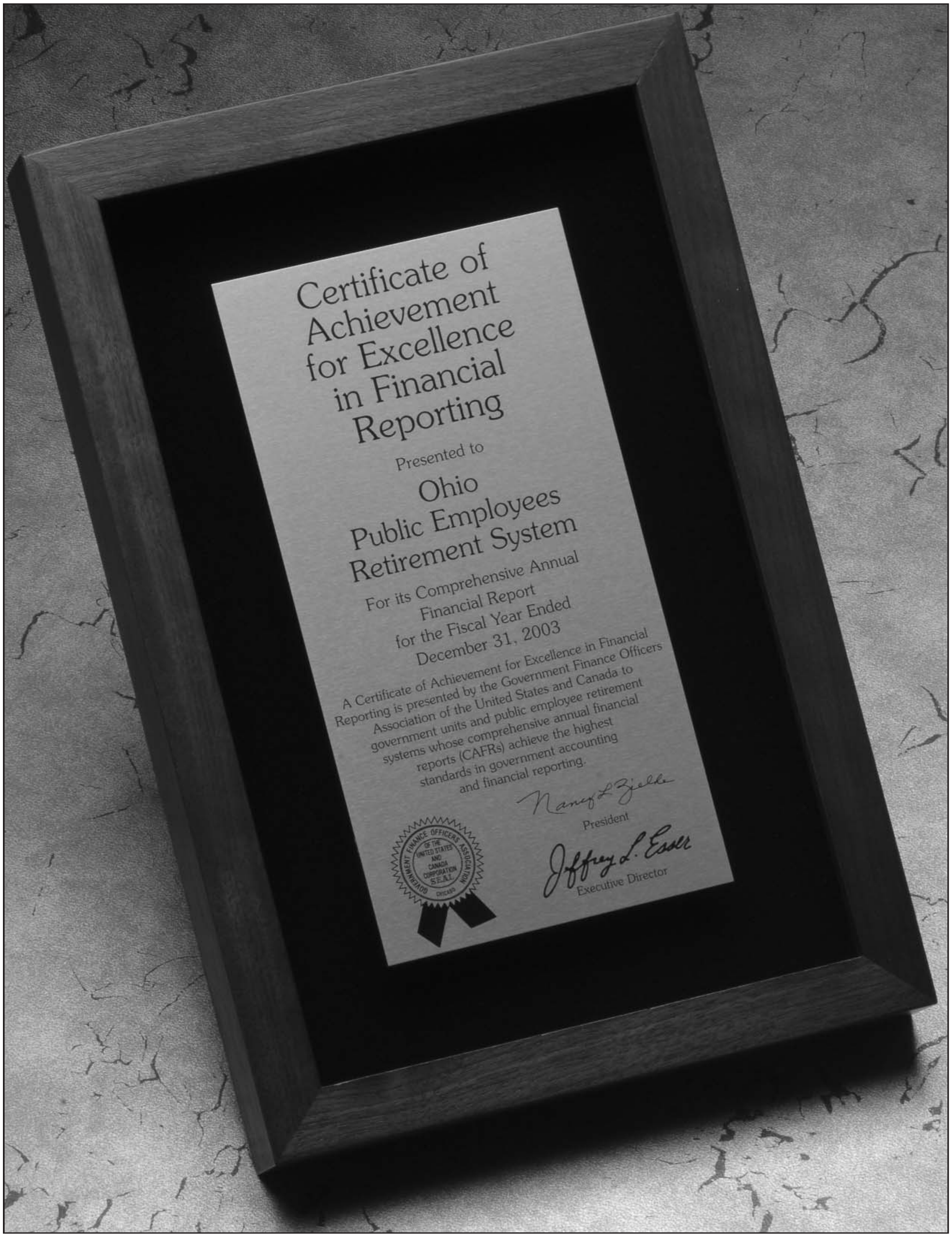
The Retirement Board and executive management of OPERS are fiduciaries of the pension trust funds. Fiduciaries are charged with the responsibility of assuring that the assets of OPERS are used exclusively for the benefit of plan participants and their beneficiaries.

Request for Information

This financial report is designed to provide the Retirement Board, 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

Certificate *of* Achievement *in* Financial Reporting



Public Pension Principles Achievement Award

Distinguished Budget Presentation Award

OPERS

Ohio Public Employees Retirement System

The Comprehensive Annual Financial Report 2004

Financial Section

Independent Auditor's Report

KPMG

KPMG LLP
Suite 500
191 West Nationwide Boulevard
Columbus, OH 43215-2568

Telephone 614 249 2300
Fax 614 249 2348
Internet www.us.kpmg.com

Independent Auditors' Report

The Retirement Board
The Ohio Public Employees Retirement System

and

The Honorable Betty Montgomery
Auditor of State:

We have audited the accompanying combining statement of fiduciary net assets of the Ohio Public Employees Retirement System (OPERS) as of December 31, 2004 and 2003, and the related combining statement 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 audit.

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 the OPERS' internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 combining financial statements referred to above present fairly, in all material respects, the financial position of OPERS as of December 31, 2004 and 2003, 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 Auditing Standards*, we have also issued a report dated April 22, 2005, on our consideration of OPERS' internal control over financial reporting and on our tests 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 of 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 audit.

KPMG

The management's discussion and analysis on pages 23 through 29 and the schedules of funding progress and employer contributions and related notes on pages 49 through 51 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 conducted for the purpose of forming an opinion on the combining financial statements taken as a whole. The supplementary information included on pages 52 and 53 is for the purpose of additional analysis and is not a required part of the combining financial statements. Such information has been subjected to the auditing procedures applied in the audit 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 4 through 19, the investments section on pages 55 through 92, the actuarial section on pages 94 through 100, the statistical section on pages 102 through 110 and the Plan Statement on pages 112 through 118 have not been subjected to the auditing procedures applied in the audit of the combining financial statements and, accordingly, we express no opinion on them.

KPMG LLP

April 22, 2005

Management's Discussion and Analysis

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, 2004 and 2003. 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 30.

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) Statement of Fiduciary Net Assets,
2) Statement of Changes in Fiduciary Net Assets, and
3) Notes to the Financial Statements.

As mandated, this Comprehensive Annual Financial Report (Annual Report) also contains the following schedules, referred to as Required Supplementary Information:
1) Schedule of Funding Progress,
2) Schedule of Employer Contributions, and
3) Notes to the Required Supplementary Information.

Expenses associated with administering the System are presented immediately following the Notes to the Required Supplementary Information in the following schedules:
1) Administrative Expenses,
2) Schedule of Investment Expenses, and
3) Schedule of Payments to Consultants.

The financial statements contained in this Annual Report disclose financial data for each of the various legal plans described below.

- **The Traditional Plan**—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**—a defined benefit plan with elements of a defined contribution plan. Under the Combined Plan, members earn a formula benefit similar to the Traditional Plan (although reduced from the Traditional Plan benefit level) that is funded by employer contributions and associated investment earnings. Additionally, members earn a defined contribution benefit that is equal in amount to member contributions to the plan and investment earnings on those contributions.

- **The Member-Directed Plan**—a defined contribution plan in which members self-direct the investment of both member and employer contributions. The benefit 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 5-year period at a rate of 20% per year.

- **Post-employment Health Care Plan**—a legal plan established under Section 401(h) of the Internal Revenue Code. This plan holds the portions of employer contributions made to the Traditional and Combined Plans that are set aside for funding retiree health care.

- **Voluntary Employees' Beneficiary Association (VEBA)**—a Retiree Medical Account (RMA) established to hold 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.

The basic combining financial statements are described below:

- The Statement of Fiduciary Net Assets is a point-in-time snapshot of account balances at fiscal year end. It reports the assets available for future payments to retirees, and any current liabilities that are owed as of the statement date. The resulting Net Asset Value (Assets – Liabilities = Net Assets) represents the value of net assets held in trust for pension and post-employment health care benefits.

- The Statement of Changes in Fiduciary Net Assets, displays the effect of pension fund 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 net asset value of the Statement of Fiduciary Net Assets from the prior year to the current year. Both statements are in compliance with Governmental Accounting Standard Board (GASB) Pronouncements.

- The Notes to the 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 on pages 34-48 of this report.)

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. Each schedule includes historical trend information.

- The Schedule of Funding Progress (page 49) includes actuarial information about the status of the plan from an ongoing, long-term perspective, and the progress made in accumulating sufficient assets to pay pension benefits when due. Valuation Assets in excess of Actuarial Accrued Liabilities indicate that sufficient assets exist to fund the future 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 29 years.

- The Schedules of Employer Contributions (page 49) present historical trend information regarding the value of total annual contributions required to be paid by employers for each plan, and the actual performance of employers in meeting this requirement.

- The Notes to Required Supplementary Schedules (pages 50-51) provide background information and explanatory detail to help in understanding the required supplementary schedules.

The Administrative Expense Schedules that follow the Required Supplementary Information display the operating costs of managing the System. These expenses include costs for investment and consultant services, which are detailed in the accompanying schedules. External Investment asset management fees are not accounted for in OPERS Administrative Expenses. External asset management fees are netted against investment income (Please see Notes to the Financial Statements Note 2b, page 39.)

Financial Highlights

2004

- The OPERS investment portfolio reported a total return of 12.50% for the year 2004.

- Plan net assets increased by $6.15 billion, or 10.4%, during 2004, primarily due to investment returns.

- The year 2004 closed two consecutive years of investment returns in excess of the actuarial assumed return of 8%. Returns in excess of the actuarial assumption create an environment in which OPERS actuarial accrued liabilities can be paid down at an accelerated rate. OPERS' actuarial accrued liabilities exceeded its actuarial value of assets, creating an unfunded actuarial liability of $8.03 billion as of December 31, 2003, the date of the latest actuarial valuation.

- OPERS' funding objective is to meet long-term benefit obligations and, to the extent possible, fund health care benefits. As of December 31, 2003, the date of the latest actuarial valuation, OPERS' funded ratio was 85%. In general, this means that for each dollar's worth of future pension liability, OPERS has accumulated $0.85 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 29 years.

- Revenues (additions to plan net assets) for the year 2004 were $9.84 billion which includes member and employer contributions of $2.65 billion and net gains from investment activities and other miscellaneous income totaling $7.19 billion.

- Expenses (deductions to plan net assets) increased from $3.41 billion during 2003 to $3.69 billion in 2004, or about 8.3%. The increase relates to increases in pension benefits and health care payments. In fact, health care benefits alone accounted for more than $55.6 million, or 20.3%, of the $273.3 million in 2004 benefit increases. Refunds of member contributions (including interest and some matching employer funds if applicable) increased by $16.6 million, or 8.6% from 2003 to 2004.

Financial Highlights

2003

- The OPERS investment portfolio reported a total return of 25.33% for the year 2003.
- Plan net assets increased by $11.1 billion, or 23.2%, during 2003, primarily due to strong investment returns.
- Due to three straight years of market declines (2000-2002), OPERS' actuarial accrued liabilities exceeded its actuarial value of assets, creating an unfunded actuarial accrued liability of $7.2 billion as of December 31, 2002, the date of the latest actuarial valuation.
- OPERS' funding objective is to meet long-term benefit obligations and, to the extent possible, fund health care benefits. As of December 31, 2002, the date of the latest actuarial valuation, the funded ratio of OPERS was 86%. In general, this means that for each dollar's worth of future pension liability, OPERS has accumulated $0.86 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 29 years.
- Additions to plan net assets for the year 2003 were $14,518,671,062, which includes member and employer contributions of $2,650,173,494 and net gains from investment activities and other miscellaneous income totaling $11,868,497,568.
- Deductions from plan net assets increased from $3,079,456,058 during 2002 to $3,407,293,143 in 2003, or about 10.6%. The increase relates to increases in pension benefits and health-care payments. Refunds of member contributions (including interest and qualifying matching employer funds) increased by approximately $6 million, or 3.3%, to $193,209,598 from 2002 to 2003.

OPERS' Net Assets (Table 1)

For the years ended December 31, 2004, 2003, 2002
($ in millions)

	2004	2003	2002	Amount Increase/ (Decrease) from 2003 to 2004	Percent Increase/ (Decrease) from 2003 to 2004
Current and other Assets	$ 769	$ 716	$ 827	$ 53	7.4%
Cash & Investments at Fair Value	73,568	63,823	49,906	9,745	15.3%
Capital Assets	121	127	118	(6)	(4.7%)
Total Assets	74,458	64,666	50,851	9,792	15.1%
Total Liabilities	9,210	5,568	2,865	3,642	65.4%
Net Assets	**$ 65,248**	**$ 59,098**	**$ 47,986**	**$ 6,150**	**10.4%**

Analysis of Financial Activities

OPERS' funding objective is to meet long-term benefit obligations through investment income and contributions. Accordingly, the collection of employer and member contributions, and the income from investments provide the reserves needed to finance future retirement benefits.

For the year ended December 31, 2004, OPERS' net investment income totaled $7.2 billion. This, coupled with OPERS' 2003 investment return of $11.9 billion, allowed OPERS to recover from the investment losses experienced for the three-year period of 2000-2002. Total contributions for 2004 remained level with 2003 totals. This was due to a slight increase in the number of active members and a slightly reduced average salary. The lower average salary resulted from the retirement of higher-compensated career employees who were, in turn, replaced by lower-paid individuals. During 2003, contributions decreased slightly due to reductions in early retirement buyouts. Net assets held in trust for pension and health care benefits increased by $6.1 billion in 2004 as compared to a more than $11.1 billion increase in 2003.

Member and employer contribution rates have remained level as a percent of payroll for quite some time. In fact, the percentage of payroll that members and employers contribute for the state and local divisions of OPERS has not increased since 1977.

Health care expenses rose from $908 million in 2003 to more than $963 million in 2004, an increase of 6.1%. This is significantly lower than the 17.0% increase in health care expenses experienced in 2003 when expenses rose from $776 million in 2002 to $908 million. By comparison, the CPI-U index (including all items) rose by 3.3% and 1.9% for the years ended December 31, 2003 and 2004, respectively. Although the rate of increase for OPERS health care benefits was significantly lower in 2004 than in 2003, the continuing trend of health care inflation, well in excess of general inflation, creates significant pressure on OPERS' ability to fund health care benefits. To address this, the Retirement Board passed the Health Care Preservation Plan (HCPP) in 2004. The HCPP will increase both OPERS' member and employer contributions from current levels to the maximum levels allowed under state law. These contribution rate increases are incremental and are scheduled to begin in 2006. By 2011, members in the state and local divisions will contribute at a rate of 10% and employers at a rate of 14%. This increase, in conjunction with other actions taken to strengthen OPERS' health care reserves are discussed in more detail in the letter of transmittal beginning on page 6.

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 Retirement System.

In order 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 are 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 4 years. This smoothing of actuarial gains and losses 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, 2003, the date of our latest actuarial evaluation, the actuarial value of assets set aside to pay pension benefits (non-health care assets) was $46.7 billion. The fair value of these assets, the value on the financial statements of OPERS, at December 31, 2003 was $48.3 billion. Therefore when reviewing actuarial funding status, the market value of assets would provide a superior funding position to the actuarial value of assets as of December 31, 2003. The reverse was true at the end of 2002. At that point in time the actuarial value of pension assets exceeded the market value of pension assets by more than $6 billion, 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 Retirement Board 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 2003 makes the System appear less well-funded than it actually is.

It is important to understand how smoothing techniques affect funded status when reviewing the actuarial related data contained within this report. Based upon our latest actuarial valuation for the year ended December 31, 2003, the System's actuarial value of liabilities exceeded its actuarial value of assets by $8.0 billion. Actuarial projections indicate that the $8 billion in unfunded liabilities will be amortized and funded over a 29-year period, which is within generally acceptable funding guidelines. The 2002 actuarial valuation also reflected a 29-year funding period.

Financial Analysis—Summary

Net assets may serve over time as a useful indication of OPERS' financial position (Please see Table 1 on page 25). At the close of calendar years 2004 and 2003, the net assets of OPERS totaled $65.2 billion and $59.1 billion, respectively. The net assets are available to meet OPERS' ongoing obligation to plan participants and their beneficiaries and to fund, as far as possible, OPERS-provided health care benefits.

The market turnaround that began in 2003 and continued in 2004 greatly boosted OPERS' funding position. However, in spite of the investment gains recorded over the last two years, the Retirement Board found it necessary, commencing in 2004, to reduce the percentage of contributions to be used for funding post-retirement health care from 5% to 4% of payroll. If favorable investment returns continue, it is possible that the percentage of employer contributions used to fund post-retirement health care benefits can again be increased. However, by statute OPERS' first priority is to adequately fund formula-based pension benefits. As noted, the HCPP provides for some contribution increases for funding health care.

Capital Assets

As of December 31, 2004, OPERS' investment in capital assets totaled $121.0 million (net of accumulated depreciation and amortization). This investment in capital assets includes equipment, furniture, the home-office complex and construction in progress.

OPERS invested more than $5 million in capital assets during 2004; during 2003, OPERS invested more than $22 million. The drop in capital purchases from $22 to $5 million reflects the completion of the OPERS office facility construction project. The home-office construction project was the major single capital project during the past several years. The expanded facility is expected to accommodate the quantity of staff needed to support the rapidly growing number of benefit recipients, and provide space to adequately house the service personnel necessary to provide quality support services to employers, members and retirees. The plaza, which was the final phase of the new office facility, was completed in January 2004 and occupation of the plaza took place that month. Completion of the new facility has eliminated the need for OPERS to rent supplemental downtown office space and additionally provides on-site facilities for OPERS' retirement-preparedness seminars.

Reserves

OPERS' reserves are established from employer contributions, member contributions and the accumulation of investment income, net of investment and administrative expenses and benefit payments. State law requires that the reserves be maintained in separate funds that, under Ohio law, are legal entities. The chart on the next page displays the statutory funds that OPERS maintains.

OPERS is required to fully fund the Annuity and Pension Reserve Fund and the Survivors' Benefit Fund. These two funds hold reserves set aside to pay formula-based 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.

OPERS' Reserves (Table 2)

For the years ended December 31, 2004, 2003, 2002

	2004	2003	2002
Employees' Savings Fund	$ 9,339,927,737	$ 8,896,964,040	$ 8,513,859,664
Employers' Accumulation Fund - Pension/Health Care	30,921,433,439	27,368,711,915	18,979,364,269
Defined Contribution Fund - Retirement/Health	62,970,790	35,826,751	
Annuity and Pension Reserve Fund	23,663,435,434	21,562,826,137	19,305,720,320
Survivors' Benefit Fund	1,171,933,656	1,143,463,941	1,096,358,667
Income Fund	84,749,285	89,838,868	86,024,578
Expense Fund	4,000,515	43,332	4,969,567
Total Fund Balance	**$ 65,248,450,856**	**$ 59,097,674,984**	**$ 47,986,297,065**

As of December 31, 2003, the date of the latest actuarial valuation, OPERS had not only accumulated sufficient assets to fund retirees and their beneficiaries, but had also provided 74% of the reserves necessary to fund pensions for active members, based on service credit earned through year-end 2003. As of year-end 2002 OPERS had accumulated 76% of the reserves needed to fund pensions for active members. The drop in the funded ratio for active members from 76% to 74%, results from the fact that actuarial accrued liabilities increased from 2002 to 2003 by more than the actuarial value of assets. This is due in large part to the recognition of investment losses incurred from 2000 through 2002 and the smoothing of (that is the postponement in the recognition of) investment gains from 2003.

Revenues—Additions to Fiduciary Net Assets

As noted, the reserves needed to finance retirement benefits are accumulated through collection of employer and employee contributions and through investment income (net of investment expense). Revenues for the year ended December 31, 2004, totaled $9.8 billion. Of this amount, $7.2 billion, or 73.1%, resulted from earnings on investments. For 2003, investment income in the amount of $11.9 billion, accounted for 81.7% of the $14.5 billion in total revenues.

Revenues for 2004 decreased by $4.7 billion, or -32.2%, from the prior year. The decrease was primarily due to lower investment returns in 2004. It's important, however, to put this decrease in the proper perspective. In 2003, OPERS generated a 25.3% investment return and ranked in the top 1% of its peer group universe. In spite of the 32% drop in total revenues as compared to 2003, OPERS investments returned 12.5% in 2004, well above 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, 2004. The negative $107,798 in other income (loss) resulted from the write-off of various fixed assets.

Revenues—Additions to Fiduciary Net Assets (Table 3)

For the years ended December 31, 2004, 2003, 2002

	2004	2003	2002	Amount Increase/ (Decrease) from 2003 to 2004	Percent Increase/ (Decrease) from 2003 to 2004
Employers' Contributions	$ 1,606,120,209	$ 1,626,778,671	$ 1,683,021,503	$ (20,658,462)	(1.3%)
Members' Contributions	1,041,342,350	1,023,394,823	1,094,343,553	17,947,527	1.8%
Net Investment Income	7,192,406,571	11,868,086,475	(5,684,965,700)	(4,675,679,904)	(39.4%)
Miscellaneous Income	(107,798)	411,093	623,421	(518,891)	(126.2%)
Total	**$ 9,839,761,332**	**$14,518,671,062**	**$(2,906,977,223)**	**$(4,678,909,730)**	**(32.2%)**

Expenses—Deductions from Fiduciary Net Assets

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, 2004 totaled $3.7 billion, an increase of 8.3% over 2003.

The increase in benefits paid resulted primarily from an increase in the number of retirees receiving benefits and an increase in retiree health care expenses. Expenses for 2003 increased by more than 10.6% as compared to 2002 from just under $3.1 billion in 2002 to more than $3.4 billion in 2003. As with 2004, the benefit increases reflect increasing numbers of benefit recipients and rising health care costs. OPERS has consistently managed within its Administrative Expense budget, with no material variances between planned and actual expenditures in either 2003 or 2004.

Expenses—Deductions in Fiduciary Net Assets (Table 4)

For the years ended December 31, 2004, 2003, 2002

	2004	2003	2002	Amount Increase/ (Decrease) from 2003 to 2004	Percent Increase/ (Decrease) from 2003 to 2004
Benefits	$ 3,417,516,226	$ 3,144,246,755	$ 2,836,137,068	$ 273,269,471	8.7%
Refunds	209,777,972	193,209,598	187,051,815	16,568,374	8.6%
Administrative Expenses	61,691,260	69,836,790	56,267,175	(8,145,530)	(11.7%)
Total	**$ 3,688,985,458**	**$ 3,407,293,143**	**$ 3,079,456,058**	**$ 281,692,315**	**8.3%**

Combining Statements *of* Fiduciary Net Assets

As of December 31, 2004 and 2003

	2004				
	Traditional		Combined		
	Pensions	Post-employment Health care	Pensions	Member-Directed	Voluntary Employees' Beneficiary Association
Assets:					
Cash and Short-Term Investments (Note 3)	$ 889,697,209	$ 194,486,592	$ 22,755	$ 397,840	$ 165,830
Receivables:					
Employer Contributions	197,122,852	64,664,924	2,360,128	2,076,063	785,174
Retirement Incentive Plan	43,762,809	3,098,433			
Investment Sales Proceeds	58,979,187	12,946,973	34,906	15,631	11,018
Accrued Interest and Dividends	141,133,443	30,981,282	76,511	27,732	26,366
Due From Other Plans	29,861,862				
Total Receivables	470,860,153	111,691,612	2,471,545	2,119,426	822,558
Investments, at fair value (Note 3):					
Global Bonds	11,847,194,165	2,600,579,782	14,955,926	14,328,742	1,985,190
Equities	25,469,627,118	5,590,842,559	29,038,082	26,512,116	4,267,851
Real Estate	2,865,651,342	629,039,656	1,102,560		480,186
Private Equity	318,138,100	69,834,553	122,403		53,309
International Securities	12,168,133,289	2,671,029,189	8,608,889	5,411,935	2,038,968
Total Investment	52,668,744,014	11,561,325,739	53,827,860	46,252,793	8,825,504
Collateral on Loaned Securities	6,701,310,056	1,429,823,432	6,657,051	5,720,220	1,091,476
Capital Assets:					
Land	3,069,419	665,394			
Building and Building Improvements	85,914,200	18,624,614			
Furniture and Equipment	33,979,181	7,366,060	2,115,479	1,674,532	416,390
Total Capital Assets	122,962,800	26,656,068	2,115,479	1,674,532	416,390
Accumulated Depreciation	(25,619,709)	(5,553,881)	(835,763)	(661,558)	(164,503)
Net Capital Assets	97,343,091	21,102,187	1,279,716	1,012,974	251,887
Prepaid Expenses and Other	181,572,843				
TOTAL ASSETS	61,009,527,366	13,318,429,562	64,258,927	55,503,253	11,157,255
Liabilities:					
Undistributed Deposits	888,937				
Medical Benefits Payable		116,024,321			
Investment Commitments Payable	744,671,099	163,468,451	1,193,165	1,234,257	139,116
Accounts Payable and Other Liabilities (Note 5)	8,342,064				
Due To Other Plans			12,945,256	14,968,903	1,947,703
Obligations Under Securities Lending	6,701,310,056	1,429,823,432	6,657,051	5,720,220	1,091,476
TOTAL LIABILITIES	7,455,212,156	1,709,316,204	20,795,472	21,923,380	3,178,295
Net Assets Held in Trust for Pension and Post-employment Health-care Benefits	$53,554,315,210	$ 11,609,113,358	$ 43,463,455	$ 33,579,873	$ 7,978,960

See Notes to Combining Financial Statements, beginning on page 34.
An unaudited Schedule of Funding Progress is presented on page 49.

	2003					
	Traditional		Combined			
Total All Plans	Pensions	Post-employment Health care	Pensions	Member-Directed	Voluntary Employees' Beneficiary Association	Total All Plans
$ 1,084,770,226	$ 1,842,604,728	$ 417,214,283	$ 474,850	$ 85,983	$ 183,310	$ 2,260,563,154
267,009,141	186,862,550	71,464,614	1,817,297	1,610,761	613,240	262,368,462
46,861,242	65,773,505	5,124,584				70,898,089
71,987,715	51,416,587	11,534,818	33,028	30,230	5,093	63,019,756
172,245,334	131,492,650	29,499,116	39,628	18,780	13,024	161,063,198
29,861,862	21,942,343					21,942,343
587,965,294	457,487,635	117,623,132	1,889,953	1,659,771	631,357	579,291,848
14,479,043,805	10,009,617,804	2,264,268,507	11,219,199	12,846,721	809,495	12,298,761,726
31,120,287,726	22,600,016,267	5,112,470,625	12,499,272	11,323,317	1,827,736	27,738,137,217
3,496,273,744	2,853,187,294	644,858,238	540,538		230,541	3,498,816,611
388,148,365	253,368,209	57,113,048	47,612		20,418	310,549,287
14,855,222,270	10,192,396,823	2,305,480,202	3,700,513	2,437,465	824,223	12,504,839,226
64,338,975,910	45,908,586,397	10,384,190,620	28,007,134	26,607,503	3,712,413	56,351,104,067
8,144,602,235	4,245,455,497	960,517,368	2,605,853	2,605,853	521,171	5,211,705,742
3,734,813	2,261,059	1,473,754				3,734,813
104,538,814	62,219,815	40,554,734				102,774,549
45,551,642	25,232,459	16,603,845	1,171,772	2,195,458	1,064,922	46,268,456
153,825,269	89,713,333	58,632,333	1,171,772	2,195,458	1,064,922	152,777,818
(32,835,414)	(14,984,813)	(10,444,551)	(119,146)	(255,290)	(131,411)	(25,935,211)
120,989,855	74,728,520	48,187,782	1,052,626	1,940,168	933,511	126,842,607
181,572,843	136,332,241					136,332,241
74,458,876,363	52,665,195,018	11,927,733,185	34,030,416	32,899,278	5,981,762	64,665,839,659
888,937	2,632,016					2,632,016
116,024,321		114,581,249				114,581,249
910,706,088	170,057,706	38,150,816	51,956	25,208	16,844	208,302,530
8,342,064	7,714,471	680,303	239,614	349,703	16,704	9,000,795
29,861,862			8,242,505	11,454,100	2,245,738	21,942,343
8,144,602,235	4,245,455,497	960,517,368	2,605,853	2,605,853	521,171	5,211,705,742
9,210,425,507	4,425,859,690	1,113,929,736	11,139,928	14,434,864	2,800,457	5,568,164,675
$65,248,450,856	$48,239,335,328	$10,813,803,449	$22,890,488	$18,464,414	$ 3,181,305	$ 59,097,674,984

Combining Statements of Changes *in* Fiduciary Net Assets

For the Years Ended December 31, 2004 and 2003

	2004				
	Traditional		Combined	Member-Directed	Voluntary Employees' Beneficiary Association
	Pensions	Post-employment Health care	Pensions		
Additions:					
Contributions:					
Members'	$ 1,019,785,485		$ 11,408,263	$ 10,148,602	
Employers'	1,113,946,023	$ 464,096,679	12,170,311	10,051,013	$ 5,856,183
Total Contributions	2,133,731,508	464,096,679	23,578,574	20,199,615	5,856,183
Income From Investing Activities:					
Net Appreciation (Depreciation) in Fair Value of Investments	3,875,975,957	856,405,146	3,203,692	2,774,348	474,874
Bond Interest	554,015,332	122,129,931	174,425	11,510	67,721
Dividends	485,704,694	107,071,190	448,952	411,192	59,371
Real Estate Operating Income, net	237,244,398	52,299,350	70,799		29,000
International Income	749,694,175	165,266,361	435,135	285,895	91,640
Other Investment Income	47,185,083	10,401,718	14,081		5,769
Security Lending Income, net (Note 2c)	17,362,104	1,861,915	5,395	3,900	1,032
Less: External Asset Management Fees	(61,689,596)	(13,599,165)	(29,698)	(15,258)	(7,542)
Net Investment Income	5,905,492,147	1,301,836,446	4,322,781	3,471,587	721,865
Less: Investment Administrative Expenses	(18,803,670)	(4,544,563)	(40,140)	(47,856)	(2,026)
Net Income (Loss) from Investing Activities	5,886,688,477	1,297,291,883	4,282,641	3,423,731	719,839
Other Income	(107,798)				
Total Additions	8,020,312,187	1,761,388,562	27,861,215	23,623,346	6,576,022
Deductions:					
Benefits	2,454,131,826	963,384,400			
Refunds of Contributions	207,121,141		601,042	2,055,789	
Administrative Expenses	47,589,813	2,694,253	5,032,027	4,898,872	1,476,295
Total Deductions	2,708,842,780	966,078,653	5,633,069	6,954,661	1,476,295
Interplan Activity:					
Balance Transfers	22,072		(15,722)	(6,350)	
Plan Changes	199,643		(59,233)	(140,410)	
Settlement Activity	2,544,577		(1,279,716)	(1,012,974)	(251,887)
Interest on Settlement Balance	744,183		(300,506)	(393,492)	(50,185)
Total Interplan Activity	3,510,475	0	(1,655,177)	(1,553,226)	(302,072)
Net Increase (Decrease)	5,314,979,882	795,309,909	20,572,969	15,115,459	4,797,655
Net Assets Held in Trust for Pension and Post-employment Health care Benefits					
Balance, Beginning of Year	48,239,335,328	10,813,803,449	22,890,486	18,464,414	3,181,305
Balance, End of Year	$ 53,554,315,210	$ 11,609,113,358	$ 43,463,455	$ 33,579,873	$ 7,978,960

See Notes to Combining Financial Statements, beginning on page 34.
An unaudited Schedule of Funding Progress is presented on page 49.

	2003					
	Traditional	Combined				
Total All Plans	Pensions	Post-employment Health care	Pensions	Member-Directed	Voluntary Employees' Beneficiary Association	Total All Plans
$ 1,041,342,350	$ 1,006,863,812		$ 8,807,214	$ 7,723,797		$ 1,023,394,823
1,606,120,209	1,026,594,837	$ 579,904,361	8,452,579	7,464,773	$ 4,362,121	1,626,778,671
2,647,462,559	2,033,458,649	579,904,361	17,259,793	15,188,570	4,362,121	2,650,173,494
4,738,834,017	8,005,594,795	1,880,567,921	2,830,726	2,609,478	344,505	9,891,947,425
676,398,919	463,275,988	108,848,479	76,619	41,067	19,928	572,262,081
593,695,399	385,036,069	90,394,749	160,718	155,176	16,560	475,763,272
289,643,547	290,460,536	68,149,246	24,227		12,491	358,646,500
915,773,206	486,583,953	114,250,161	48,032	8,979	20,929	600,912,054
57,606,651	41,908,528	9,872,674	3,498		1,804	51,786,504
19,234,346	7,290,857	677,601	843	709	132	7,970,142
(75,341,259)	(59,997,471)	(14,091,697)	(7,695)	(3,198)	(2,581)	(74,102,642)
7,215,844,826	9,620,153,255	2,258,669,134	3,136,968	2,812,211	413,768	11,885,185,336
(23,438,255)	(16,377,516)	(603,059)	(59,213)	(58,739)	(334)	(17,098,861)
7,192,406,571	9,603,775,739	2,258,066,075	3,077,755	2,753,472	413,434	11,868,086,475
(107,798)	411,093					411,093
9,839,761,332	11,637,645,481	2,837,970,436	20,337,548	17,942,042	4,775,555	14,518,671,062
3,417,516,226	2,236,477,663	907,769,092				3,144,246,755
209,777,972	192,768,335		49,490	391,773		193,209,598
61,691,260	57,195,937	2,679,981	4,480,051	5,098,717	382,104	69,836,790
3,688,985,458	2,486,441,935	910,449,073	4,529,541	5,490,490	382,104	3,407,293,143
0	(20,637,974)		10,300,381	10,337,593		0
0	70,283		(20,828)	(49,455)		0
0	8,330,450		(3,066,736)	(4,100,984)	(1,162,730)	0
0	354,044		(130,336)	(174,292)	(49,416)	0
0	(11,883,197)	0	7,082,481	6,012,862	(1,212,146)	0
6,150,775,874	9,139,320,349	1,927,521,363	22,890,488	18,464,414	3,181,305	11,111,377,919
59,097,674,982	39,100,014,979	8,886,282,086	0	0	0	47,986,297,065
$ 65,248,450,856	$ 48,239,335,328	$ 10,813,803,449	$ 22,890,488	$ 18,464,414	$ 3,181,305	$ 59,097,674,984

Notes *to* Combining Financial Statements

December 31, 2004 and 2003

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 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. The Member-Directed Plan and the Combined Plan commenced operations effective January 1, 2003. Membership in these two plans was open to Ohio workers who had established membership in the Traditional Plan but had accumulated less than 5 years of service credit as of December 31, 2002. These members had 180 days from January 1, 2003 to elect into one of the new plans. 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. Also in 2003, the Voluntary Employees' Beneficiary Association (VEBA) was established, providing Member-Directed Plan participants with a medical spending account option. In addition to the above plans, OPERS also provides health care benefits to qualifying retirees and their beneficiaries. Generally, 10 or more years of service credit are required in order to qualify for OPERS health care benefits. Periodically, OPERS alters the health care plan design to protect the ongoing solvency of the plan.

OPERS is administered in accordance with Chapter 145 of the Ohio Revised Code (ORC). The accompanying financial statements comply with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity.* This statement requires 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 Retirement Board, and there is no financial interdependency with the state of Ohio. The Retirement Board is the governing body of OPERS, with responsibility for administration and management. New legislation enacted in 2004 changed the composition of the Retirement Board and increased the number of Retirement Board members. Seven of the 11 members are elected by the groups they represent: 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 three members are appointed by the governor, general assembly and treasurer of state; the Retirement Board is completed by the director of the Ohio Department of Administrative Services.

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

Employer, employee and retiree data as of December 31, 2003 and 2002 (our latest available actuarial data) follows:

Employer Units	**2003**	**2002**
State group	268	263
Local government group	3,187	3,182
Law enforcement group	247	251
Employees, Members and Retirees		
Retirees and beneficiaries currently receiving benefits	145,263	141,019
Terminated employees not yet receiving benefits	92,327	62,746
Active Employees		
State group	108,249	110,017
Local government group	237,082	247,377
Law enforcement group	8,253	8,030

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. For actuarial purposes, employees who have earned sufficient service credit (5 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 145. The Retirement Board, pursuant to Chapter 145 of the ORC, has elected to maintain funds to provide healthcare 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 Retirement Board.

- *Age-and-Service 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 5 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 2004, 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. A retroactive payment was issued to eligible benefit recipients in March 2004. Monthly QEBA payments started as benefit recipients exceeded the 2004 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 5 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 actual years of service in the Combined Plan. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts. 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*—Benefits in the Member-Directed Plan are equal to the total member and vested employer contributions to the plan, plus or minus any investment gains or losses. Employer contributions vest as a rate of 20% per year, over a five-year vesting period.

- *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 provide for the purchase not to exceed five years credit, limited to a maximum of 20% of total service credit.

- *Disability Benefits*—OPERS administers two disability plans. Members on the rolls 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. Members of the Member-Directed Plan are not eligible for disability benefits. 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.

- *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 health care benefits. The ORC allows a portion of the employers' contributions to be used to fund health care benefist. 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 in either the Traditional or Combined plans 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.

  Participants in the Member-Directed plan are not eligible for health care benefits under the OPERS plan. A portion of employer contributions is placed in a Voluntary Employees' Benefit Arrangement (VEBA, Retiree Medical Account or RMA) on behalf of members in the Member-Directed Plan. RMA funds may be used by terminated members and retirees to pay for medical-related expenses.

- *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. Members retiring under the Combined Plan receive a 3% cost-of-living adjustment with relation to 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 is based on the calculation of employee contributions for the period of re-employment plus allowable interest, multiplied by two.

- *Refunds*—Members of the Traditional Plan, upon their termination of employment, may withdraw their accumulated contributions, interest earned, and any qualifying matching funds. Combined Plan members also receive any qualifying matching funds upon refund. The law 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. Employer contributions to OPERS are not refundable except for the vested portion of employer contributions made to the Member-Directed Plan.

c. Contributions—OPERS' funding policy provides for periodic employer contributions to all three plans (Traditional, Combined and Member-Directed Plans) at Retirement Board-established rates. The rates established for member and employer contributions in both the Traditional and Combined Plans were approved based upon the recommendations of the System's actuary. Member and employer contributions to the Member-Directed Plan are not actuarially determined. 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, 2004. Within the Traditional Plan, member and employer contributions (employer contributions only for the Combined Plan) and an actuarially determined rate of interest 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. Level percentage of payroll employer contribution rates 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 plan inception 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. Based upon the recommendations of the System's actuary, the annual required contributions for the Traditional Plan and the Combined Plan were $1,113,946,023 and $12,170,311, respectively. Employers satisfied 100% of the contributions.

Based upon the recommendations 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 (a portion of employer contributions to the Member-Directed Plan are deposited into a retiree medical account (RMA) on behalf of the member). For 2004 and 2003, the total employer contribution rate for state employers was 13.31% of covered payroll for all plans; local employers contributed 13.55% of covered payroll for all plans; and law enforcement and public safety employers contributed 16.70% of covered payroll. The percentage of the employer contribution rate used to fund health care, for all divisions of the Traditional and Combined plans, was 4% for the calendar year of 2004 and 5% for the calendar year of 2003. The percentage of the employer contributions rate used to fund Member-Directed plan participants' RMAs for 2004 and 2003 were 4.81% of employer contributions for state division employees and 5.05% of employer contributions for local employees. ORC Chapter 145 assigns authority to the Retirement Board to amend the funding policy. As of December 31, 2004, the Retirement Board adopted all contribution rates that were recommended by the Actuary.

Board-approved Contribution Rates for All Plans:

	Employee Rate			Employer Rate		
	2004	2003	2002	2004	2003	2002
State group	8.5%	8.5%	8.5%	13.31%	13.31%	13.31%
Local government group	8.5	8.5	8.5	13.55	13.55	13.55
Law enforcement group	10.1	10.1	10.1	16.70	16.70	16.70
Public safety group	9.0	9.0	9.0	16.70	16.70	16.70

The rates above fall within the ranges set by the Ohio Revised Code

As of December 31, 2003, the date of the last actuarial study, and December 31, 2002, the necessary funding period for the state division was 35 and 38 years, 25 and 25 years for the local division and 43 and 36 years on average for both the law and public safety divisions, respectively. For both 2002 and 2003, the combined funding period for all divisions was 29 years.

d. Commitments and Contingencies—OPERS has committed to fund various private equity investments totaling approximately $388.1 million at December 31, 2004 and $310.5 million at December 31, 2003. The expected funding dates for these commitments extend through 2015. OPERS is a party in various litigation 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:

a. Basis of Accounting—The financial statements are prepared using the accrual basis of accounting under which expenses 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 are due 90 days after the member's termination of OPERS covered employment for all members who make a written application to withdraw their contributions. Revenues are recorded in the period related salaries are earned and become measurable. Member and employer contributions are recognized when due, pursuant to formal commitments, as well as statutory or contractual requirements. Accordingly, both member and employer contributions for the year ended December 31, 2004 and 2003 include year-end accruals based upon estimates derived from 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. Therefore contributions are recorded in the period in which the related member salaries are earned. Investment purchases and sales are recorded as of their trade date. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Pursuant to the GASB Statement No. 20: *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting,* the System follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

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 No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and Statement No. 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 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 No. 40, *Deposit and Investment Risk Disclosures,* was issued in March 2003. The statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk the Statement also required certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Additionally, the Statement modifies some of the custodial risk disclosures established by GASB Statement No. 3 *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements).* The requirements of Statement No. 40 are effective for financial statements for periods beginning after June 15, 2004. The System has not elected early implementation of this Statement.

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* establishes standards for reporting post-employment benefits, other than pension benefits (OPEB), (including post-employment health care). Among these standards are requirements for displaying a plan's: OPEB-funded status and OPEB liabilities, and for determining the adequacy of employers contributions in meeting funding objectives. The effective date of this statement, for OPERS, is for plan years beginning after December 15, 2005. Accordingly, OPERS anticipates implementing of disclosure requirements of this Statement in its Comprehensive Annual Financial Report for the year ended December 31, 2006.

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 Retirement Board. The prudent person standard requires the Retirement Board "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."

Participants in the Member-Directed Plan self-direct the investment of both member and employer contributions. Contributions must be invested with an investment manager approved by the OPERS Board. Participants in the Combined Plan similarly 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 Retirement Board 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 September 30th net asset values plus or minus purchases, sales and cash flows from October 1 through December 31 of the reporting year.

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 2004 and 2003 were $7,532,589 and $6,956,223 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 department square footage to total office square footage or investment payroll to total OPERS' payroll, as appropriate.

c. Securities Lending—OPERS maintains a securities lending program. The Retirement Board 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, 2004, the fair value of securities on loan was $7,997,990,341. Associated collateral totaling $8,275,304,665 was comprised of cash equaling $8,144,602,235 and securities equaling $130,702,430.

As of December 31, 2003, the fair value of securities on loan was $5,438,971,505. Associated collateral totaling $5,613,002,163 was comprised of cash equaling $5,211,705,742 and securities equaling $401,296,421.

Collateral on loaned securities at year-end 2004 and 2003 consisted of cash and repurchase agreements collateralized by investment grade bonds.

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 2004 and 2003 was recorded on a cash basis which approximated accrual basis.

Income from Security Lending Activity	**2004**	**2003**
Security Lending Gross Income	$108,677,320	$ 29,940,709
Security Lending Expenses		
Security Lending-Agent Fees	(4,310,465)	(1,788,298)
Security Lending-Broker Rebates	(85,132,509)	(20,182,269)
Total Expenses	(89,442,974)	(21,970,567)
Net Income from Security Lending Activity	**$ 19,234,346**	**$ 7,970,142**

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

- *Mortgage and Asset-Backed Securities*—As of December 31, 2004 and 2003, the System held the following mortgage and asset-backed securities which may be categorized as derivative securities:

  - Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC) pass-throughs with amortization terms of 15 years, 30 years, and 30-year amortization/7-year balloons.

  - Collateralized mortgage obligation securities (CMOs) backed by FNMA and FHLMC 15 and 30-year pass throughs.

  - Commercial mortgage-backed securities (CMBS) backed by commercial mortgages and leases on a variety of property types, such as office, retail, hotel, self-storage, warehouse and industrial.

  - Asset-backed securities (ABS) backed by auto loans, credit card receivables, home equity loans, home improvement loans and electric-utility receivables.

  The overall return or yield on mortgage-backed securities depends on the amount of interest collected over the life of the security and the change in the market value. Although the System will receive the full amount of principal, if prepaid, the interest income that would have been collected during the remaining period to maturity, net of any market adjustments, is lost. Accordingly, the yields and maturities of mortgage-backed securities generally depend on when the underlying mortgage loan principal and interest are repaid. If market rates fall below a mortgage loan s contractual rate, it is generally to the borrower s advantage to repay the existing loan and obtain new lower financing. The fair value of mortgage- and asset-backed securities was $6,290,336,489 and $5,067,370,788 as of December 31, 2004 and December 31, 2003, respectively.

- *Forward-Currency Contracts*—The System 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:

	December 31, 2004	December 31, 2003
Forward currency purchases	$ 231,585,823	$ 105,062,424
Forward currency sales	154,871,069	69,496,074
Unrealized gain (loss)	76,714,754	35,566,350

The fair values of contracts hedged were:

	December 31, 2004	December 31, 2003
Hedge contract purchases	$ 151,653,205	$ 66,820,724
Hedge contract sales	227,360,689	99,628,962
Unrealized gain (loss)	(75,707,484)	(32,808,238)

• *Stock Index Futures Contracts*—The System 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. The cash or securities to meet these obligations are held in the investment portfolio. 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, 2004 and 2003.

Stock Index Futures	2004		2003	
Domestic Equities	Number of Contracts	Contract Principal	Number of Contracts	Contract Principal
Equity Futures purchased	30	$9,149,850	8	$2,141,753
Equity Futures sold	0	0	0	0

• *Total Return Swaps*—The System may enter into total return swaps to provide a return based upon an underlying index. The agreements provide that, at predetermined future dates, the System pays interest based upon a notional principal amount and receives a return based upon the underlying index. Notional amounts represent the volume of outstanding transactions and do not represent the potential gain or loss associated with market risk or credit risk of such instruments. Risk associated with total return swaps includes adverse movements in the underlying index. As of December 31, 2004, the nominal amount of total return swaps were $10,000,000. OPERS held no return swaps at December 31,2003.

e. International Investments—The Retirement Board has authorized investment in various instruments including international securities. In November 1994, OPERS executed an investment management agreement to take advantage of expected favorable long-term trends in the global forest products industry by making specialized investment in offshore forest products companies. In fiscal 1996, OPERS began investing in international equity investments through the use of outside money managers. It is the intent of OPERS and the money managers to be fully invested in non-cash equivalent international securities. However, cash and short-term fixed income investments are often held temporarily. OPERS also invests in forward-currency contracts (see Note 2d). The following is a summary of international investments at December 31, 2004 and 2003.

International Investments	2004	2003
Cash	$ 67,957,499	$ 43,871,673
Cash Equivalents	111,548,680	39,358,186
Depository Receipts	452,297,639	433,288,017
Preferred Stock	44,151,682	28,928,877
Corporate Bonds	0	6,811,821
Netted Receivable/Income	11,992,490	13,934,879
Netted Receivable/(Payable) Trades	(8,788,332)	16,552,495
Netted Receivable/foreign exchange	2,453,080	1,282,635
International Stock	5,287,267,230	5,355,516,223
Convertible Bonds	5,599,909	8,454,789
Stock Index Funds	8,872,724,935	6,556,761,251
Warrants	8,017,458	78,380
TOTAL International Investments	**$14,855,222,270**	**$12,504,839,226**

f. Capital Assets—Capital assets are recorded at cost. Assets purchased related to the implementation and maintenance of the new plans (Combined, Member-Directed and VEBA) are recognized on the plans' Statement of Fiduciary Net Assets. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. The range of estimated useful lives is as follows:

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

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

h. 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).

i. Funds—In accordance with state statute 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 rate of 1-4%. Employees eligible for a refund also receive matching 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 and health care 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 to retirees and dependents of deceased members of the Traditional and Combined Plans.

- *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, 2003, 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, 2003.

- *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 which is 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 Income Fund* is the fund which is credited with all investment earnings and miscellaneous income. The balance in this fund is transferred to other funds to credit member accounts and for the payment of administrative expenses.

- *The Expense Fund* provides for the payment of administrative expenses with the necessary monies allocated to it from the Income Fund.

- *The Voluntary Employees' Benefit Association (VEBA) Fund* is the fund used to accumulate employer contributions to the 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 have been deposited to the VEBA.

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 prior service credit held in trust pending their refund or transfer to a benefit disbursement fund. 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 provided by fund transfers to the Traditional Plan.

- *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 of the Traditional and Combined Plans.

- *The Annuity and Pension Reserve Fund* is the fund from which retirement allowances and health care benefits are paid. As of December 31, 2004, there were no benefits being paid out of the fund to Combined Plan participants and accordingly the fund had a $0 balance.

- *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 members' receipts. As of December 31, 2004 there were no benefits being paid out of the fund to Combined Plan participants.

- *The Income Fund* is the fund which is 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.

Combined Fund balances at December 31, 2004 and 2003 are as follows:

	2004	2003
Employees' Savings Fund	$ 9,339,927,737	$ 8,896,964,040
Employers' Accumulation Fund - Pension/Health Care	30,921,433,439	27,368,711,915
Defined Contribution Fund - Retirement/Health	62,970,790	35,826,751
Annuity and Pension Reserve Fund	23,663,435,434	21,562,826,137
Survivors' Benefit Fund	1,171,933,656	1,143,463,941
Income Fund	84,749,285	89,838,868
Expense Fund	4,000,515	43,332
Total Fund Balance	**$65,248,450,856**	**$59,097,674,984**

j. 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 healthcare coverage. The only outstanding liabilities at the end of 2004 and 2003 were related to the employee health care coverage (see Note 8).

k. Reclassifications—Certain 2003 balances have been reclassified to conform to the current-year presentation.

3. CASH AND INVESTMENTS

At December 31, 2004 and 2003, the carrying amount of OPERS' cash deposits was $42,758,103 and $18,713,217, respectively, and the bank balance was $85,010,643 and $50,678,368, respectively. Of the bank balance, $100,000 was insured by the Federal Deposit Insurance Corporation (Category 1 as defined by the Government Accounting Standards Board). The remaining bank balance cash deposits were uninsured and uncollateralized and were held in the name of OPERS' pledging financial institution, as required by the ORC (Category 3).

A summary of short-term securities and investments held at December 31, 2004 and 2003 is as follows:

	2004 Fair Value	2003 Fair Value
Short-Term Securities:		
Commercial Paper	$ 399,736,719	
U.S. Treasury Obligations	275,131,372	$ 503,939
Short-term Investment Funds (STIF)	367,144,032	2,241,345,998
Total Short-term Securities	**$ 1,042,012,123**	**$ 2,241,849,937**
Investments:		
Global Bonds:		
Corporate Bonds:		
Not on securities loan	$ 5,126,410,841	$ 4,171,946,524
On securities loan	230,514,731	279,558,390
Government and Agencies:		
Not on securities loan	942,141,361	1,405,347,904
On securities loan	2,932,234,623	1,965,091,875
Mortgage backed:		
Not on securities loan	5,247,742,249	4,476,817,033
On securities loan		
Equities:		
Not on securities loan	28,628,060,676	26,533,395,407
On securities loan	2,492,227,050	1,204,741,810
Real Estate:		
Not on securities loan	3,496,273,744	3,498,816,611
On securities loan		
Private Equities:		310,549,287
Not on securities loan	388,148,365	310,549,287
On securities loan		
International Securities:		
Not on securities loan	12,512,208,333	10,515,259,796
On securities loan	2,343,013,937	1,989,579,430
Collateral on loaned securities:		
Cash	8,144,602,235	5,211,705,742
Securities	130,702,430	401,296,421
Total Investments	**$ 72,614,280,575**	**$ 62,274,655,517**

GASB Statement No. 3, (*Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements*), requires governmental entities to categorize investments to give an indication of the level of custodial credit risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered for which the securities are held by OPERS or by its agent in the name of OPERS. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the name of OPERS. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in OPERS' name.

All investments of OPERS meet the criteria of Category 1 except real estate, private equity and securities on loan, which by their nature are not required to be so categorized. Investments are held in the name of OPERS or its nominee by the Treasurer of the state of Ohio as custodian.

4. LEASES

OPERS leases equipment with lease terms of one year or less. Total lease expense was $410,524 and $558,989 for the years ended December 31, 2004 and 2003, respectively.

5. VACATION AND SICK LEAVE

As of December 31, 2004 and 2003, $4,609,269 and $4,350,117, 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 unused vacation. Unused sick leave pay is lost 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 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. OPERS' SCHEDULE OF REQUIRED CONTRIBUTIONS

All employees of the System are eligible for membership in OPERS. The System's annual required contributions for the year ended December 31, 2004 and for each of the two preceding years is as follows:

Year Ended December 31	Annual Required Contribution*	% Contributed
2002	$3,801,426	100%
2003	4,006,036	100
2004	4,271,274	100

*Prior presentations of this schedule reported required contributions on a cash basis. The Schedule has been converted to an accrual basis. Prior years contributions have been restated.

8. SELF-INSURED EMPLOYEE HEALTH CARE

OPERS is self-insured under a professionally administered plan for general health and hospitalization employee benefits. OPERS maintained specific stop-loss coverage per employee for medical benefits in the amount of $250,000 for both 2004 and 2003. OPERS also maintained a lifetime maximum stop-loss coverage per employee for medical benefits in the amount of $2,500,000 for 2004 and $1,000,000 for 2003.

The summary of changes in incurred but unreported claims for the years ended December 31, 2004 and 2003 follows:

	General Health Insurance*
Claims Liability as of December 31, 2002	$ 64,759
Claims Incurred	4,800,867
Claims Paid	(4,808,909)
Claims Liability as of December 31, 2003	56,717
Claims Incurred	3,162,053
Claims Paid	(3,183,166)
Claims Liability as of December 31, 2004	**$ 35,604**

* Figures include pharmacy expenses.

Required Supplementary Information

Schedule of Funding Progress*

($ in Millions)

Valuation Year	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as of % of Active Member Payroll
1994	$28,260	$25,066	$ 3,194	89%	$ 7,625	42%
1995	30,556	27,651	2,905	90	7,973	36
1996	32,631	30,534	2,097	94	8,340	25
1997	34,971	33,846	1,125	97	8,640	13
1998	37,714	38,360	(646)**	102	9,017	(7)**
1999	43,070	43,060	10	100	9,477	0
2000	46,347	46,844	(497)**	101	10,192	(5)**
2001#	47,492	48,748	(1,256)**	103	10,782	(12)**
2002	50,872	43,706	7,166	86	11,207	64
2003	54,774	46,746	8,028	85	11,165	72

* The amounts reported in this schedule do not include assets or liabilities for post-employment healthcare benefits.
** Valuation assets were in excess of AAL.
# Revised actuarial assumptions, see notes to Required Supplementary Information.

Schedule of Employer Contributions—Traditional Plan*

Year Ended December 31	Annual Required Contributions	% Contributed
1999	$ 935,426,954	100%
2000	718,807,713	100
2001	977,289,237	100
2002	1,109,983,205	100
2003	1,026,594,837	100
2004	1,113,946,023	100

Schedule of Employer Contributions—Combined Plan*

Year Ended December 31	Annual Required Contributions	% Contributed
2003	$ 8,452,579	100%
2004	12,170,311	100

Schedule of Employer Contributions—Health Care*

Year Ended December 31	Annual Required Contributions	% Contributed
1999	$392,459,727	100%
2000	452,867,242	100
2001	431,103,750	100
2002	573,038,298	100
2003	579,904,361	100
2004	464,096,679	100

*The Retirement Board has approved all contribution rates as recommended by the Actuary.

See Notes to Required Supplementary Schedules, page 50.

Notes to Required Supplementary Schedules

1. 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 experience is 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 amounts, resulting in unfunded actuarial accrued liabilities increasing in dollar amounts, 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 which 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.

2. ACTUARIAL ASSUMPTIONS AND METHODS

Funding Method—The 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 which are level percents of payroll contributions based on an open amortization period.

As of December 31, 2003, the date of the last actuarial study, the funding periods, by division, were: state – 35 years, local – 25 years, and law – 43 years. The combined funding period for all divisions was 29 years.

As of December 31, 2002, the funding periods, by division, were: state – 38 years, local – 25 years, and law – 36 years. The combined funding period for all divisions was 29 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 employed by the actuary for funding purposes as of December 31, 2003, the date of the latest actuarial study, and 2002 include:

Investment Return—An investment return rate of 8% compounded annually, for all members, retirees, and beneficiaries, was assumed for the years 2003 and 2002.

Salary Scale—As of December 31, 2003, the date of the latest actuarial valuation, 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 .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—For retirees, 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.

Health Care Benefits—Health care benefits are financed through employer contributions and investment earnings earned on those contributions. Employer contributions, equal to a fixed percent of member covered payroll, are used to fund health care expenses. The contributions allocated to retirees' health care, along with investment income on allocated assets are expected to be sufficient to sustain the program for 18 years based on the current plan design. Health care expenses are assumed to increase between 5% and 10% from 2004 through 2012. Years 2013 and after are assumed to increase at an annual rate of 4%.

The portion of employer contributions used to fund health care expenses was 4% and 5% of member covered payroll for 2004 and 2003, respectively.

OPERS' actuarial valuation is calculated separately for retirees and beneficiaries and for active and inactive members.

The actuarial present value of benefits to be paid retirees and beneficiaries currently receiving benefits and deferred survivor beneficiaries, whose benefits have been determined, is calculated using the assumptions noted above. The reserves in the Annuity and Pension Reserve Fund and the Survivors' Benefit Fund, together with interest credited thereon from the Income Fund, are compared to the actuarial accrued liability for the remaining lifetimes of the retirees and beneficiaries. Any deficiency is then funded by a transfer from the Employers' Accumulation Fund. Consequently, all such determined benefits are fully funded.

The actuarial accrued liability for active and inactive members is calculated using the entry age normal actuarial cost method. The assets of the Employees' Saving Fund, Employers' Accumulation Fund, and the market value adjustment are compared to the actuarial accrued liability of active and inactive members to arrive at the unfunded actuarial accrued liability or, in cases where assets exceed liabilities, assets in excess of actuarial accrued liability.

The unfunded actuarial liability based upon the two most recent annual actuarial valuations is as follows:

Unfunded Actuarial Accrued Liability

				December 31, 2003	December 31, 2002
	State Group	Local Government Group	Law Enforcement Group	Total	Total
Present value of actuarial accrued liability for active and inactive accounts	$ 12,230,240,472	$ 17,644,951,296	$ 1,170,271,120	$ 31,045,462,888	$ 29,666,565,543
Less:					
Employers' Accumulation Fund*	6,168,613,710	8,783,517,065	573,679,117	15,525,809,892	9,229,537,066
Employees' Savings Fund	3,426,743,059	5,153,446,368	316,772,483	8,896,961,910	8,513,859,664
Market Value Adjustment	(565,073,478)	(788,950,590)	(51,740,543)	(1,405,764,611)	4,756,747,578
Unfunded/(Assets in excess of) actuarial accrued liability	$ 3,199,957,181	$ 4,496,938,453	$ 331,560,063	$ 8,028,455,697	$ 7,166,421,235

*Amounts shown reflect transfers out of the Employers' Accumulation Fund to fully fund the Annuity and Pension Reserve Fund and Survivors' Benefit Fund.

Administrative Expenses*

For The Years Ended December 31, 2004 and 2003

	2004	2003
Personnel Services:		
Salaries and Wages	$ 33,028,227	$ 30,778,073
Retirement Contributions	4,728,823	4,391,982
Employee Insurance	3,921,390	5,636,229
Other Personnel Expense	279,416	253,752
Other Services and Charges:		
Professional Services:		
Actuarial Services	716,901	708,783
Audit Services	312,442	415,824
Consulting Services	4,120,689	3,254,675
Investment Services	2,233,170	3,022,352
Legal & Investigation Services	890,205	732,721
Medical Examinations	2,071,774	1,699,737
Retirement Study Council	389,417	251,386
Banking Fees and Financial Services	8,894,754	8,473,010
Communication:		
Postage & Shipping	1,740,129	2,869,305
Printing & Publications	1,029,628	783,621
Information Technology	2,459,854	2,810,147
Office Equipment & Supplies	1,209,586	1,391,128
Training & Travel Expenses	1,684,151	1,725,776
Facility Expenses	4,445,371	3,673,705
Child Care Center Expenses	166,359	262,277
Miscellaneous	193,215	195,456
	$ 74,515,501	$ 73,329,939
Depreciation:		
Building Depreciation	$ 2,127,538	$ 5,030,141
Equipment Depreciation	8,486,476	8,575,571
	$ 10,614,014	$ 13,605,712
Total Administrative Expenses	$ 85,129,515	$ 86,935,651
Less Investment Expenses	(23,438,255)	(17,098,861)
Net Administrative Expenses	$ 61,691,260	$ 69,836,790

*Includes investment-related administrative expenses

Schedule *of* Investment Expenses

For the Years Ended December 31, 2004 and 2003

	2004	2003
Investment Services	$11,074,820	$ 5,393,938
Investment Staff Expense	9,802,783	8,281,983
Investment Legal Services*	547,037	311,714
Allocation of Administrative Expenses (See Note 2b to Financial Statements)	2,013,615	3,111,226
Total Investment Expenses*	**$23,438,255**	**$17,098,861**

*Excludes fees and commissions, please see Schedule of U.S. Stock Brokerage Commissions Paid presented on page 65.

Schedule *of* Fees to External Asset Managers by Asset Class

For the Years Ended December 31, 2004 and 2003

	2004	2003
Global Bonds	$ 7,539,680	$ 5,835,537
Domestic Equity	8,206,648	7,385,208
International	30,257,690	24,632,646
Real Estate*	14,958,294	24,744,961
Private Equity*	14,378,947	11,504,290
Total Fees	**$75,341,259**	**$74,102,642**

*Denotes estimated fees

Schedule *of* Payments To Consultants

OPERS paid the following investment consultants during 2004:

Brown Brothers Harriman & Co.	$ 52,000
Cost Effective Measurement Inc.	18,500
Ennis, Knupp+Associates	565,022
Focus Consulting Group, Inc.	29,290
Information Control Corporation	23,826
Macroeconomic Advisors LLC	20,375
Pacific Corporate Group	1,166,667
QED Information Systems Inc.	10,251
The Townsend Group	320,018
University of Wisconsin	20,000
WF Pridmore LTD	22,885
Total Payments to Consultants	**$ 2,248,834**

OPERS

Ohio Public Employees Retirement System

The Comprehensive Annual Financial Report 2004

Investment Section

Investment Report

Dear Members and Beneficiaries,

Overview

On behalf of the Investment staff, it is a pleasure to once again report to you on our stewardship of OPERS' investment assets over the past year.

Our investment return for 2004 was 12.50%, a favorable outcome during a year when market averages largely drifted until the final quarter of the year. Our return in 2004 exceeded our policy portfolio by 0.12% (explained more fully below). You may recall that OPERS' investment return in 2003 was 25.39%. Combining the two years, OPERS' cumulative investment return for the twenty-four month period is over 41%–our largest two-year gain since the '80s.

OPERS ended the year with investments of $64.6 billion, higher by more than $6 billion over last year and representing a record high for the System.

The annual pension fund survey by the trade magazine, (*Pensions & Investments*), ranked OPERS as the 16th largest pension fund in the country by assets, and the 10th largest state retirement plan.

Performance Measures

It's true that one data point (or two) does not a trend make. What's important for a long-term institution such as OPERS is not short-run gains but returns over a market cycle. Specifically, your Board of Trustees measures the performance of the investment program in a few ways:

(1) Returns Relative to the Policy Portfolio

One of two primary performance objectives for the fund is to exceed the return of the policy portfolio, net of investment expenses, over a five-year period.

OPERS' actual returns are measured against the return of a portfolio of assets we call the "policy portfolio." The policy portfolio is a reference (paper) portfolio of stocks, bonds, and other assets in which we invest. The return of the policy portfolio is simply the sum of the product of the weighting of each asset class multiplied by the return of the market index associated with the asset class. Our 2004 policy portfolio is shown along with the corresponding market index for each asset class:

Defined Benefit 2004 Policy Portfolio

Asset Class	Weight	Market Index
Domestic Equity	46%	Russell 3000
Global Bonds	23%	LB Universal
International Equity	20%	MSCI ACWIxU.S.
Real Estate	9%	Custom
Private Equity	1%	Russell 3000 + 3%
Cash	1%	LB 90-Day T-Bill
Total	100%	

As mentioned, OPERS' actual investment return was 12.50%, or 0.12% greater than the 12.38% return of the policy portfolio. Over the past three years, the period following the re-positioning of our investment program in 2000 and 2001, OPERS' actual annualized return has exceeded the return of the policy portfolio by about 0.30%. The out-performance equates to approximately $500 million in incremental wealth to the fund.

(2) Returns Relative to the Actuarial Interest Rate Assumption

Another primary performance objective is to exceed the return of the estimated growth in the liabilities of the System over a reasonably long time horizon. The figure used to estimate the growth in liabilities is termed the "actuarial interest rate assumption." For OPERS, the figure is set at 8%. Over the past ten years, OPERS has realized an annualized return of 8.5%, exceeding the actuarial interest rate assumption by 0.50% per year, on average.

(3) Performance Relative to Peer Funds

A secondary measure of performance is to compare OPERS' return to that achieved by other large public pension plans with similar asset and liability characteristics. We compare our return to a universe of state plans with assets in excess of $10 billion (a total of 13 plans). The results of this benchmarking are as follows:

- For the one-year period, OPERS' return ranked at the 17th percentile, indicating that our return exceeded the return of 83% of the funds in the universe.

- For the three-year period, OPERS' return ranked at the 25th percentile, indicating that our return exceeded the return of 75% of the funds in the universe.

- For the five-year period, OPERS' return ranked at the 42nd percentile, indicating that our return exceeded the return of 58% of the funds in the universe.

Planting Seeds

The favorable performance that OPERS has experienced over the past few years is a result of the many actions that were taken since 2000 to reposition the investment program. These actions, which were summarized in my report to you last year, took some time to bear fruit. The investment portfolio is now benefiting from the thoughtful efforts of the recent past.

Just as the current returns are a reflection of past effort, the investment staff, working with the Retirement Board, has begun to explore new ways to improve future returns while maintaining or lowering overall investment risk.

In 2004, we developed an "Opportunistic Policy" to allow for toe-hold investments in areas that are new to the System. Initial small investments to hedge funds and commodities are being pursued under the program, with a continuing stream of ideas to follow. After a period of hands-on observation, these investments will either be expanded and graduated into the full investment program, or terminated if expected returns are not realized. The program is a low-risk way for OPERS to continue to diversify its investment mix and position the fund for improved long-term returns.

There were many other actions in 2004 that should bear fruit over the long-term. The more notable achievements are described below:

- A search for U.S. equity enhanced index managers was started in the fourth quarter and will conclude in early 2005. We intend to hire and fund three or more managers with a total of $1.5 billion. OPERS' move toward the greater use of enhanced index management is a reflection of the difficulty of traditional active US equity managers to outperform benchmarks.

- We concluded a search for an additional high-yield manager in our bond area in 2004, and late in the year, initiated a follow-on search for a manager of high yield commercial mortgage-backed securities (CMBS). The CMBS search was concluded in early 2005. The extended sectors of the bond market, including high yield bonds and emerging market debt, have offered incremental value relative to traditional investment-grade securities, and have provided incremental return to our bond portfolio.

- A total of $730 million of commitments to 13 private equity partnerships were closed in 2004. The investments were primarily in U.S. and European mid and large buyout funds, as well as venture capital and special situation funds. The OPERS private equity program was initiated in 2002 and will reach 4% of assets by 2008. We believe that the private equity asset class continues to offer very favorable expected returns at reasonable levels of risk.

- A total of $675 million of commitments to five opportunistic and open-end real estate funds was closed in 2004. We continue to find the risk/return profile of real estate attractive relative to other assets, notwithstanding the recent appreciation of real estate assets generally.

- Concluding a multi-year revamping of our securities lending program, OPERS auctioned borrowing rights to its U.S. equity portfolio in early 2005. The move away from a traditional agent lending model to an auction process will materially increase securities lending returns in 2005 and beyond.

Other Initiatives

Health Care

In 2003 and 2004, the retirement board spent a great deal of its time evaluating the OPERS health care plan and identifying ways to preserve the plan's solvency well into the future. One of the actions approved was to "unbundle" the health care assets from the pension assets and form separate portfolios for each plan.

The action acknowledges that the two plans, pension and health care, have materially different time horizon, funding, and volatility characteristics, and therefore should have asset mixes reflecting these differences. In 2005 and 2006, OPERS investment staff will gradually separate the pension and health care assets and form a dedicated health care portfolio. Next year, we will report to you on the performance of each investment pool. The target asset mix for the health care portfolio, to be reached by the end of 2006, is displayed in the following table:

Health Care 2006 Policy Portfolio		
Asset Class	**Weight**	**Market Index**
Domestic Equity	30%	Russell 3000
International Equity	15%	MSCI ACWIxU.S.
Global Bonds	15%	LB Universal
REITS	5%	DJ Wilshire RESI
TIPS	20%	LB US TIPS
Short Term Bonds	15%	LB 1-3 Yr Gov't
Cash	<1%	LB 90-Day T-Bill
Total	100%	

Senate Bill 133

During 2004, the investment staff spent a fair amount of time implementing the provisions of Ohio Senate Bill 133–legislation that calls for an expanded use of Ohio-qualified money managers and broker/dealers over time.

Among other actions, the investment staff, working with the Retirement Board, created the Ohio-Qualified, Minority, and Emerging Manager Policy. The important effect of the policy is to allow for greater flexibility in the hiring of managers included under these categories.

Another important step we took in 2004 was a search for a private equity fund-of-funds manager dedicated to sourcing private equity partnership investments in Ohio and the Midwest region. In early 2005, we are in the process of concluding the search and hope to fund the manager with an initial $50 million commitment.

Notwithstanding the recent legislation, The Ohio Revised Code, Section 145.11 (A) is clear that fiduciaries to the System "shall discharge their duties with respect to the funds solely in the interest of the participants and beneficiaries, for the exclusive purpose of benefits to participants and their beneficiaries . . ."

In our efforts to comply with SB133, we will not commit to any investment or vendor relationship that would cause us to breach our fiduciary duty to you, as defined by the Code.

Closing

On a personal note, after six years as your Director of Investments, I have resigned my position as of this writing due to health reasons. A national search is underway for a Director who will continue the progressive development of the investment program that has been underway since 2000.

I wish to thank the Board of Trustees, the Executive Director, and the investment staff for the confidence and trust placed in me during my tenure. Working together, we were able to achieve very favorable results during a uniquely challenging period of time.

On a final note, it has indeed been an honor to serve you, the Plan's active members, retirees, and beneficiaries over these past six years. I hope that you would agree with me that OPERS is truly an outstanding organization with a noble mission–to provide quality retirement, disability, survivor, and health care benefits and services. I step down from my position with a great deal of pride for having served such a fine institution.

In appreciation,

Neil V. Toth
Director–Investments

In Memory of Neil V. Toth, Director—Investments

Many of you may know that Neil Toth passed away on March 29, 2005. We think it's fitting to remember him in this Annual Report as he was a guiding force for much of what is reported to you in this document. But Neil was so much more than facts, figures and results; so we wanted to take a moment to remember the person. For all of us here at OPERS, especially the Retirement Board, the management staff and those in the investment division, Neil was a standard bearer—one who held himself to the highest possible standards and who expected others to attain them as well. It was my privilege to work closely with Neil for the past five years—through good, bad and indifferent markets. Neil's passion for excellence and unwavering investment discipline helped us to chart a solid course through all environments.

As an investment professional, Neil was very skilled, innovative and forward-thinking. However, I think we will miss him most in our day-to-day lives as a wonderful individual with a great sense of humor; a man who was clearly dedicated to his family, his church and his community. We are the lucky ones to have had such a good friend and colleague who will serve as a life-long inspiration. Neil continues to be a standard bearer—serving as an inspiration by his life—breathtakingly short—but extremely well-lived.

Laurie Fiori Hacking

Lauire Fiori Hacking

Investment and fiduciary duties of board.

(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.

See Investment Policy Summary, beginning on page 83.

Letter *from* Investment Consultant

ENNISKNUPP

March 29, 2005

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

As independent investment advisor to the Board of Trustees of the Ohio Public Employees Retirement System ("OPERS"), we comment on the reporting of OPERS investment results, OPERS investment policy and the Board's oversight of System investments.

Investment Results. OPERS investment results, as presented in this report, fairly represent, in our opinion, the investment performance of OPERS assets. All measurements and comparisons have been made using standard performance evaluation methods, and results are presented in a manner consistent with the Performance Presentation Standards of the Association for Investment Management and Research.

Investment Policy. OPERS assets are managed under well-articulated policies, which, in our opinion, are appropriate to the circumstances of OPERS. Investment policy is progressive, yet prudent. The policies ensure diversification and exhibit attention to risk control generally. Throughout the year the Board, Executive Director and Director of Investments have taken appropriate measures to ensure that investments have conformed with the Board's policies.

Prudent Oversight. While delegating day-to-day investment management responsibility to its staff, the Board retains the responsibility to monitor all aspects of investment. In our opinion, the Board has established and executed an appropriately comprehensive process for overseeing the management of assets. Through regular reviews by the Board, quarterly performance appraisals by an independent firm, and the day-to-day oversight activities of the staff, the Board has achieved a high degree of awareness and critical oversight of OPERS investments.

Very truly yours,

Richard Ennis

Richard M. Ennis, CFA
Principal

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Ennis Knupp + Associates
10 South Riverside Plaza, Suite 700
Chicago, Illinois 60606-3709

vox 312 715 1700
fax 312 715 1952
www.ennisknupp.com

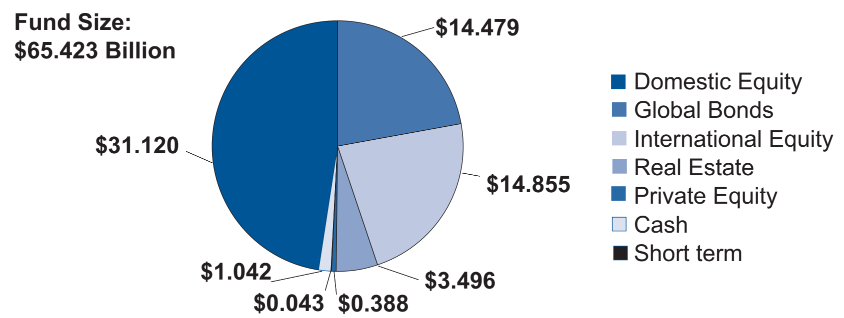
Investment Overview

Investment Summary

	2004		2003	
	Fair Value	% of Total Fair Value	Fair Value	% of Total Fair Value
Global Bonds:				
Government and Agencies	$ 3,211,023,827	4.91%	$ 3,370,439,779	5.76%
Corporate Bonds	6,020,277,729	9.21	4,451,504,914	7.60
Mortgage & Mortgage Backed	5,247,742,249	8.03	4,476,817,033	7.64
Total Global Bonds	**14,479,043,805**	**22.15**	**12,298,761,726**	**21.00**
Common Stock	31,120,287,726	47.60	27,738,137,217	47.34
Real Estate	3,496,273,744	5.35	3,498,816,611	5.97
Private Equities	388,148,365	0.59	310,549,287	0.53
International	14,855,222,270	22.72	12,504,839,226	21.34
Total Long-term Investments	**64,338,975,910**	**98.34**	**56,351,104,067**	**96.14**
Short-term Investments:				
Cash	42,758,103	0.07	18,713,217	0.03
Commercial Paper	399,736,719	0.61		
U.S. Treasury Obligations	275,131,372	0.42	503,939	0.00
Short-term Investment Funds (STIF)	367,144,032	0.56	2,241,345,998	3.83
Total Cash and Short-term Investments	**1,084,770,226**	**1.66**	**2,260,563,154**	**3.86**
Total	**$65,423,746,136**	**100.00%**	**$58,611,667,221**	**100.00%**

Facts *at a* Glance—Total System

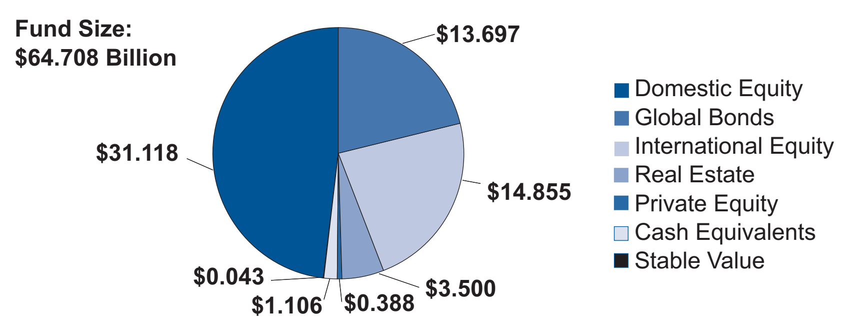
2004 Actual Asset Allocation - Total System
($ in billions)



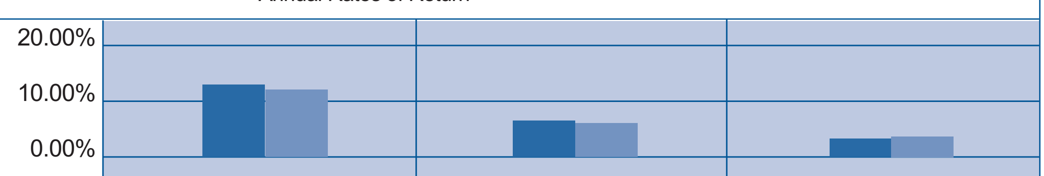
The pie chart above shows OPERS' holdings based solely on market value. Included in this number is a cash reserve of $42,758,103.

The pie chart shown below is shown based on total portfolio value of each asset class. The portfolio value includes market value as well as all accruals. The cash reserve number is not a part of this chart.

2004 Actual Asset Allocation - Total System
($ in billions)



OPERS' Investment Returns - Total System
Annual Rates of Return*



	1-year	3-year	5-year
OPERS	12.50%	7.98%	3.59%
Policy Benchmark Return	12.38%	7.73%	3.63%

*All returns presented throughout this section of the report are net of fees. Total System actual and benchmark returns in the above chart use a market value weighted calculation while all other returns throughout the remainder of this section use a daily-weighted calculation.

Facts *at a* Glance—Total System

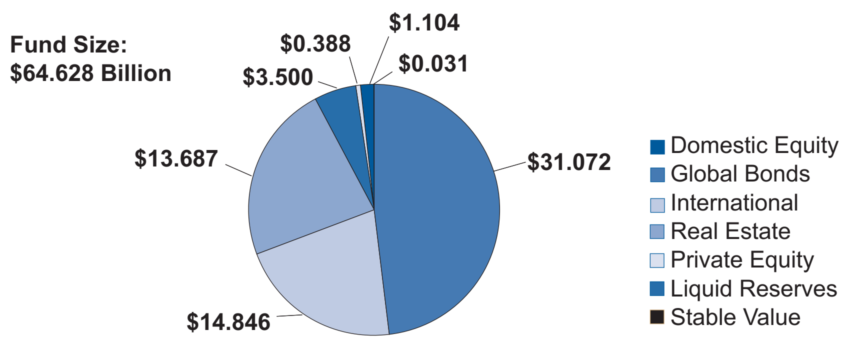
Investment Returns

OPERS' total investment portfolio, as reflected in the Combining Statements of Fiduciary Net Assets pages 30-31, is comprised of both defined benefit (DB) and defined contribution (DC) assets. The DB assets originate from member and employer contributions to the Traditional Plan and employer contributions to the Combined Plan. The management of these assets is the responsibility of OPERS' investment staff under the direction of the Retirement Board. Defined contribution assets originate from employee 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 the members of the Combined and Member-Directed Plans, but is limited to investment vehicles approved by the Retirement Board.

The data displayed within the Investment Section of this Annual Report is comprised of both total portfolio data (DB and DC) and data relating only to DB or DC assets. Investment Section information displayed prior to this point (pages 59-63), relates to the entire combined portfolio and includes both DB and DC assets. The balance of information in the Investment Section of this Annual Report is organized as follows: Pages 66-79 relate exclusively to the DB portfolio. Pages 80-82 relate exclusively to the DC portfolio. The balance of the Investment Section (pages 83-92) provide other system-wide policies and information.

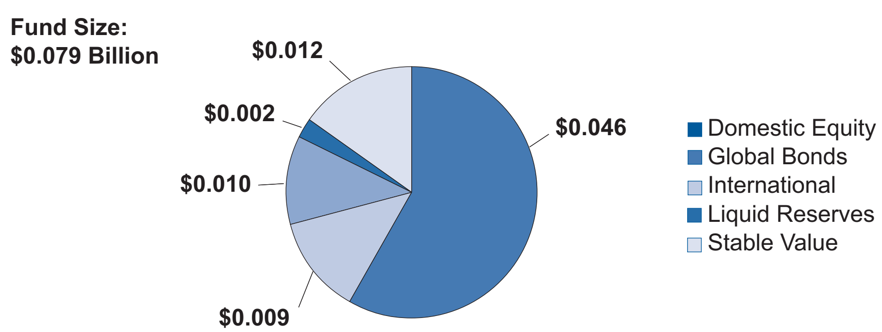
2004 Actual Asset Allocation - Defined Benefit Portfolio

($ in billions)



2004 Actual Asset Allocation - Defined Contribution Portfolio

($ in billions)



Schedule *of* Investment Results

	2004	Rolling 3-Year	Rolling 5-Year
Total Portfolio	12.50%	7.99%	3.59
Custom Benchmark*	12.38	7.73	3.63
Domestic Equity Portfolio	11.99	4.90	(0.61)
Russell 3000 Stock Index**	11.95	4.80	(0.88)
Global Bond Portfolio	5.25	6.85	8.11
Lehman Universal Index***	4.95	6.85	8.14
International Equity Portfolio	21.31	13.41	(0.70)
MSCI ACWIFxU.S.****	20.91	14.14	(0.26)
Real Estate Portfolio	14.29	11.40	11.44
Custom Real Estate Index*****	15.52	11.08	11.38
Private Equity Portfolio	21.61	10.02	1.87
Russell 3000 Stock Index + 300 bps******	17.70	7.95	(0.20)
Short-Term Portfolio	1.53	1.47	2.96
90-day U.S. Treasury Bill*******	1.30	1.41	2.96

Footnotes for Schedule of Investment Results

* **Customized benchmark** - performance data is calculated based upon the asset allocation targets and implementation schedules as specified by the Investment Policy in effect for each year. The asset allocation targets and associated time intervals these targets were in effect are displayed in the following table:

Asset Class	Full Year 2000	Full Year 2001	Full Year 2002	Full Year 2003	Full Year 2004
Domestic Equity	35.00%	47.00%	47.00%	46.00%	46.00%
Global Bonds	35.00%	20.00%	20.00%	20.00%	20.00%
International	18.00%	23.00%	23.00%	23.00%	23.00%
Real Estate	11.00%	9.00%	9.00%	9.00%	9.00%
Private Equity	N/A	0.60%	0.60%	1.00%	1.00%
Short-Term Investments	1.00%	0.40%	0.40%	1.00%	1.00%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

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

Asset Class	1/1/96 through 9/30/98	10/1/98 through 1/31/01	2/01/01 through 11/30/01	12/31/01	1/1/02 through 12/31/03
Domestic Equity	S&P 500	S&P Supercomposite	S&P 1500/Russell 3000 Blend	Russell 3000	Russell 3000
Global Bonds	SSB BIG Index	SSB BIG Index	Lehman Aggregate	Lehman Universal	Lehman Universal
International	MSCI EAFE	MSCI AWI Free x U.S.	MSCI ACWI Free x U.S.	MSCI ACWI Free x U.S.	MSCI ACWI Free x U.S.
Real Estate	NCREIF	RE Custom Composite	RE Custom Composite	RE Custom Composite	RE Custom Composite
Private Equity#	S&P 500	S&P 500	S&P 500	S&P 500	Russell 3000 + 300 bps
Short-Term Investments	90-day U.S. Treasury Bill	90-day U.S. Treasury Bill	90-day U.S. Treasury Bill	90-day U.S. Treasury Bill	90-day U.S. Treasury Bill

#Name changed from Venture Capital 12/31/2001; management of International Private Equity moved to Private Equity class.

** **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.

*** **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.

**** **MSCI All Country World Ex-US Index (MSCI ACWIFxU.S.)** - A capitalization-weighted index of stocks representing 47 developed and emerging country markets, excluding the U.S. market.

***** **Custom Real Estate Index** - 60% NCREIF (appraisal-based valuations of privately-owned commercial real estate) adjusted for representative fees, plus 20% Wilshire Real Estate Securities 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.

****** **Russell 3000 Stock Index + 300 bps** - A capitalization-weighted stock index consisting of the 3000 largest publicly traded U.S. stocks by capitalization adjusted for risk.

******* **90-day US Treasury Bill** - The 90-day Treasury Bill return as measured by Lehman Brothers.

List *of* Largest Assets Held

Largest Equity Holdings (By Fair Value)*

As of December 31, 2004

	Shares	Stock	Fair Value
1)	25,176,012	General Electric Company	$918,924,438
2)	14,378,434	Exxon Mobil Corporation	737,038,527
3)	12,724,054	Citigroup Incorporated	613,044,922
4)	22,169,539	Microsoft Corporation	592,148,387
5)	18,087,566	Pfizer Incorporated	486,374,650
6)	10,110,663	Bank America Corporation	475,100,054
7)	6,134,411	Johnson & Johnson	389,044,346
8)	3,877,920	IBM Corporation	382,285,354
9)	3,099,793	SPDR Trust Series 1	374,671,980
10)	5,399,316	American International Group Incorporated	354,573,082

Largest Global Bond Holdings (By Fair Value)*

As of December 31, 2004

Par Value	Description	Coupon	Maturity	Rating	Fair Value
$296,202,000	U.S. Treasury Bond	5.375%	2/15/31	Rating AAA	$320,222,447
301,274,000	U.S. Treasury Notes	4.750%	5/15/14	Rating AAA	313,940,359
314,000,000	Federal Home Loan Corp TBA	5.000%	1/1/35	Rating AAA	311,977,508
209,226,000	U.S. Treasury Notes	4.250%	8/15/14	Rating AAA	209,665,496
200,000,000	Federal National Mortgage Association TBA	4.500%	1/1/35	Rating AAA	193,406,240
158,500,000	U.S. Treasury Notes	3.500%	8/15/09	Rating AAA	158,076,808
150,000,000	Federal National Mortgage Association Agency Bond	2.250%	2/28/06	Rating AAA	148,444,905
133,198,000	Federal National Mortgage Association Agency Bond	4.250%	5/15/09	Rating AAA	135,476,783
127,300,000	U.S. Treasury Notes	2.500%	10/31/06	Rating AAA	126,116,100
127,400,000	U.S. Treasury Notes	2.250%	2/15/07	Rating AAA	125,254,587

* A complete list of assets held at December 31, 2003 is available on the OPERS Web site: www.opers.org

Schedule *of* U.S. Stock Brokerage Commissions Paid

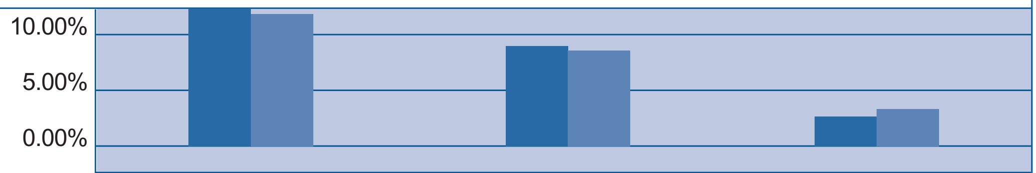
Year Ended December 31, 2004

Brokerage Firm	Shares Traded	Commissions Paid	Average Cents Per Share
Merrill Lynch & Co.	79,259,615	$ 675,751	0.9
Lehman Brothers	12,570,065	545,712	4.3
Bear, Stearns & Co.	9,844,911	468,394	4.8
J. P. Morgan Securities	9,251,851	453,648	4.9
Deutsche Bank Securities	32,455,694	334,805	1.0
Citicorp/Salomon	6,978,887	329,526	4.7
Bernstein, Sanford	6,672,581	313,841	4.7
Banc of America	6,720,772	310,341	4.6
Goldman Sachs & Co.	6,623,570	305,127	4.6
Cowen & Co.	5,160,332	244,979	4.7
McDonald & Co.	4,793,953	227,084	4.7
A.G. Edwards	4,701,051	224,107	4.8
UBS Warburg Paine Webber	5,203,922	219,872	4.2
Prudential Securities	5,043,604	219,761	4.4
Flextrade	82,027,473	205,081	0.3
Baird, Robert	4,353,735	200,587	4.6
Legg Mason	4,311,722	191,586	4.4
Oppenheimer	4,300,400	182,484	4.2
Harris Nesbitt Gerar	4,052,107	180,129	4.4
Morgan Stanley & Co.	12,265,343	179,233	1.5
CS First Boston	2,440,975	113,007	4.6
Cantor Fitzgerald	2,650,236	101,418	3.8
B-Trade	4,890,518	97,810	2.0
Greenstreet Advisors	3,237,772	97,133	3.0
ISI Group	2,152,803	96,640	4.5
Others (Includes 24 Brokerage Firms)	26,084,979	1,014,533	3.9
TOTAL	**348,048,871**	**$ 7,532,589**	**2.2**

Facts *at a* Glance—Defined Benefit Portfolio

OPERS' Investment Returns - Defined Benefit Portfolio

Annual Rates of Return



	1-year	3-year	5-year
OPERS	12.50%	7.99%	3.59%
Policy Benchmark Return	12.38%	7.73%	3.63%

Investment Returns

The OPERS defined benefit portfolio returned 12.50% in 2004. OPERS compares the overall portfolio return 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 composite benchmark for 2004 was 12.38%.

The historical returns for the defined benefit portfolio and composite benchmark are shown above.

Comparative Performance

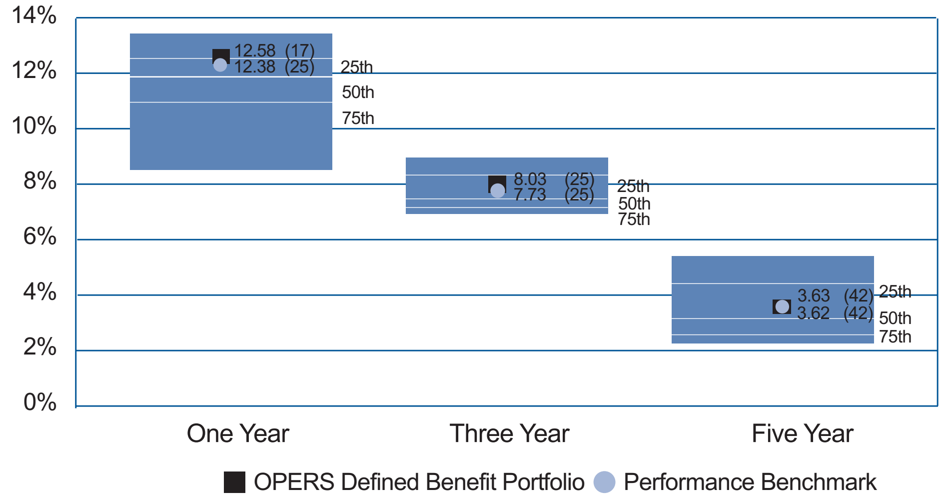
In addition to measuring the portfolio's performance relative to the composite benchmark, the Board of Trustees compares the performance of the portfolio over time to the returns achieved by a universe of comparable public pension plan portfolios. The analysis facilitates a percentile ranking of OPERS' performance relative to the universe. In this type of analysis, a lower score is more favorable than a higher score. For example, a rank of 25 would indicate that OPERS' portfolio outperformed 75% of all the funds contributing to the survey.

In 2004, OPERS' defined benefit performance ranked 17 in a universe of public plans, indicating that results were better than 83% of the plans contributing to the survey. OPERS cumulative three-year and five-year results have achieved a ranking of 25 and 42, respectively, indicating a performance better than 75% and 58% of the plans contributing to the survey over this period.

OPERS performance ranking over the past three years has been strong, reflecting somewhat higher allocation to stocks than OPERS' peers. In periods of time when the stock market is falling, as has happened in 2001 and 2002, OPERS' returns will tend to trail the returns earned by funds with lower allocations to stocks. While the near-term results are encouraging, it is important to note that OPERS' decision to have a higher exposure to stocks is a long-term investment decision that is expected to provide superior investment returns over time.

This chart shows OPERS' defined benefit portfolio one-year, three-year, and five-year rankings. The bars in the chart represent the gross-of-fee performance distribution of funds contributing to the survey, and are divided into quartiles.

OPERS Public Fund Master Trusts>$10 Billion
Periods Ending 12/31/2004

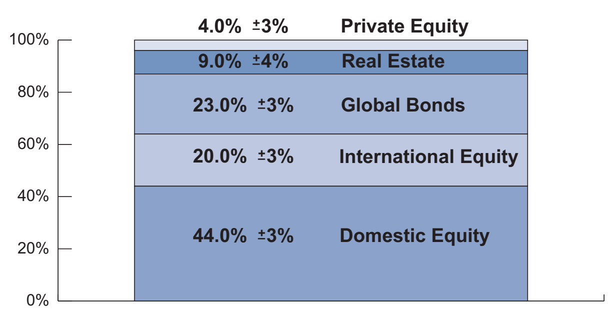


Asset Allocation Policy

In December of 2000, the Board of Trustees adopted a revised asset allocation policy. The chart below shows the current defined benefit policy allocation reached in December of 2001, and that was in effect for 2004.

Currently, OPERS' internal policy allocations for Domestic Equity and Private Equity are 47% and 0.6%, respectively. Over the next four years, OPERS plans to increase the Private Equity allocation from 0.6% to 4% while decreasing the Domestic Equity allocation accordingly.

Policy Targets & Ranges



Long-Term Assumptions

The asset allocation policy was developed through formal asset-liability studies conducted in 2001 and 2003 by the external investment advisor, Ennis Knupp+Associates. The studies provided probabilities regarding the future funded status of the System under various assumptions involving the growth rate of liabilities and the return on various asset mixes. A key input into the studies was the expected long-term rate of return of major asset classes and the expected rate of inflation. The key investment assumptions are displayed in the accompanying table.

Long-Term Assumptions

Capital Market Assumptions	Long-Term Return Expectations		Risk*	
	2003	2004	2003	2004
Domestic Equity	8.3%	8.8%	16.7%	17.0%
Global Bonds	4.5%	5.8%	7.7%	6.4%
International Equity	8.3%	8.8%	18.7%	19.0%
Real Estate	6.4%	7.1%	12.1%	11.5%
Private Equity	11.3%	14.1%	31.2%	31.2%
Expected Return on Portfolio	7.34%	8.17%	12.58%	12.38%
Price Inflation	2.5%	2.5%	-	-

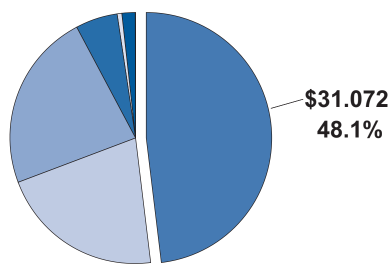
*Risk is defined as the standard deviation of expected return. For example, we expect that two-thirds of the time, the range of outcomes for Domestic Equity will be between -8.2% (8.8% - 17.0%) and 25.8% (8.8%+17.0%).

Asset Class Reviews—Domestic Equity

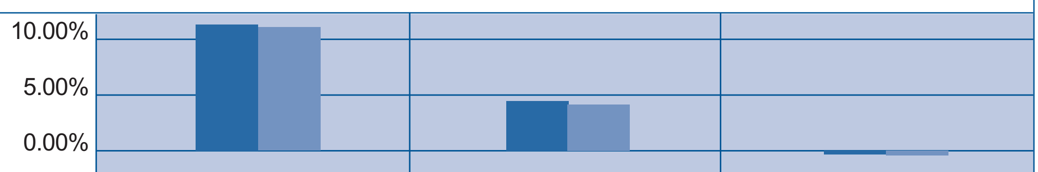
Fair Value

As of December 31, 2004, the Domestic Equity portfolio had a fair value of $31.072 billion. This represented 48.08% of the total defined benefit plan. During the year, the stock purchases were $5,834,825,900, while sales totaled $5,061,549,180. Portfolio turnover was 17.6% versus 6.7% in 2003. The OPERS portfolio generated total dividend income of $540,457,591, versus $426,673,577 in 2003.

2004 Domestic Equity Allocation as Share of Total Fund
($ in Billions)



Domestic Equity Returns - Defined Benefit Portfolio
Annual Rates of Return



	1-year	3-year	5-year
OPERS	11.99%	4.90%	(0.61%)
Custom Benchmark Return	11.95%	4.80%	(0.88%)

OPERS' Results

The total return for OPERS' Domestic Equity portfolio in 2004 was 11.99%, versus a total return of 11.95% for the Russell 3000 Index (R3000). The portfolio outperformed its benchmark by 4 basis points in 2004. This marked the fifth consecutive year that the Domestic Equity asset class beat its benchmark.

2004 Major Initiatives

"Evaluate Enhanced Indexing Strategies" and "Evaluate Small Cap Tilts" were the two asset class initiatives detailed in the Investment Plan 2004. The first initiative resulted in the selection of five new enhanced index managers. The second initiative actually morphed into a bigger project that was described as a new initiative in the Investment Plan 2005.

A project team consisting of staff members from Domestic Equity, Fund Services and Securities Lending researched the enhanced index universe, concentrating on understanding the two primary strategies in this space: cash-based and stock-based. The objective of this initiative was to increase the expected alpha of the Domestic Equity asset class while maintaining a tracking error below our budgeted risk ceiling. The Domestic Equity staff initiated an enhanced index manager search in September after receiving Retirement Board approval. In January 2005, staff presented its manager recommendations to the Retirement Board. Staff had selected Barclays Global Investors, Goldman Sachs Asset Management and Pacific Investment Management Company

(PIMCO). In addition to these established managers, we had identified and selected two emerging managers. They were Banc One Investment Advisors, an Ohio-qualified manager, and Piedmont Investment Advisors, a minority-owned investment manager.

The funding of these managers will result in our passive component moving back into its new policy allocation range (55% to 65%) as we shift 5%, or approximately $1.5 billion. Shifting funds out of the passive or index allocation to fund these new managers should result in an expected information ratio greater than our asset class goal of 0.40.

Historically, small capitalization stocks have out-performed the larger cap stocks. The second initiative, "Evaluate Small Cap Tilts," was created to research and recommend a strategy or strategies that could capture the "alpha" associated with this small cap effect. Internal debate over whether small cap stocks really do out-perform their larger cap brethren wound up shelving this specific initiative. In its place, the Domestic Equity staff reviewed the small cap active manager line-up to determine a more optimal allocation, given certain forecasted variables.

It was discovered that the current tools available in this optimization exercise were a little "primitive" and relied too much on "best guess" assumptions. As a result, the Domestic Equity staff and the Quantitative staff decided it would be a worthwhile endeavor to research the various portfolio optimization tools available and present a recommendation to senior management. The focus would be on identifying a risk budgeting process that lead to a more dynamic or fluid allocation of ALL the active managers / portfolios in the domestic equity asset class, not just the small cap manager line-up. This new initiative was detailed in the Investment Plan 2005.

Schedule of Managers – Domestic Equity Portfolio

As of December 31, 2004

Portfolio Manager	Assets Under Management	% of Domestic Equity	Fees	2004 Mgr Return	Benchmark Return	Benchmark
Active Internal						
Research Portfolio	$ 6,199,567,275	19.95%	$ 0	12.34%	11.40%	Russell 1000
Active External						
AllianceBernstein	1,263,035,448	4.06	2,331,560	11.40	11.40	Russell 1000
Wellington	1,162,925,279	3.74	2,609,172	8.91	11.40	Russell 1000
Capital Guardian	205,369,284	0.66	662,850	8.74	18.33	Russell 2000
Fidelity	245,656,751	0.79	1,298,879	19.16	18.33	Russell 2000
Invesco	250,291,103	0.81	1,061,748	15.69	18.33	Russell 2000
Total Active	9,326,845,140	30.01	7,964,209	11.94		
Passive Internal						
Russell 3000 Passive	20,578,493,346	66.23	0	12.02	11.95	Russell 3000
Passive External						
Barclays	1,166,860,052	3.76	242,439	11.88	11.95	Russell 3000
Total Passive	21,745,353,398	69.99	242,439	12.02	11.95	Russell 3000
Total Domestic Equity	**$ 31,072,198,538**	**100.00%**	**$ 8,206,648**	**11.99%**	**11.95%**	**Russell 3000**

Asset Class Reviews—Global Bonds

Fair Value

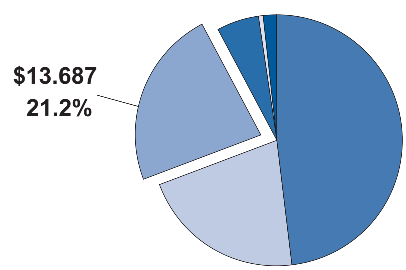
As of December 31, 2004, the Global Bond portfolio had a fair value of $13.687 billion. This represented 21.18% of the total defined benefit plan and is comprised of both the core and extended sectors.

OPERS’ Results

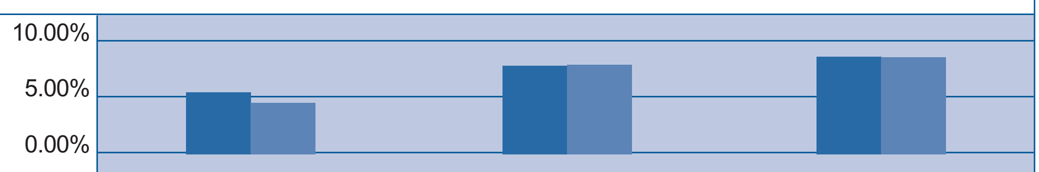
OPERS’ Global Bond holdings returned 5.25% for the year, compared to a return of 4.95% for the Lehman Universal Index. The positive performance of the asset class was primarily supported by the solid gains generated by the internal portfolio.

OPERS’ three core external managers, Smith Breeden, Fidelity, and AFL-CIO, also posted gains versus the Lehman Aggregate Index benchmark. OPERS’ emerging market external managers, Capital Guardian and Citigroup, posted mixed results, as the former outperformed the Emerging Market benchmark index while the latter performed in-line with the benchmark. Although two of OPERS’ high-yield managers, Shenkman and W.R. Huff, significantly underperformed the Lehman High-yield Index, the new high-yield manager, Golden Tree, slightly outperformed the index subsequent to its mid-year startup phase.

2004 Global Bond Allocations as Share of Total Fund
($ in Billions)



Global Bond Returns - Defined Benefit Portfolio
Annual Rates of Return



	1-year	3-year	5-year
OPERS	5.25%	6.85%	8.11%
Custom Benchmark Return	4.95%	6.85%	8.14%

2004 Major Initiatives

In 2004, the Global Bond asset class added one high-yield manager, Golden Tree, and two core managers, Smith Breeden and Fidelity. In May, the department also terminated Morgan Stanley*, a core-plus manager, leaving eight external managers heading into 2005. The department also initiated alpha projects to add incremental return and improve diversification. Specifically, staff began the evaluation process for investment grade non-U.S. debt and various high-yield strategies such as high-yield CMBS and distressed debt. These initiatives are ongoing and to the extent these strategies have long-term alpha potential, the Global Bond asset class will identify skilled managers and initiate funding in 2005.

In addition to the implementation of the 2004 alpha projects, 2005 will see the development of a performance attribution model for the internal portfolio. This model will evaluate the effectiveness of the Global Bond decision-making process by providing information on how actual investment decisions impact performance.

Schedule of Managers – Global Bonds Portfolio

As of December 31, 2004

Portfolio Manager	Assets Under Management	% of Global Bonds	Fees	2004 Mgr Return	Benchmark Return	Benchmark
Internal Core	$ 11,577,129,784	84.59%	$ 0	4.60%	4.34%	Lehman Aggregate Index
Fidelity	227,292,487	1.66	73,405	NA	4.34	Lehman Aggregate Index
Smith Breeden	232,758,780	1.70	90,953	NA	4.34	Lehman Aggregate Index
AFL-CIO	101,270,284	0.74	330,707	4.66	4.34	Lehman Aggregate Index
Golden Tree	149,358,126	1.09	299,498	NA	11.14	Lehman High Yield Index
Passive High Yield	71,660,501	0.52	0	NA	11.14	Lehman High Yield Index
Shenkman Capital	349,749,095	2.56	1,852,630	8.57	11.14	Lehman High Yield Index
W.R. Huff	330,690,017	2.42	1,835,985	8.47	11.14	Lehman High Yield Index
Capital Guardian	323,779,798	2.37	922,643	14.29	11.88	Lehman Emerging Mkts
Salomon	323,210,499	2.36	1,132,390	11.85	11.88	Lehman Emerging Mkts
Total Global Bonds	**$ 13,686,899,371**	**100.00%**	**$ 6,538,211**	**5.25%**	**4.95%**	**Lehman U.S. Universal**

*Fees paid to Morgan Stanley in 2004 totaled $1,001,469.

Asset Class Reviews—International Equity

Fair Value

As of December 31, 2004, the International Equity portfolio had a fair value of $14.846 billion. This represented 22.97% of the total defined benefit plan.

OPERS' Results

In 2004, the OPERS International Equity portfolio return was 21.31% and outperformed its performance benchmark, the Morgan Stanley Capital International All Country World Index Free excluding the U.S. Index (MSCI ACWIFxU.S.), by 40 basis points, or 0.40%.

The outperformance was primarily a result of:

- **Emerging Markets:** The portfolio held an intentional overweight to emerging markets throughout 2004. This overweight position in emerging markets enhanced performance as emerging markets returned 25.6% and outperformed developed non-U.S. equity markets by 4.6%.
- **Small Capitalization:** The portfolio's allocation to small capitalization stocks aided returns as OPERS' non-US small capitalization portfolio returned 31.9% and outperformed the MSCI World excluding U.S. Small Cap Index by 2.54%.
- **Performance of Select Active Managers:** The portfolio's enhanced active strategies, which represented 31% of portfolio assets, were overweighted throughout the year. These low-cost, low-risk strategies performed well and added valued by exceeding the benchmark return. Allocations to some other active strategies also helped. However, eight of OPERS active international managers, representing approximately 50% of the external manager line-up, failed to beat the index. This was mostly a result of the growth style of investing continuing to be out of favor, along with poor stock selection on the part of some managers.

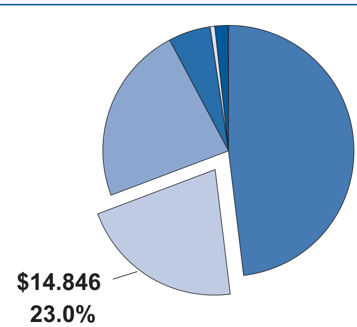
2004 Major Initiatives

In 2004, the International Equity Department completed the following initiative:

- Continued Restructuring of the International Equity Portfolio: During 2004, additional changes were made to the active manager configuration. One active portfolio, Bank of Ireland, was terminated and two others, Capital Guardian and Oechsle, were reduced by 50%. All changes were a result of underperformance and represented approximately $1.2 billion.

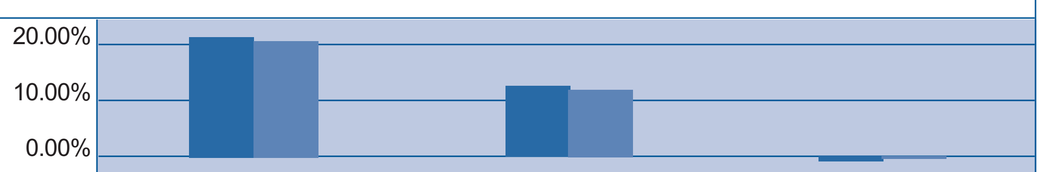
2004 International Equity Allocation as Share of Total Fund

($ in Billions)



International Equity Returns - Defined Benefit Portfolio

Annual Rates of Return



	1-year	3-year	5-year
OPERS	21.31%	13.41%	(0.70%)
MS ACWIxU.S. Benchmark Return	20.91%	13.14%	(0.26%)

Schedule of Managers – International Equity Portfolio

As of December 31, 2004

Portfolio Manager	Assets Under Management	% of Int'l Equity	Fees	2004 Mgr Return	Benchmark Return	Benchmark
Active						
Cap Guardian	$ 912,711,007	6.15%	$ 3,911,763	14.69%	20.91%	MSCI ACWIFxU.S.
Brandes	1,336,454,366	9.00	4,468,888	25.60	20.91	MSCI ACWIFxU.S.
Marvin & Palmer*	213	0.00	118,887	NA	20.91	MSCI ACWIFxU.S.
Bank of Ireland	5,058,316	0.03	1,356,306	NA	20.91	MSCI ACWIFxU.S.
TT International	534,882,845	3.60	832,899	14.43	20.91	MSCI ACWIFxU.S.
Nicholas-App.*	3	0.00	0	NA	20.91	MSCI ACWIFxU.S.
Oechsle	248,250,734	1.67	1,446,926	15.78	20.91	MSCI ACWIFxU.S.
JP Morgan Fleming	536,139,179	3.61	1,712,014	20.27	20.91	MSCI ACWIFxU.S.
Walter Scott	666,896,569	4.49	1,718,075	19.77	20.91	MSCI ACWIFxU.S.
Alliance Bernstein	1,335,899,321	9.00	3,058,024	23.25	20.91	MSCI ACWIFxU.S.
JP Morgan*	338,282	0.00	0	NA	20.91	MSCI ACWIFxU.S.
First State	313,033,634	2.11	1,479,140	19.49	25.55	MSCI EMF
Lazard	187,896,693	1.27	873,015	22.13	25.55	MSCI EMF
Scudder*	4,361,511	0.03	0	NA	25.55	MSCI EMF
Boston Company	331,370,618	2.23	1,777,456	27.96	25.55	MSCI EMF
Nicholas-App. Sm. Cap*	67	0.00	0	NA	29.40	MSCI WorldxU.S. Small Cap
Harris*	9,386	0.00	136,018	NA	29.40	MSCI WorldxU.S. Small Cap
Wellington	191,121,100	1.29	767,813	18.00	29.40	MSCI WorldxU.S. Small Cap
Acadian	362,834,377	2.44	740,005	41.51	29.40	MSCI WorldxU.S. Small Cap
Total Active	6,967,258,221	46.92	24,397,229	NA		
Enhanced						
Barclays Enhanced	3,345,688,298	22.54	3,335,586	22.97	20.91	MSCI ACWIFxU.S.
Baring	1,276,086,680	8.60	1,658,540	21.91	20.91	MSCI ACWIFxU.S.
Total Enhanced	4,621,774,978	31.14	4,994,126	22.66		
Passive						
Barclays Index	3,256,849,941	21.94	866,335	21.11	20.91	MSCI ACWIFxU.S.
Total Passive	3,256,849,941	21.94	866,335	21.11	21.31	
Total Int'l Equity	**$ 14,845,883,140**	**100.00%**	**$ 30,257,690**	**21.31%**	**20.91%**	

*Manager was terminated, holdings represent unliquidated residual shares

Asset Class Reviews—Real Estate

Fair Value

As of December 31, 2004, the Real Estate portfolio had a fair value of $3.500 billion. This represented 5.42% of the total defined benefit plan.

OPERS' Results

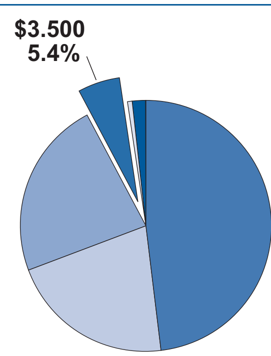
OPERS' Real Estate portfolio generated exceptional returns in 2004 due to strong performance by REITs and direct equity portfolios, and a tactical overweighting to REITs. The total portfolio return for 2004 was 14.29%, a 1.98% increase over 2003 results. However, this trailed the custom benchmark return of 15.52%. The OPERS portfolio return was comprised of the direct equity portfolio return of 10.62% and the REIT portfolio return of 30.25%.

OPERS' direct equity holdings performed well, returning 10.62% for the year. This was an increase of 1.00% from 2003. The portfolio underperformed as compared to the NCREIF property index, mainly due to the retail component. NCREIF's Retail index returned 22.95% and is approximately 23% of the NCREIF Property Index. In contrast, at approximately 2%, the OPERS portfolio is severely underweighted to retail due to the sale of the bulk of our retail holdings in 2003 and 2004. This underweighting to retail was the main driver in the underperformance. Performance on the direct equity portion of the portfolio was driven by the performance of the assets managed by Rothschild, with a total return of 21.87%; Faison, with a total return of 14.05%; Bristol Group, with a return of 13.80%; and TGM, with a total return of 13.05%.

The total return on the real estate securities portfolio for the year ended December 31, 2004 was 30.25%. The real estate securities portfolio underperformed the Dow Jones Wilshire Real Estate Securities Index, which returned 34.81%, or 456 basis points. The majority of the underperformance occurred during the first half of the year due to underweighting to the hotel sector. This underweighting was reduced during the first half of the year, leading to performance that was more in line with the benchmark during the second half of 2004. The absolute performance of the REIT portfolio and our overweighting to REITs aided overall real estate performance.

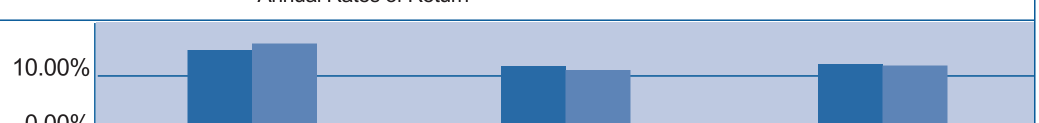
2004 Real Estate Allocation as Share of Total Fund

($ in Billions)



Real Estate Returns - Defined Benefit Portfolio

Annual Rates of Return



	1-year	3-year	5-year
OPERS	14.29%	11.40%	11.44%
Custom Benchmark Return	15.52%	11.08%	11.38%

2004 Major Initiatives
During the year, the Real Estate staff focused on two key initiatives:

- Implementing the Real Estate Strategic Plan to reposition the real estate portfolio so that the composition is consistent with the Real Estate Policy and Strategic Plan developed in 2002.
- Reassessing internal/external resources for management of the Real Estate asset class.

Schedule of Managers – Real Estate Portfolio

As of December 31, 2004

Portfolio Manager	Assets Under Management	% of Real Estate	Estimated Fees	Manager Returns	Benchmark Returns	Benchmark
REITs	$ 746,766,213	21.33%	$ 0	30.25%	34.82%	Wilshire RESI
Bristol	770,891,095	22.02	3,983,000	13.80	13.42	NCRIEF
CBA Huntoon Hastings	3,445,463	0.10	6,000	-0.76	13.42	NCRIEF
Faison	201,209,799	5.75	935,000	14.05	13.42	NCRIEF
Fremont	4,904,818	0.14	187,500	N/A	N/A	NCRIEF
Great Point	76,874,656	2.20	945,000	9.07	13.42	NCRIEF
Legg Mason	62,414,628	1.78	252,000	26.01	13.42	NCRIEF
Lowe	307,820,304	8.79	1,297,000	7.49	13.42	NCRIEF
PRISA II	10,520,960	0.30	13,794	5.21	13.42	NCRIEF
Rothschild	240,263,479	6.86	1,906,000	21.87	13.42	NCRIEF
Sarofim	26,799,384	0.77	483,000	N/A	N/A	NCRIEF
Sentinel	404,380,407	11.55	1,814,000	-8.52	13.42	NCRIEF
TGM	644,065,439	18.40	3,136,000	13.05	13.42	NCRIEF
Total Real Estate	**$ 3,500,356,645**	**100.00%**	**$ 14,958,294**	**14.29%**	**15.52%**	**Custom**

Real Estate Top Ten Properties by Current Investment

Property	Property Type	Advisor	Current Investment
South Bay Portfolio	Industrial	Bristol Group	$187,485,321
Argent Hotel	Hotel	Lowe Enterprises	130,779,106
NoMa Station	Office	Bristol Group	109,059,277
Summit Walk	Multi Family / Apt	TGM	80,351,647
1055 West Seventh	Office	Bristol Group	75,012,878
Poydras	Office	Faison	68,921,930
Vail Cascade Hotel & Club	Hotel	Lowe Enterprises	61,926,077
Seneca	Industrial	Bristol Group	60,812,762
Gulfstream	Multi Family / Apt	TGM	58,018,786
Tempe Mission Palms	Hotel	Lowe Enterprises	52,932,149
Total			**$885,299,933**

Asset Class Reviews—Private Equity

Introduction

The Private Equity program was launched in 2002, targeting a 4% asset allocation exposure by 2009. As of year-end 2004, this asset class was 0.59%. This asset class invests in private equity partnerships and discretionary managers that invest in private equity partnerships.

The Private Equity policy identifies the objective, benchmark, risk management, investable securities and program elements. The targeted portfolio structure is shown below with a brief description of each sub-asset class.

Corporate Finance

Commonly referred to as buyouts, the underlying companies are generally mature with positive cash flows and have the ability to borrow significant capital.

Venture Capital

The underlying companies are young, generally focused on technology or life sciences with negative cash flows and the inability to borrow significant capital.

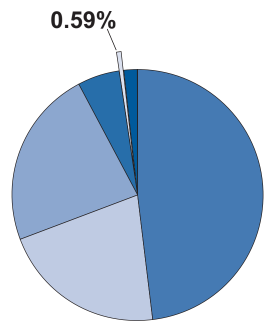
Special Situations

These partnerships may invest in a variety of companies, including sector-specific funds such as energy or health care. Investments may also include secondary funds or capital structure funds such as distressed debt or mezzanine.

While the Private Equity program is committed to a long-term return of the Russell 3000 plus 300 basis points, it is expected to generate negative returns until the investments begin to mature in several years. This effect is commonly referred to as the J-curve.

Sub-Asset Class	Domestic	International	Total
Corporate Finance	50%	20%	70%
Venture Capital	15	0	15
Special Situations	10	5	15
Total	**75%**	**25%**	**100%**

2004 Private Equity Allocation as Share of Total Fund
($ in Billions)



Fair Value

As of December 31, 2004, the Private Equity portfolio had a fair value of $388 million, representing 0.59% of the total defined benefit plan. This is based on adjustments for unrealized gains and losses through September 30, 2004 and cash flows through December 31, 2004.

OPERS' Results

Based on fair values at September 30, 2004 with cash flows through December 31, 2004, the Private Equity portfolio ended the year with a fair value of $388 million.

Private Equity investments generated an IRR of 7.3% through the nine months ended September 30, 2004 and an estimated 3.1% for the 12 months ended December 31, 2004. Consistent with industry practice, private equity returns are reported with a one-quarter lag, adjusted for the following quarter's cash flows. Private equity returns are inherently volatile in the short-term, affected by factors including the stage of investment, macro and micro-economic conditions, public markets, vintage year and geographic exposure. OPERS is a long-term investor and expects that long-term, risk-adjusted returns will favorably impact the total fund returns.

For the 12 months ended December 31, 2004, the OPERS Private Equity portfolio had $212 million of capital calls and $174 million in distributions with a net cash outflow of $38 million.

2004 Major Initiatives

A request for proposals for an Ohio/Midwest Discretionary Manager Search was issued in November of 2004. This $50 million mandate targets regional opportunities that consider investments in Ohio based companies.

Schedule of Managers – Private Equity Portfolio

As of December 31, 2004
($ in millions)

Partnership	Type	Geography	Vin-tage	Market Value*	Commitment	Remaining Commitment	Cash Outflow**	Cash Inflow**	Net IRR***
Legacy									
Blue Chip Capital I	Venture Capital	Domestic	1992	$ 0.9	$ 15.0	$ 0.0	$ 0.0	$ 0.2	12.3%
Primus Capital Fund III	Venture Capital	Domestic	1993	0.7	10.0	0.0	0.0	0.0	22.6%
OPERS Int'l Timber Fund I	Special Situations	International	1994	41.2	234.3	0.0	2.0	89.1	-3.3%
AIG Global Emerging Markets Fund	Corporate Finance	International	1997	23.5	50.0	11.7	3.9	6.0	3.7%
Blue Chip Capital II	Venture Capital	Domestic	1997	5.0	15.0	0.0	0.0	0.0	2.6%
Cambium Fund II[17]	Special Situations	International	1997	12.7	63.7	0.0	0.0	0.0	-18.8%
Primus Capital Fund IV	Venture Capital	Domestic	1997	7.4	15.0	0.4	0.0	0.5	-2.3%
Linsalata Capital Partners Fund III	Corporate Finance	Domestic	1998	8.6	15.0	0.0	0.0	6.7	14.3%
MCM Capital Partners	Corporate Finance	Domestic	1998	7.5	15.0	3.4	0.2	3.9	6.1%
Blue Chip Capital III	Venture Capital	Domestic	1999	6.3	25.0	0.0	0.0	1.3	-22.3%
Blue Chip Capital IV	Venture Capital	Domestic	2000	10.6	25.0	10.5	5.7	0.1	-13.3%
Linsalata Capital Partners Fund IV	Corporate Finance	Domestic	2000	14.7	25.0	6.5	8.4	9.7	20.4%
Primus Capital Fund V	Venture Capital	Domestic	2000	10.7	25.0	9.6	5.0	0.0	-19.5%
Sub-Total				$149.8	$ 533.0	$ 42.1	$ 25.2	$117.5	-2.5%
New									
Castle Harlan Partners IV	Corporate Finance	Domestic	2002	$ 20.8	$ 75.0	$ 51.3	$ 22.9	$9.8	-8.4%
Charterhouse Capital Partners VII*****	Corporate Finance	International	2002	29.5	101.7	69.5	21.9	10.6	76.5%
Coller Int'l Partners IV	Special Situations	International	2002	21.9	75.0	47.9	19.1	10.3	NM******
Blackstone Capital Prtnrs IV	Corporate Finance	Domestic	2003	69.3	175.0	97.4	47.7	21.5	NM******
CMEA Ventures VI	Venture Capital	Domestic	2003	0.0	25.0	23.8	1.2	0.0	NM******
FS Equity Partners V	Corporate Finance	Domestic	2003	3.9	50.0	44.6	4.2	0.0	NM******
OCM Principal Opps. Fund III	Special Situations	Domestic	2003	13.6	50.0	36.0	14.1	0.0	NM******
Permira Europe III*****	Corporate Finance	International	2003	14.1	67.8	50.9	16.3	0.9	NM******
TPG Partners IV	Corporate Finance	Domestic	2003	21.4	100.0	77.7	18.2	3.4	NM******
Essex Woodlands Health Ventures VI	Venture Capital	Domestic	2004	5.8	45.0	39.1	5.9	0.0	NM******
First Reserve Fund X	Corporate Finance	Domestic	2004	5.9	50.0	44.1	5.9	0.0	NM******
Granite Global Ventures II	Venture Capital	Domestic	2004	2.5	25.0	22.5	2.5	0.0	NM******
Hellman & Friedman Capital Partners IV	Corporate Finance	Domestic	2004	4.8	75.0	70.2	4.8	0.0	NM******
Kirtland Capital Partners IV	Corporate Finance	Domestic	2004	1.6	10.0	8.0	2.0	0.0	NM******
OPERS/Pathway Private Equity Fund	Discretionary	Diversified	2004	0.0	100.0	100.0	0.0	0.0	NM******
Providence Equity Partners V	Corporate Finance	Domestic	2004	0.0	50.0	50.0	0.0	0.0	NM******
Carlyle Partners IV	Corporate Finance	Domestic	2005	0.0	150.0	150.0	0.0	0.0	NM******
CHS Private Equity V	Corporate Finance	Domestic	2005	0.0	50.0	50.0	0.0	0.0	NM******
Lincolnshire Equity Fund III	Corporate Finance	Domestic	2005	0.3	25.0	24.7	0.3	0.0	NM******
New Mountain Partners II	Corporate Finance	Domestic	2005	0.0	50.0	50.0	0.0	0.0	NM******
Paul Capital Top Tier Inv. III	Venture Capital	Domestic	2005	0.0	75.0	75.0	0.0	0.0	NM******
Sub-Total				$215.3	$1,424.4	$1,182.6	$187.0	$ 56.6	23.6%
Total Private Equity				**$365.1**	**$1,957.5**	**$1,224.8**	**$212.2**	**$174.1**	**-1.4%**

* Unrealized gains and losses through September 30, 2004 plus cash flows through December 31, 2004.

** For the 12 months ended December 31, 2004.

*** For inception through September 30, 2004. The total includes exited partnerships.

**** Formerly Xylem Fund II.

***** Commitment denominated in euros. Convertion rate of 1.3554 at 12/31/04.

****** IRRs are generally not meaningful during the early years of a partnership's life. OPERS classifies the IRRs of all funds as NM for the first two years.

Facts *at a* Glance—Defined Contribution Portfolio

Fair Value

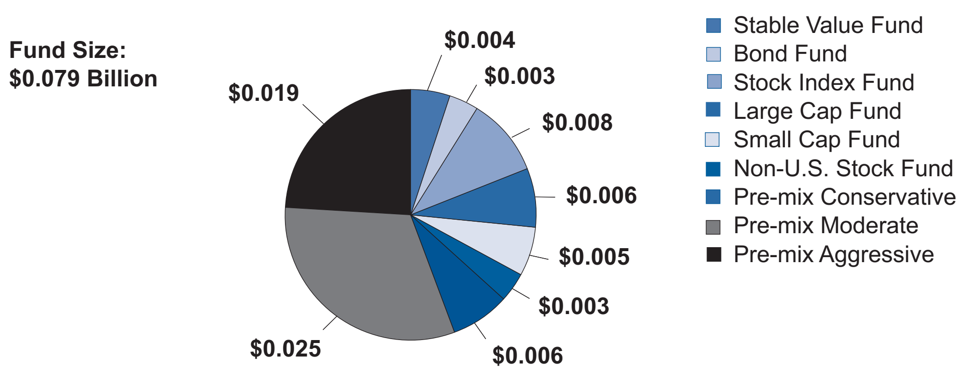
As of December 31, 2004, Member-Directed investments had a fair value of $0.079 billion. This figure represented total assets held in the nine OPERS investment options by members in the Defined Contribution Plan and the Combined Plan. Assets totaled $0.046 billion on December 31, 2003.

The pie chart below provides an alternative presentation of the make-up of defined contribution assets to the chart found on page 62 of this report.

The chart on page 62 breaks defined contribution investment assets down by major asset class. The chart below shows the breakdown of defined contribution assets into nine separate investment portfolios. Participants in the Combined and Defined Contribution Plans self direct the investment of defined contribution assets among the nine portfolios listed. All of the nine investment options have been established by, and receive oversight from, professional OPERS investment staff.

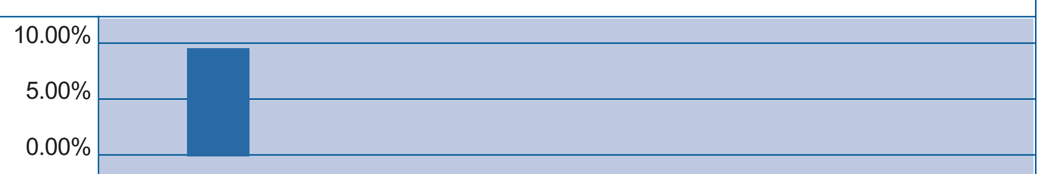
2004 Actual Asset Allocation - Defined Contribution Portfolio by Investment Options

($ in billions)



OPERS' Investment Returns - Defined Contribution Portfolio

Annual Rates of Return



	1-year	3-year	5-year
OPERS	9.73%	N/A	N/A

OPERS' Results

The total return for the OPERS Funds and the OPERS Pre-Mix portfolios compared favorably against both index and peer benchmarks.

OPERS' Investment Options	OPERS' Return	Index Return	Peer Returns	Index Benchmark	Peer Benchmarks
Stable Value	4.31%	1.30%	4.37%	3-Month Treasury Bills	Callan Stable Value DB
Bond	5.24%	4.97%	4.22%	Lehman Brothers Universal	Callan Core Bond Mutual Funds
Stock Index	11.96%	11.95%	9.42%	Russell 3000	Callan Core Equity Mutual Funds
Large Cap	9.34%	11.44%	8.49%	Russell 1000	Callan Large Cap Broad Mutual Funds
Small Cap	12.78%	18.37%	14.31%	Russell 2000	Callan Small Cap Broad Mutual Funds
Non-U.S.	17.07%	21.36%	17.97%	MSCI ACWIxU.S.	Callan Non-U.S. Equity Mutual Funds
Conservative	6.95%	7.65%	8.77%	Custom*	Callan Domestic Balanced Mutual Fund
Moderate	9.28%	10.31%	8.77%	Custom**	Callan Domestic Balanced Mutual Fund
Aggressive	10.78%	12.47%	8.77%	Custom***	Callan Domestic Balanced Mutual Fund

* **Conservative Benchmark:** 35% 3-Month Treasury Bill, 35% LB Universal, 12% Russell 3000, 10% Russell 1000, 3% Russell 2000, 5% MSCI ACWIxU.S.

** **Moderate Benchmark:** 20% 3-Month Treasury Bill, 20% LB Universal, 25% Russell 3000, 20% Russell 1000, 5% Russell 2000, 10% MSCI ACWIxU.S.

*** **Aggressive Benchmark:** 10% 3-Month Treasury Bill, 10% LB Universal, 30% Russell 3000, 25% Russell 1000, 10% Russell 2000, 15% MSCI ACWIxU.S.

2004 Major Initiatives

The Defined Contribution investments began operations in January 2003. To begin, efforts were focused on supporting communication and education initiatives for members. These efforts targeted those members selecting from the three OPERS Retirement Plans. For those members selecting the Defined Contribution Plan, information was available regarding investment options.

In 2003, Callan Associates was hired to provide independent reporting to the OPERS Retirement Board on member-directed investments.

Schedule of Managers – Defined Contribution

As of December 31, 2004

OPERS Fund/Manager	Assets Under Management	% of OPERS Fund	Fees	2004 Mgr Return	Benchmark Return	Benchmark
Stable Value Fund						
Invesco IRT	$12,444,387	100%	$ 5,887	4.31%	1.30%	LB 90-Day T-bill
Bond Fund						
Fidelity Broad Market Dur	$ 6,329,879	54%		5.21%	4.34%	LB Aggregate
Morgan Stanley Core Plus*	0		$ 5,228	N/A	4.97	LB Universal
Smith Breeden Core Bond*	5,374,431	46		N/A	4.34	LB Aggregatel
Stock Index Fund						
BGI Russell 3000$	$21,091,346	100%	$ 1,832	11.96%	11.95%	Russell 3000
Large Cap Fund						
GMO US Core	$ 5,770,798	35%		9.76%	11.40%	Russell 1000
Wellington Large Cap	8,927,629	54	$15,490	9.17	11.40	Russell 1000
BGI Russell 1000	1,780,475	11		11.44	11.40	Russell 1000
Small Cap Fund						
Capital Guardian Small Cap	$ 3,882,798	46%		9.11%	18.33%	Russell 2000
Invesco Structured Small Cap	3,795,251	45	$15,292	16.22	18.33	Russell 2000
BGI Russell 2000	751,004	9		18.37	18.33	Russell 2000
Non-U.S. Stock Fund						
Capital Guardian International	$ 5,117,434	55%		15.15%	21.36%	MSCI ACWIxU.S.
Goldman Sachs CORE Int l	3,358,232	36	$13,517	20.09	20.25	MSCI EAFE
BGI EAFE	863,464	9		21.15	20.25	MSCI EAFE

Investment Policy Summary

Defined Benefit Plan

The following are excerpts of major sections of the OPERS Investment Division's Statement of Investment Objectives and Policies, revised in August of 2004. The complete policy can be viewed on OPERS' web site, www.opers.org. The primary investment objective is to secure statutory payments and ancillary benefits provided by OPERS. Meeting this objective necessitates prudent risk-taking with OPERS' investments. Additional objectives include earning sufficient returns to improve benefits periodically and to keep OPERS' costs reasonable for employees and employers.

Investment Philosophy

The Retirement Board 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. Specifically, OPERS has adopted the following principles:

- Asset allocation is the key determinant of return and, therefore, commitments to asset allocation ranges will be maintained through a disciplined re-balancing program.

- Diversification, both by and within asset classes, is the primary risk control element.

- The pursuit of returns in excess of risk-free alternatives entails the distinct probability of disappointing results over short periods of time and, therefore, the assets will be invested with a long-term perspective.

- Passive alternatives (index funds) to actively managed portfolios are suitable investment strategies, especially in highly efficient markets.

Roles And Responsibilities

Retirement Board

The Retirement Board is ultimately responsible for the investment of OPERS' assets.

Investment Committee

The Investment Committee monitors investment activity. It evaluates proposals requiring Retirement Board action and makes recommendations for consideration by the Retirement Board. Through its activities, it represents the interests of the Retirement Board in all investment-related matters.

In addition to chairing meetings of the Committee, the Investment Committee chair serves as liaison between the Retirement Board, staff and external advisors in the interim between meetings of the Committee/Board. In this capacity, the Committee chair works with the Director—Investments in establishing the agenda for Committee meetings. The chair is also the staff's principal point of contact in the interim between meetings. If matters come to the attention of the Committee chair that he or she believes are important to communicate to the Retirement Board before the next regularly scheduled meeting, the chair has the responsibility to inform the Retirement Board Chair accordingly.

Staff

The role of the staff is to assist the Retirement Board in managing OPERS' investments. Staff authority derives from the Retirement Board.

Notwithstanding its ultimate responsibility for OPERS' investments, the Retirement Board expects staff to take a leadership role in investment management. Recognizing that most of its members are laypersons with respect to investments and all operate under a very high standard of care, the Retirement Board expects to rely heavily on the staff to assist it in discharging its fiduciary responsibilities and in managing OPERS' investments successfully and efficiently. In this regard, the Retirement Board expects the staff to:

- Advise the Retirement Board when the staff believes action relative to investment policy or execution is required of the Retirement Board.

- Establish and conduct an appropriate process for monitoring OPERS' investments and implementing the Retirement Board's decisions.

- Inform the Retirement Board of any and all matters the staff believes to be of sufficient materiality as to warrant the Retirement Board's attention.

- Operate at all times in the best and exclusive interest of OPERS.

All members of the investment staff are accountable to the Director -Investments. The Director - Investments is responsible for all staff actions relative to the management of OPERS' investments. In this regard, it is the responsibility of the Director - Investments to satisfy himself/ herself that all policies and directives of the Retirement Board are carried out faithfully.

Custodian
The Ohio State Treasurer acts as custodian of OPERS as specified in Section 145.26 of the revised Code of Ohio. The State Treasurer may employ subcontractors to provide certain safekeeping functions. OPERS staff shall be responsible for reviewing OPERS' custodial needs and reporting on such needs to the Investment Committee as requested.

Investment Advisor
The Retirement Board may appoint a party otherwise unaffiliated with OPERS to advise it on various aspects of investment. The advisor, or general investment consultant, which will be appointed by the Board and report to it, shall:

- Advise the Retirement Board in the management of OPERS' investments.
- Critically evaluate investment proposals that come before the Board and advise the Retirement Board accordingly, including the Annual Plan.
- Monitor OPERS' investments, internal investment activities and external managers.
- Report independently to the Retirement Board on the performance of OPERS' investments.
- Conduct periodic and special studies on behalf of the Retirement Board.
- Assist and support the staff in various projects, e.g., developing proposals for consideration by the Retirement Board; manager searches; evaluations of external managers and other service providers; etc.

Actuary
OPERS employs an actuary for the purpose of forecasting asset and liability growth and the many complex factors included in estimating future pension costs. These factors include, but are not limited to, interest rates, inflation, investment earnings, mortality rates, and employee turnover. These actuarial assumptions are then used to forecast uncertain future events affecting OPERS. The actuary shall provide periodic reports on the actuarial valuation of OPERS, and shall provide recommendations to the Retirement Board including, among other things, the estimated level of contributions necessary to fund promised benefits as specified in Section 145.22 of the Revised Code of Ohio. The actuary is appointed by, and serves at the pleasure of the Retirement Board.

Asset Allocation Policy

Purpose
The purpose of the asset allocation policy is to establish an investment policy framework for OPERS that has a high likelihood, in the judgment of the Retirement Board, of realizing OPERS' investment objective.

Targets and Ranges
The principal components of investment policy are target allocation percentages for various areas of investment, known as "asset classes," and minimum and maximum percentages for each asset class. The table on the next page contains OPERS' current target allocation percentages and ranges.

The ranges for all asset classes other than Real Estate and the Opportunity Fund are equal to the target percentages plus or minus three percentage points. The range for Real Estate is the target plus or minus four percentage points. The Opportunity Fund shall be no more than 2% of the market value of the Total Fund.

To the extent the actual allocation to Private Equity is less than the target percentage, a percentage equal to the difference between the two will be added to the target percentage for Domestic Equity for the purpose of determining the allowable range for Domestic Equity. In other words, the default position for any unfunded private equity allocation is Domestic Equity.

Asset Class	Target Allocation	Range
Domestic Equity	43%	41 to 45%
International Equity	20	17 to 23%
Real Estate	9	5 to 13%
Private Equity	4	0 to 7%
Global Bonds	23	20 to 26%
Opportunity Fund	1	0 to 2%
Cash	0	0 to 1%
Total	**100%**	

Rebalancing
The staff shall ensure conformance with the asset allocation policy through monthly review. In conducting rebalancing activities, the Retirement Board expects the staff to operate under these guidelines:

1. Whenever asset-class allocation percentages fall outside the indicated range for that asset class, the staff shall initiate rebalancing transactions to bring all percentages to values that do not exceed the range limits.

2. At any time and in its discretion, the staff may bring the actual allocation to, or nearer to, the target percentages.

3. At a minimum, the staff will ensure that, as a result of a rebalancing review, no asset-class allocation is outside the allowable range.

4. To the extent that it is possible to bring the actual allocation nearer to the target percentages without incurring transactions costs, or while incurring transaction costs, which, in the judgment of the staff, are unusually low, the staff shall do so.

The spirit of this policy is to ensure compliance with the target asset allocation percentages at a reasonable cost, recognizing that overly precise administration of policy targets can result in transaction costs that are not economically justified. Recognizing the complexity of achieving this result with a portfolio the size and complexity of OPERS, as well as the vagaries of transacting in investment markets, the Retirement Board accords the staff discretion to take those actions, which, in the judgment of the staff, are within the spirit of these guidelines and in the best interest of OPERS.

Annual Review Process

Annually the staff shall present to the Retirement Board for its consideration an Annual Plan. The principal functions of the Annual Plan are to:

- Define the essential asset management characteristics for the total portfolio and the principal asset classes, which include, but are not necessarily limited to, target percentages and ranges, benchmarks, investment strategy; policies concerning utilization of active and passive management, and proposed changes in investment guidelines;

- Specify expected excess (active-management) return and risk, provisions for risk control, and investment expense;

- Clarify delegations of authority by the Retirement Board to the staff for various aspects of investment management;

- Identify resource (staffing and budgetary) requirements; and

- Describe key initiatives for the year.

The Annual Plan is the principle, although not exclusive, vehicle by which the staff will seek approval of new investment strategies, revisions to the asset allocation policy, revisions to investment guidelines, and revisions of performance benchmarks. The Annual Plan will also be the principle vehicle by which the staff seeks approval for the creation of new portfolios, as well as identify the need for appointment of new or replacement portfolios, managers or advisors.

Risk Control

The Retirement Board ensures adequate risk control through the following means:

Diversification

Investments shall be diversified to minimize the impact of the loss from individual investments. In addition to achieving diversification by asset class, careful attention shall be paid to diversification within each asset category (e.g., real estate) and subcategory (e.g., stable investments, enhanced investments, high-return investments, and REITs).

Portfolio Guidelines

Every portfolio that is a part of OPERS' overall investment portfolio shall operate under written guidelines, approved by the Board, which are designed to ensure the portfolio meets its objective and operates within acceptable risk parameters.

Risk Budgeting

A formal process shall be established whereby the total active risk (risk of achieving performance different than the total fund benchmark) shall be within a margin approved by the Retirement Board. The Retirement Board shall approve the risk budget by which total active risk is apportioned among the various asset classes as part of the Annual Plan. Estimates of active risk shall be performed periodically and reported to the Retirement Board to ensure compliance with the risk budget established.

Compliance Monitoring

A process shall be established by which compliance with all elements of the investment policy and portfolio guidelines shall be monitored with exceptions being reported promptly to the Retirement Board.

Performance Objectives

Total Fund

The primary performance objectives for the total fund are to: (1) exceed the return of the OPERS' Performance Benchmark, net of investment expenses over five-year periods; and (2) exceed the actuarial interst rate (currently 8%) over a reasonable longer time horizon. The Benchmark combines designated market indexes for asset classes, weighted by asset-allocation targets. Currently, the indexes are listed in the table on the next page.

Asset Classes

Each asset class shall be measured relative to its designated market index. It is expected that the active management of individual asset classes will provide an investment return in excess of the index, net of expenses, over five-year periods. The margin of superior performance for each asset class and the total fund are specified in the Annual Plan. The benchmark for the Opportunity Fund is the same benchmark as utilized for the Total Fund. Therefore, the OPERS' Performance Benchmark shall be the metric used to compare the results of the Opportunity Fund.

In all aspects of investing, the Retirement Board expects that results will be competitive. Total fund performance relative to OPERS' Performance Benchmark is expected to be competitive with that of other funds relative to their benchmarks. Likewise, OPERS' risk-adjusted performance is expected to be competitive with that of its peers. Active management within individual asset classes is expected to achieve returns in excess of the return available through passive investment within the asset class as indicated by the asset class benchmark. In all respects and measures, the Retirement Board expects to earn a return that compensates OPERS for the risk taken.

Asset Class	Market Index
Domestic Equity	Russell 3000 Stock Index
International Equity	MSCI All Country World Free Index Ex-U.S.
Real Estate	Custom Real Estate Index
Global Bonds	Lehman U.S. Universal Index
Opportunity Fund	OPERS Performance Benchmark

Defined Contribution Plan

The following are excerpts of major sections of the OPERS Investment Division Defined Contribution Plans Statement of Investment Objectives and Policies, revised in June of 2003. The complete policy can be viewed on OPERS' web site, www.opers.org.

The Defined Contribution Plans are intended to be primary retirement savings vehicles for members. The Defined Contribution Plans are tax-qualified defined contribution 401(a) plans that provide for benefits based solely on the amount contributed to each member's account plus or minus any income, expenses, gains/losses, and forfeitures. Members have investment discretion over their accounts by selecting among an array of investment options designed for retirement savings. The Defined Contribution Plans shall seek to achieve the following long-term objectives:

- Offer a diversified mix of investment options that span the risk-return spectrum and give members the opportunity to diversify their accounts,
- Offer investment options that 1) avoid excessive risk, 2) have prudent degrees of diversification relative to broad market indices, and 3) provide long-term rates of return, net of all expenses and fees, which achieve or exceed the returns on comparable market benchmarks,
- Offer members institutionally priced (low cost) investment options, and
- Offer members and beneficiaries meaningful, independent control over their accounts.

Investment Structure

Responsibilities and Objectives

The Investment Division, with input from the Defined Contribution Department, recommends investment options and investment managers to the Investment Committee and the Retirement Board for inclusion in the Defined Contribution Plans. It is OPERS' preference to utilize investment managers who have demonstrated consistent investment processes, styles, and competitive returns, including internal and external investment managers. Selected investment managers will have a high probability of meeting or exceeding benchmark performance over subsequent three- to five-year periods while adhering to the management style for which they were selected.

A primary goal in structuring the investment options and selecting the investment managers is to obtain low, institutional pricing on investment management services. In order to achieve this goal, the preferred vehicle type is one that has the lowest cost, whereby daily unit values for the Defined Contribution Plans are calculated by the custodian (or its designee) and reported daily to the record keeper.

It is the responsibility of the Retirement Board to provide a range of distinct investment options that allow members the opportunity to achieve risk and return strategies that meet their objectives. It is the Board's intention to provide a sufficient number of investment options to meet the needs of members. The Board shall reasonably limit the number of investment options to minimize member confusion and to avoid excessive administrative costs.

Rebalancing Guidelines
One essential component of the OPERS Funds and the OPERS Pre-Mix Portfolios is the development and use of rebalancing ranges for the target allocations. The ranges specified for the OPERS Funds and the OPERS Pre-Mix Portfolios (shown below) are a function of the expected volatility of each asset class, or investment manager, and the proportion of the total fund allocated to the asset class/manager.

The actual allocation of the OPERS Funds and OPERS Pre-Mix portfolios will be determined by the custodian (or its designee) by the third business day after each month end. By the fifth business day after month end, if the allocation is outside the range and the investment managers can effect trades with minimal trading costs, the Investment Division will instruct the custodian to rebalance to the target allocation. All member level cash flows within a month will generally be deposited with, or withdrawn from, the liquidity manager for each OPERS Fund.

Roles And Responsibilities

Retirement Board
The Retirement Board is ultimately responsible for the investment structure, service structure, asset management, risk control and administration, and monitoring and evaluation.

Investment Committee
The Investment Committee is a functional committee of the Retirement Board whose responsibility is to monitor investment activity. It evaluates proposals requiring Retirement Board action and makes recommendations for consideration by the Retirement Board.

Through its activities, it represents the interests of the Retirement Board in all investment-related matters. In addition to chairing meetings of the Investment Committee, the Investment Committee Chair serves as liaison between the Retirement Board, the Investment Division and external advisors in the interim between meetings of the Committee/Board. In this capacity, the Investment Committee Chair works with the Director-Investments in establishing the agenda for Investment Committee meetings. The Investment Committee Chair is also the Investment Division s principal point of contact in the interim between meetings. The Investment Committee Chair has the responsibility to inform the chair of the Retirement Board of material investment matters affecting the Defined Contribution Plans.

	OPERS Pre-Mix Portfolios					
OPERS Funds	Conservative		Moderate		Aggressive	
	Target	Range	Target	Range	Target	Range
Stable Value	35%	+/- 2%	20%	+/- 1%	10%	+/- 1%
Bond	35%	+/- 2%	10%	+/- 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-US Stock	5%	+/- 1%	10%	+/- 2%	15%	+/- 3%

Investment Division

The role of the Investment Division is to assist the Retirement Board in managing the investment options of the Defined Contribution Plans. The authority of the Investment Division derives from the Board. Notwithstanding its ultimate responsibility for OPERS' investments, the Retirement Board expects the Investment Division to take a leadership role in investment management. Recognizing that most of the Retirement Board are laypersons with respect to investments, and all operate under a very high standard of care, the Retirement Board expects to rely heavily on the Investment Division to assist it in discharging its fiduciary responsibilities, and in successfully and efficiently managing the investments of the Defined Contribution Plans. In this regard, the Retirement Board expects the Investment Division to:

- Advise the Retirement Board when the Investment Division believes action relative to this Statement of Objectives and Policies or execution is required of the Retirement Board.
- Establish and conduct an appropriate process for monitoring the investment options of the Defined Contribution Plans.
- Inform the Retirement Board of any and all matters the Investment Division believes to be of sufficient materiality as to warrant the Retirement Board's attention.
- Coordinate research and recommendations with the Defined Contribution Department on issues that impact broader services available through the Plans, including reviewing the custodial needs of the Defined Contribution Plans and reporting on those needs.
- Operate at all times in the best and exclusive interest of members and beneficiaries.

All staff of the Investment Division are accountable to the Director-Investments. The Director-Investments is responsible for all Investment Division actions relative to the management of the Defined Contribution Plans' investments. In this regard, it is the responsibility of the Director-Investments to satisfy himself/herself that all policies and directives of the Retirement Board are carried out faithfully.

Defined Contribution Department

The primary role of the Defined Contribution Department is to oversee day-to-day administration and coordination of the Plans' service providers. In this regard, the Defined Contribution Department will:

- Establish and conduct an appropriate process for monitoring the Defined Contribution Plans' service providers including the administrator, record keeper, custodian, and member communications provider.
- Annually monitor total plan costs to ensure fees are commensurate with services received.
- Inform the Retirement Board of any and all matters the Defined Contribution Department believes to be of sufficient materiality as to warrant the Retirement Board's attention.
- Coordinate research and recommendations with the Investment Division on issues that impact the Plans' investment structure, investment options, or investment-related products and services.
- Conduct member focus groups, surveys or other research relating to services offered under the Plans.
- Operate at all times in the best and exclusive interest of members and beneficiaries.

All staff of the Defined Contribution Department are accountable to the Director of Benefits. The Director of Benefits is responsible for all Defined Contribution Department actions relative to the administration and services of the Defined Contribution Plans. In this regard, it is the responsibility of the Director of Benefits to satisfy himself/herself that all policies and directives of the Retirement Board are carried out faithfully.

Custodian

The Ohio Treasurer of State acts as custodian of the Defined Contribution Plans as specified in Section 145.26 of the Ohio Revised Code. The Treasurer may employ subcontractors to provide certain safekeeping and other functions. Among other functions, the custodian, or its designee, is specifically responsible for:

- Calculating the daily unit values for the investment options offered in the Defined Contribution Plans, and reporting such unit values to the record keeper within the timelines established by the record keeper, custodian, Investment Division, and the Defined Contribution Department.

- Calculating monthly or quarterly returns for the Defined Contribution Plans' investment options and the underlying managers, and reporting such performance figures to the Investment Division and the Investment Consultant in a timely manner.

Third Party Record Keeper

The Retirement Board approves the selection of a single, independent entity to serve as the third-party record keeper for the Defined Contribution Plans. The Defined Contribution Department reserves the right to define within the record keeper service agreement the specific services to be provided to the Plans. Certain administrative functions may be handled internally by the Defined Contribution Department.

The Defined Contribution Department may rely upon the record keeper to provide members and beneficiaries sufficient information to manage their investments. All expectations are clearly defined in the service agreement with the selected record keeper.

Members

Members are responsible for the following:

- Determining whether to participate in the Defined Contribution Plans.

- Selecting their investment options for both existing balances and new contributions going forward once enrolled in the Defined Contribution Plans.

- Monitoring their asset allocation strategy and making adjustments as appropriate for their personal situations.

- Taking advantage of the educational tools and resources offered or facilitated by OPERS on behalf of the Defined Contribution Plans.

Monitoring and Reporting

Investment Manager Selection

In conducting investment manager selections, the Investment Committee, Investment Division and Investment Consultant will adhere to the policies and procedures referenced in this Statement of Objectives and Policies and the OPERS External Public Manager Search Process.

Investment Manager Monitoring

In conducting the ongoing monitoring of investment managers, the Investment Committee, Investment Division and Investment Consultant will adhere to the policies and procedures referenced in this Statement of Objectives and Policies and the OPERS External Public Manager Evaluation Guidelines. The OPERS External Public Manager Evaluation Guidelines govern investment mangers for both the Defined Benefit Plan and Defined Contribution Plans. Both plans will follow the same Guidelines but will execute their procedures independently. Section II.a of the Guidelines ("Watchlist") will be executed by the Defined Contribution Plans by excluding managers on the Watchlist from being added to the Defined Contribution Plans while allowing managers on the Watchlist to receive additional member-directed contributions until the manager is terminated from the Defined Contribution Plans.

Investment Manager Termination

In evaluating the potential termination of investment managers, the Investment Committee, Investment Division and Investment Consultant will adhere to the policies and procedures referenced in this Statement of Objectives and Policies, the OPERS External Public Manager Evaluation Guidelines, and the applicable Investment Manager Agreements.

Investment Option Monitoring

The OPERS Funds are custom-constructed of one or more investment managers. Each Fund, however, will be evaluated "in whole" with respect to its quarterly investment performance compared to the broad market index and peer universe as described in Section IV. Performance Objectives. While performance will be reviewed quarterly by the Investment Division and Investment Consultant, short-term fluctuations may cause variations in a portfolio's performance; therefore, the Funds will be evaluated from a long-term perspective.

Performance Objectives

OPERS Funds

Investment Objectives

OPERS Stable Value Fund–Provide preservation of capital and a reasonably predictable return that moves generally in the direction of prevailing interest rates, and liquidity for member-initiated events. The fund generally invests in traditional guaranteed investment contracts and synthetic guaranteed investment contracts, and will be managed with a duration (average term to maturity) of between 2-3 years.

OPERS Bond Fund–Provide current income primarily and long-term capital appreciation secondarily. The fund seeks to outperform the Lehman Brothers Universal Index.

OPERS Stock Index Fund–Provide long-term capital appreciation primarily and current income secondarily, by investing in a broadly diversified portfolio of stocks in all capitalization segments of the US equity market. The Fund seeks to match the return of the Russell 3000 Index.

OPERS Large Cap Fund–Provide long-term capital appreciation primarily and current income secondarily, by investing in the large capitalization segment of the US equity market. The Fund seeks to outperform the Russell 1000 Index.

OPERS Small Cap Fund–Provide long-term capital appreciation by investing in the small capitalization segment of the U.S. equity market. The Fund seeks to outperform the Russell 2000 Index.

OPERS Non-U.S. Stock Fund–Provide long-term capital appreciation, by investing in securities issued by companies and governments in developing and developed countries outside the U.S. The Fund seeks to outperform the (MSCI ACWI x-US Index).

Performance Benchmarks

The indexes are listed below.

OPERS Pre-Mix Portfolios

Investment Objectives

OPERS Pre-Mix Conservative Portfolio–This style of portfolio is for members who wish to minimize risk. The Portfolio invests 70% of the assets in income-based investments to help accomplish this goal. The remainder of the Portfolio is invested in equity securities.

OPERS Pre-Mix Moderate Portfolio–This style portfolio is for members who want to accumulate wealth for long-term financial goals but with moderate tolerance for risk or volatility. The Portfolio invests 60% of the assets in equity securities and 40% in income-based investments to help accomplish this goal.

OPERS Pre-Mix Portfolios

OPERS Funds	Conservative		Moderate		Aggressive	
	Target	Range	Target	Range	Target	Range
Stable Value	35%	+/- 2%	20%	+/- 1%	10%	+/- 1%
Bond	35	+/- 2	10	+/- 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

OPERS Pre-Mix Aggressive Portfolio–This style of portfolio is for members who primarily want to achieve long-term wealth accumulation with relatively high tolerance for risk or volatility. The Portfolio invests 80% of the assets in equity securities and the remaining in income-based investments.

Performance Benchmarks

OPERS Pre-Mix Conservative Portfolio–The custom index benchmark for evaluating performance of the Conservative Portfolio is: 35% 5-Year GIC Master, 35% Lehman Brothers Universal Index, 12% Russell 3000 Index, 10% Russell 1000 Index, 3% Russell 2000 Index and 5% MSCI All Country World Index ex U.S.

OPERS Pre-Mix Moderate Portfolio–The custom index benchmark for evaluating the Moderate Portfolio is: 20% 5-Year GIC Master, 20% Lehman Brothers Universal Index, 25% Russell 3000 Index, 20% Russell 1000 Index, 5% Russell 2000 Index and 10% MSCI All Country World Index ex U.S.

OPERS Pre-Mix Aggressive Portfolio–The custom index benchmark for evaluating the Aggressive Portfolio is: 10% 5-Year GIC Master, 10% Lehman Brothers Universal Index, 30% Russell 3000 Index, 25% Russell 1000 Index, 10% Russell 2000 Index and 15% MSCI All Country World Index ex U.S. diversification within each asset category (e.g., real estate) and subcategory (e.g., stable investments, enhanced investments, high-return investments, and REITs).

OPERS

Ohio Public Employees Retirement System

The Comprehensive Annual Financial Report 2004

Actuarial Section

Report of the Actuary

Gabriel, Roeder, Smith & Company
Consultants & Actuaries

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December 8, 2004

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, 2003.

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
Percent Retiring Next Year
Probabilities of Retirement for Members Eligible to Retire
Percent Separating Within Next Year
Individual Employee Pay Increases
Analysis of Financial Experience
Financial Section
Schedule of Funding Progress

The Retirement Board December 8, 2004
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, 2003 valuations were based upon assumptions that were recommended in connection with a study of experience covering the 1996-2000 period.

Pension experience was favorable during 2003, with investment returns of close to 25% being the most important factor. The amortization period for unfunded liabilities was well below what would have been expected based upon the 2002 results, and, considering contribution rate changes that have been initiated, is now below 30 years. The solvency period in the retiree health plan has also improved since the prior valuation, based upon both plan changes and contribution rate changes that were made in connection with the Health Care Preservation Plan.

Based upon the results of the December 31, 2003 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. Further, we are please to report that the financial condition of the Health Plan has improved since the last valuation. Continued recovery in the investment markets is very important to OPERS and to every other retirement plan in the United States.

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 Retirement Board approved and adopted the following methods and assumptions in 2003 after consulting with the Actuary.

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 (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. Unfunded actuarial accrued liabilities are amortized to produce payments, which are level percents of payroll contributions.

Economic Assumptions: The following economic assumptions are used by the Actuary:

Investment Return: 8.00%, compounded annually, for all members and beneficiaries.

Active Employee Total Payroll: Increasing 4.00% annually, compounded annually, which is the inflation portion of the individual pay increase assumption. In effect, this assumes no change in the number of active employees.

Individual Employee Pay Increases: An employee ís pay is assumed to increase each year, in accordance with a table consisting of a percent increase for each age. The following table describes annual increase percents for sample ages.

Individual Employee Pay Increases

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

Turnover: Probabilities of separation from employment before age-and-service retirement because of death, withdrawal or disability are:

Percent Separating Within Next Year

				Withdrawal					Disability				
Sample	Years of	Death		State		Law	Local		State		Local		Law
Ages	Service	Men	Women	Men	Women	Enforcement	Men	Women	Men	Women	Men	Women	Enforcement
	0			38.00%	36.00%	15.00%	34.00%	32.00%					
	1			18.00	19.00	9.00	17.00	18.00					
	2			14.00	15.00	7.00	12.00	13.00					
	3			10.00	12.00	5.00	10.00	10.00					
	4			8.00	9.00	5.00	9.00	9.00					
30	5 & over	0.04%	0.02%	5.20	7.00	2.90	5.40	6.90	0.13%	0.14%	0.37%	0.17%	0.13%
40		0.07	0.04	3.50	4.20	1.50	3.20	4.20	0.41	0.36	0.95	0.44	0.33
50		0.23	0.10	2.20	3.10	1.20	2.50	3.00	0.86	0.88	2.03	0.90	0.66
60		0.55	0.25	2.10	2.70	1.20	2.50	2.80	1.86	1.56	2.88	1.54	1.35

Assets Valuation Method: For actuarial purposes, assets are valued utilizing a method which recognizes expected return plus or minus a percentage of realized and unrealized investment gains and losses above or below expected returns.

Valuation Data: The demographic and financial data used in the actuarial evaluation 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 following tables of probabilities for the indicated risk areas are used by the Actuary:

- **Mortality**: The tables used in evaluating allowances to be paid were 90% of the 1971 Group Annuity Mortality Male and Female tables, projected to 1984.
- **Retirement**: Probabilities of normal age-and-service retirement applicable to members eligible to retire are:

Percent of Eligible Active Members Retiring Next Year

Retirement Age	State		Local		Law & Public Safety
	Men	Women	Men	Women	
50-54	40%	30%	35%	30%	22%
55	25	30	30	30	15
56-57	25	30	25	30	15
58	25	30	25	30	18
59	25	40	25	40	18
60	30	50	25	50	18
61	25	35	25	30	18
62	25	35	40	30	30
63	30	35	40	30	25
64	40	35	30	30	15
65	50	50	25	25	20
66	25	25	20	25	20
67-68	25	25	20	15	15
69	25	20	20	15	15
70-79	25	20	20	15	100
80	100	100	100	100	100

Actuarial Valuation Data

	Active Members				Retired Lives		
Valuation Year	Number	Annual Payroll ($ Millions)	Average Pay	Percent Increase In Average Pay	Number*	Annual Allowance ($ Millions)	Average Allowance
1994	343,477	$ 7,625	$ 22,119	3.68%	116,001	$1,024	$ 8,828
1995	344,632	7,973	23,135	4.59	118,280	1,106	9,351
1996	352,408	8,340	23,666	2.30	121,219	1,216	10,031
1997	352,960	8,640	24,479	3.44	124,258	1,311	10,551
1998	354,431	9,017	25,441	3.93	127,139	1,409	11,082
1999	360,532	9,477	26,286	3.32	129,656	1,625	12,533
2000	366,975	10,192	27,773	5.66	132,603	1,753	13,220
2001	360,313	10,782	29,924	7.74	136,456	1,894	13,884
2002	365,424	11,207	30,668	2.49	141,019	2,080	14,750
2003	353,584	11,165	31,577	2.96	145,263	2,265	15,588

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

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls

	Added to Rolls		Removed from Rolls		Rolls at Year-End			
Year Ended	Number	Annual Allowances	Number	Annual Allowances	Number*	Annual Allowances	Percentage Increase in Annual Allowances	Average Annual Allowances
1999	7,513	$125,218,771	4,933	$ 21,503,909	127,998	$ 1,499,631,942	7.43%	$ 11,716
2000	8,459	154,006,435	5,029	3,910,980	131,428	1,649,727,397	10.01	12,552
2001	8,403	323,457,399	5,062	99,438,913	134,769	1,873,745,883	13.58	13,903
2002	10,099	285,426,010	5,203	106,040,402	139,665	2,053,131,491	9.57	14,700
2003	9,162	277,517,938	5,184	100,844,152	143,643	2,229,805,277	8.61	15,523
2004	9,451	356,384,121	6,128	132,042,657	146,966	2,454,146,741	10.06	16,699

*This number represents actual number of checks written at year end. One benefit allowance may be issued to multiple beneficiaries.

Short-Term Solvency Test

The OPERS financing objective is to pay for the 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 system s progress under its funding program. In a short-term solvency test, the system s present assets (cash and investments) are compared with: 1) active member contributions on deposit; 2) the liabilities for future benefits to present retired lives; and 3) the liabilities for service already rendered by active members.

In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (1) and the liabilities for future benefits to present retired lives (2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (3) will be partially covered by the remainder of present assets. Generally, if the system has been using level cost financing, the funded portion of (3) will increase over time. Column 3 being fully funded is very rare.

It is wise to pay attention to both fundamental and short-term solvency tests.

Accrued Liabilities

($ in millions)

	Aggregate Accrued Liabilities for				Portions of Accrued Liabilities Covered by Reported Assets		
Valuation Year	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members (Employer-Financed Portion)	Valuation Assets	(1)	(2)	(3)
1994	$4,895	$10,605	$20,710	$31,711	100%	100%	79%
1995	5,299	11,477	22,378	34,877	100	100	81
1996*	5,681	12,531	14,419	30,534	100	100	85
1997*	6,074	13,587	15,311	33,846	100	100	93
1998*	6,508	14,665	16,541	38,360	100	100	104
1999*	6,945	17,050	19,076	43,060	100	100	100
2000*	7,448	18,017	20,882	46,844	100	100	102
2001*	7,991	19,087	20,414	48,749	100	100	106
2002*	8,514	21,205	21,153	43,706	100	100	66
2003*	8,897	23,728	22,148	46,746	100	100	64

*Does not include assets set aside to pay health care benefits.

Analysis of Financial Experience

Gains & Losses in Accrued Liabilities Resulting From Differences Between Assumed Experience & Actual Experience

	Gain (or Loss) For Year – $ in Millions			
Type of Activity	**2003**	**2002**	**2001**	**2000**
Age and Service Retirements If members retire at older ages than assumed, there is a gain. If at younger ages, a loss.	11.4	($43.8)	($22.8)	$ 24.3
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, there is a loss.	(30.4)	(26.4)	1.7	(21.6)
Death-In-Service Annuities If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	7.6	2.7	13.4	12.1
Other Separations If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, there is a loss.	(122.2)	(190.5)	(147.6)	(235.7)
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, there is a loss.	301.4	53.7	525.9	(169.2)
Investment Return If there is greater investment return than assumed, there is a gain. If less return, there is a loss.	(33.1)	(8,869.3)	(1,456.7)	606.9
Gain (or Loss) During Year From Financial Experience	$ 134.7	($9,073.6)	($1,086.1)	$ 216.8

Actual vs. Recommended Contribution Rates

The Retirement Board adopted all contribution rates as recommended by the Actuary.

OPERS

Ohio Public Employees Retirement System

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Statistical Section

Employer Contribution Rates

Traditional Plan

		Current			Unfunded Liability		
	Year	Normal	Health	Survivor Benefits	Past Service	Health	Total
State	1995	5.31%	3.39%	1.09%	2.62%	0.90%	13.31%
	1996	5.57	3.54	1.09	2.36	0.75	13.31
	1997	5.62	3.31	0.59	2.81	0.98	13.31
	1998	5.62	4.20	0.59	2.90	0.00	13.31
	1999	5.62	4.20	0.59	2.90	0.00	13.31
	2000*	4.90	4.30	0.51	0.94	0.00	10.65
	2001**	6.96	4.30	0.72	1.33	0.00	13.31
	2002	6.27	5.00	0.72	1.32	0.00	13.31
	2003	5.75	5.00	0.42	2.14	0.00	13.31
	2004	5.53	4.00	0.42	3.36	0.00	13.31
Local	1995	4.85%	4.26%	1.00%	2.59%	0.85%	13.55%
	1996	5.16	4.44	1.00	2.28	0.67	13.55
	1997	5.57	4.29	0.59	2.28	0.82	13.55
	1998	5.57	4.20	0.59	3.19	0.00	13.55
	1999	5.57	4.20	0.58	3.20	0.00	13.55
	2000*	4.92	4.30	0.51	1.11	0.00	10.84
	2001**	6.96	4.30	0.72	1.57	0.00	13.55
	2002	6.26	5.00	0.72	1.57	0.00	13.55
	2003	5.66	5.00	0.48	2.41	0.00	13.55
	2004	5.45	4.00	0.47	3.63	0.00	13.55
Law Enforcement	1995	7.97%	4.82%	1.56%	1.28%	1.07%	16.70%
	1996	8.15	4.95	1.56	1.10	0.94	16.70
	1997	9.61	4.70	0.89	0.74	0.76	16.70
	1998	9.61	4.20	0.89	2.00	0.00	16.70
	1999	9.61	4.20	0.88	2.01	0.00	16.70
	2000*	9.76	4.30	0.81	0.83	0.00	15.70
	2001**	10.62	4.30	0.88	0.90	0.00	16.70
	2002	10.02	5.00	0.85	0.83	0.00	16.70
	2003	8.34	5.00	0.54	2.82	0.00	16.70
	2004	8.23	4.00	0.54	3.93	0.00	16.70
Public Safety	2001**	10.90%	4.30%	0.89%	0.61%	0.00%	16.70%
	2002	10.01	5.00	0.98	0.71	0.00	16.70
	2003	8.34	5.00	0.54	2.82	0.00	16.70
	2004	8.23	4.00	0.54	3.93	0.00	16.70

Member-Directed Plan

	Year	Pension	RMA***	Total
State	2003	8.50%	4.81%	13.31%
	2004	8.50	4.81	13.31
Local	2003	8.50%	5.05%	13.55%
	2004	8.50	5.05	13.55

Combined Plan

	Year	Pension	Health	Total
State	2003	8.31%	5.00%	13.31%
	2004	9.31	4.00	13.31
Local	2003	8.55%	5.00%	13.55%
	2004	9.55	4.00	13.55

* One-time employer contribution rate rollback
** HB 416 separated the Law Enforcement program into two divisions effective January 1, 2001.
*** Retiree Medical Account

Revenues *by* Source

Traditional Plan

Year	Members' Contributions	Employers' Contributions	Employers' Contributions as a Percentage of Covered Payroll	Investment Income (Net)	Other	Total
1995	$ 698,987,279	$ 1,107,696,800	13.53%	$6,134,722,598	$ 263,915	**$ 7,941,670,592**
1996	737,292,990	1,181,597,072	13.54	2,848,123,681	867,738	**4,767,881,481**
1997	773,100,594	1,233,637,457	13.54	5,421,861,077	754,023	**7,429,353,151**
1998	799,281,516	1,266,445,268	13.55	6,045,862,119	237,360	**8,111,826,263**
1999	839,186,449	1,327,889,681	13.56	6,495,797,615	1,785,346	**8,664,659,091**
2000	879,844,987	1,171,674,955	13.57	(443,108,186)	884,651	**1,609,296,407**
2001	931,050,640	1,408,392,987	13.56	(2,717,806,094)	664,919	**(377,697,548)**
2002	1,094,343,553	1,683,021,503	13.57	(5,684,965,700)	623,421	**(2,906,977,223)**
2003*	1,006,863,812	1,026,594,837	8.57	9,603,775,739	411,093	**11,637,645,481**
2004*	$1,019,785,485	$ 1,113,946,023	9.58	$5,886,688,477	$ (107,798)	**$ 8,020,312,187**

Traditional and Combined Plan Post-Employment Health Care

2003*		$ 579,904,361	5.00%	$2,258,066,075		**$ 2,837,970,436**
2004*		464,096,679	4.00	1,297,291,883		**1,761,388,562**

Combined Plan

2003*	$ 8,807,214	$ 8,452,579	8.48%	$ 3,077,755		**20,337,548**
2004*	11,408,263	12,170,311	9.47	4,282,641		**27,861,215**

Member-Directed and VEBA Plans*

2003*	$ 7,723,797	$ 11,826,894	13.47%	$ 3,166,906		**22,717,597**
2004*	10,148,602	15,907,196	13.47	4,143,570		**30,199,368**

* Employer Contributions for 1994-2002 in the Traditional Plan include contributions for both pension and post employment health care benefits. Effective January 1, 2003, OPERS began offering two defined contribution plans to members. A portion of the employer contributions to the Traditional and Combined Plans are set aside for post-employment health Care benefits under the IRC 401(h) plan. A portion of the employer contributions to the Member-Directed Plan are deposited to the retiree medical account under the VEBA Plan.

Expenses *by* Type

Traditional Plan

Year	Benefit Payments	Refunds	Administrative Expenses	Total
1995	$ 1,455,869,026	$ 108,029,484	$ 18,232,175	**$1,582,130,685**
1996	1,566,534,763	110,043,743	18,650,473	**1,695,228,979**
1997	1,694,449,673	139,624,174	20,107,718	**1,854,181,565**
1998	1,842,835,738	125,609,907	21,530,875	**1,989,976,520**
1999	2,029,539,511	120,631,961	24,142,273	**2,174,313,745**
2000	2,215,870,453	81,830,345	29,642,466	**2,327,343,264**
2001	2,574,189,051	262,681,258	40,081,348	**2,876,951,657**
2002	2,836,137,068	187,051,815	56,267,175	**3,079,456,058**
2003*	2,236,477,663	192,768,335	57,195,937	**2,486,441,935**
2004*	2,454,131,826	207,121,141	47,589,813	**2,708,842,780**

Traditional and Combined Plan Post-Employment Health Care

2003	$ 907,769,092		$ 2,679,981	**$ 910,449,073**
2004	963,384,400		2,694,253	**966,078,653**

Combined Plan

2003		$ 49,490	$ 4,480,051	**$ 4,529,541**
2004		601,042	5,032,027	**5,633,069**

Member Directed Plan

2003		$ 391,773	$ 5,098,717	**$ 5,490,490**
2004		2,055,789	4,898,872	**6,954,661**

VEBA

2003			$ 382,104	**$ 382,104**
2004			1,476,295	**1,476,295**

*Plan disbursements for 1994-2002 in the Traditional Plan include both pension and post employment health care benefits.

Schedule *of* Benefit Recipients *by* Benefit Type

At December 2004

Traditional Plan Only

Amount of Monthly Benefit	Number of Recipients	Annuities	Disabilities	Survivors
$ 1-299	14,819	13,662	460	697
300-499	14,460	11,423	577	2,460
500-999	34,984	25,938	3,198	5,848
1,000-1,499	26,165	19,159	4,950	2,056
1,500-1,999	20,143	14,692	4,644	807
2,000 & Over	36,395	29,824	5,929	642
Totals	**146,966**	**114,698**	**19,758**	**12,510**

Schedule *of* Average Benefit Payments

Traditional Plan Only

	Years Credited Service					
	5-9	10-14	15-19	20-24	25-30	30+
Period 1/1/99-12/31/99						
Average Monthly Benefit*	$ 507.45	$ 612.50	$ 946.15	$ 1,351.72	$ 1,766.37	$ 2,706.75
Average Final Average Salary	$ 22,207.14	$ 26,127.21	$ 29,514.56	$33,158.88	$ 35,768.66	$ 42,657.81
Number of Active Recipients	536	1,153	891	914	991	2,197
Period 1/1/00-12/31/00						
Average Monthly Benefit*	$ 568.70	$ 597.12	$ 932.00	$ 1,330.92	$ 1,856.90	$ 2,762.27
Average Final Average Salary	$ 22,321.49	$ 25,786.24	$ 29,701.36	$32,722.48	$ 37,500.05	$43,917.17
Number of Active Recipients	599	1,309	1,020	1,021	1,080	2,620
Period 1/1/01-12/31/01						
Average Monthly Benefit*	$ 647.90	$ 644.35	$ 1,004.04	$ 1,400.71	$ 1,943.14	$ 2,780.73
Average Final Average Salary	$ 23,327.69	$ 27,649.94	$ 32,216.19	$35,212.53	$ 39,692.78	$ 45,071.23
Number of Active Recipients	603	1,248	959	994	1,188	2,826
Period 1/1/02-12/31/02						
Average Monthly Benefit*	$ 687.95	$ 620.34	$ 985.31	$ 1,351.35	$ 1,931.68	$ 2,831.37
Average Final Average Salary	$ 24,416.48	$ 27,107.27	$ 32,743.00	$34,805.23	$ 41,104.00	$ 47,183.32
Number of Active Recipients	708	1,346	1,112	1,100	1,398	3,641
Period 1/1/03-12/31/03						
Average Monthly Benefit*	$ 736.02	$ 658.48	$ 1,040.12	$ 1,385.62	$ 1,944.19	$ 2,885.47
Average Final Average Salary	$ 25,540.88	$ 29,195.95	$ 35,114.54	$37,183.10	$ 42,518.48	$ 49,747.37
Number of Active Recipients	642	1,254	1,037	944	1,230	3,131
Period 1/1/04-12/31/04						
Average Monthly Benefit*	$ 783.65	$ 618.46	$ 984.93	$ 1,377.35	$ 1,889.33	$ 2,788.40
Average Final Average Salary	$ 29,654.05	$ 27,901.54	$ 34,872.36	$38,429.45	$ 43,826.29	$ 50,599.70
Number of Active Recipients	520	1,215	1,016	932	1,282	3,072

*"Average Monthly Benefit" includes post retirement and yearly 3% cost-of-living increases.

Disbursements *by* Category

Traditional Plan

	Benefits						
Year	Annuities	Disabilities	Other Systems	Survivors	CPI	Post-Retirement Legislative Increase	QEBA*
1995	$ 701,867,702	$ 119,699,694	$ 6,762,310	$48,103,168	$182,925,717	$36,520,590	
1996	757,995,460	138,848,062	4,734,682	50,844,206	199,783,533	39,127,634	
1997	822,581,843	155,239,567	6,037,460	53,220,591	219,887,499	41,172,682	
1998	881,261,294	173,229,819	5,937,875	55,975,704	241,745,889	37,766,500	
1999	947,588,558	189,724,304	6,688,026	59,181,847	261,973,594	34,475,613	
2000	1,038,847,107	213,894,998	7,767,254	64,975,799	285,195,103	39,119,094	
2001	1,162,871,313	243,297,512	6,984,942	79,678,241	323,734,033	57,179,842	
2002	1,281,852,146	270,583,859	11,242,369	84,329,145	353,657,726	51,466,246	
2003	1,402,741,097	297,720,557	7,812,726	88,129,714	387,655,698	45,745,486	
2004	1,553,850,609	322,989,487	13,431,599	92,450,798	423,851,530	40,536,714	$189,530

*OPERS began paying QEBA benefits in 2004 (see Note 1b, page 35)

Combined Plan

	Benefits			Refunds			Total
Years	Annuities	CPI	Death Benefits	Separation	Beneficiaries	Other	Payments
2003	$ 0	$ 0	$ 0	$ 47,738	$ 0	$ 1,752	**$ 49,490**
2004	0	0	0	595,651	2,642	2,750	**601,042**

Member-Directed Plan

	Benefits		Refunds			Total
Years	Annuities	VEBA - Health Care	Separation	Beneficiaries	Other	Payments
2003	$ 0	$ 0	$ 389,565	$ 0	$ 2,208	**$ 391,773**
2004	0	0	2,028,037	10,316	17,436	**2,055,789**

		Refunds			
Health Care	Death Benefits	Separation	Beneficiaries	Other	Payments
$353,685,547	$6,304,298	$100,842,250	$ 5,100,749	$ 2,089,485	**$ 1,563,901,510**
369,213,858	5,987,329	102,212,756	5,598,156	2,232,831	**1,676,578,507**
389,845,273	6,464,758	131,184,720	5,827,194	2,612,260	**1,834,073,847**
440,596,663	6,321,994	116,866,392	5,824,082	2,919,433	**1,968,445,645**
523,599,349	6,308,220	101,426,721	4,477,399	14,727,841	**2,150,171,472**
559,606,294	6,464,804	69,381,933	2,374,820	10,073,592	**2,297,700,798**
693,484,110	6,959,058	231,665,029	22,378,095	8,638,134	**2,836,870,309**
776,006,852	6,998,725	159,348,529	15,180,435	12,522,851	**3,023,188,883**
907,769,092	6,672,385	150,846,499	28,263,206	13,658,630	**3,337,015,090**
963,384,400	6,831,559	177,227,660	19,872,224	10,021,257	**3,624,637,367**

Number *of* Benefit Recipients *by* Category

Traditional Plan Only*

Year-end	Annuities	Disabilities	Survivors	Total
1995	93,718	11,561	11,426	**116,705**
1996	95,739	12,547	11,510	**119,796**
1997	97,833	13,335	11,620	**122,788**
1998	99,619	14,146	11,653	**125,418**
1999	101,345	14,868	11,785	**127,998**
2000	103,680	15,811	11,937	**131,428**
2001	105,876	16,727	12,166	**134,769**
2002	109,565	17,809	12,291	**139,665**
2003	112,247	18,859	12,537	**143,643**
2004	114,698	19,758	12,510	**146,966**

*There have been no retirement benefits paid in the Combined or Member-Directed plans.

Number *of* New Benefit Recipients *and* Refund Payments

All Plans

Year	Annuities	Disabilities	Survivors	Refund
1995	4,908	1,353	535	39,536
1996	5,394	1,536	567	38,195
1997	5,371	1,470	616	40,806
1998	5,490	1,487	579	38,299
1999	5,387	1,474	652	36,442
2000	6,065	1,739	655	31,157
2001	5,999	1,650	754	40,615
2002	7,600	1,799	700	32,186
2003	6,559	1,833	770	37,022
2004	7,222	1,664	565	38,315

Member Count

All Plans

Year-end	Active Contributing	Inactive	Total
1995	365,383	127,491	**492,874**
1996	369,467	148,274	**517,741**
1997	365,384	175,020	**540,404**
1998	371,563	192,273	**563,836**
1999	383,286	207,345	**590,631**
2000	399,919	220,189	**620,108**
2001	411,076	224,677	**635,753**
2002	402,041	255,528	**657,569**
2003*	368,996	302,546	**671,542**
2004*	375,076	282,712	**657,788**

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

Member Contribution Rates

All Plans

Year	State & Local	Law Enforcement	Public Safety
1995	8.5%	9.0%	N/A
1996	8.5	9.0	N/A
1997	8.5	9.0	N/A
1998	8.5	9.0	N/A
1999	8.5	9.0	N/A
2000	8.5	9.0	N/A
2001	8.5	10.1	9.0%
2002	8.5	10.1	9.0
2003	8.5	10.1	9.0
2004	8.5	10.1	9.0

Number *of* Employer Units

All Plans*

Calendar Year	State	County	Law Enforcement	Municipalities	Villages	Miscellaneous	Libraries	Townships	Totals
1995	288	238	208	340	651	354	256	1,310	**3,645**
1996	289	238	213	339	658	374	256	1,312	**3,679**
1997	292	236	226	338	666	379	256	1,312	**3,705**
1998	327	247	233	338	672	400	256	1,312	**3,785**
1999	332	247	233	337	673	406	257	1,312	**3,797**
2000	318	243	232	334	673	414	257	1,312	**3,783**
2001	266	239	255	258	665	442	256	1,309	**3,690**
2002	263	237	251	256	671	450	256	1,312	**3,696**
2003	268	239	247	255	673	450	257	1,313	**3,702**
2004	268	240	241	255	672	456	256	1,314	**3,702**

* 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, 2004 was 3,254.

OPERS

Ohio Public Employees Retirement System

The Comprehensive Annual Financial Report 2004

Plan Statement

Plan Statement

The Ohio Public Employees Retirement System (OPERS) 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 which 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 may be 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 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, they had the option to be covered. If they did not elect law enforcement coverage, they remained under the regular OPERS schedule of benefits.

Plan Types

For more than 60 years, OPERS has provided members with retirement benefits under a defined benefit plan, known as the Traditional Pension Plan.

House Bill 628 (HB 628), enacted into law in 2000, required OPERS to establish one or more defined contribution plans to be offered to members in addition to the existing Traditional Pension Plan. With input from members and employers, OPERS began offering three retirement plans to its members as of January 1, 2003: they include the Traditional Pension Plan, the Member-Directed Plan, and the Combined Plan. Here is a brief overview of each plan:

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 benefit is based on employee and 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 benefit 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 is 13.31%. Local employers contribute 13.55% and employers in the law enforcement division contribute 16.70%.

The current contribution rate for members is 8.5% of earnable salary. Members in the law enforcement divisions pay 9.0 or 10.1% of earnable salary. Individual accounts for each member of OPERS are maintained and funds contributed by the member are fully refundable at service termination or death. Each year, by the end of April, members are sent a statement of their individual account as of the previous December 31. 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 or 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. With 30 years of credit, there is no age requirement or benefit reduction because of age.

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) Service restored by redeposit which had been cancelled by an earlier refund of OPERS contributions;

   f) Service in an Ohio police or fire department and covered by the Police and Firemen's Disability and Pension fund, service in the State Highway Patrol and covered by the Highway Patrol Retirement System, or service covered by the Cincinnati Retirement System not being used for other retirement benefits;

   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 purchase by an employer under a retirement incentive plan.

A choice of several plans, options A through E, are available. The choices include benefits payable throughout the member's lifetime (Plan B-single life annuity) or in a lesser amount during the individual's life but continuing after the member's death to a joint survivor. The joint survivor selection includes a 50% joint-survivor payment to the spouse (Plan A), 0-99% joint-survivor payment to a designated beneficiary (Plans C), 100% payment to a designated beneficiary (Plan D).

A benefit payable under Plan A, C, or D is the actuarial equivalent of Plan B, but the payment to the member is reduced because it is based on the combined life expectancies of the member and the beneficiaries. A fifth payment plan (Plan E-guaranteed period) is also the actuarial equivalent of Plan B, but the payment is reduced to guarantee the period.

Effective January 1, 2004, Senate Bill 247 provided OPERS the authority to establish 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 initially 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 does not 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. In no case can the age-and-service formula benefit exceed 100% of the FAS 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 for the performance of duty may apply to OPERS for monthly disability benefits. Those 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 which occurred during or resulted from the performance of duty.

A member must go off the payroll because of a presumably permanent disabling condition, either mental or physical, which prevents performance of their job. No more than two years must have passed since the member's contributing service was terminated unless, at the end of the two-year period, the member was disabled and unable to file an application. The member must not be receiving an age-and-service retirement benefit. If the Retirement Board approves the disability application, the benefit is effective the first day of the month following the member's service termination, provided the member is otherwise eligible. A disability benefit recipient may be required to have 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.

The amount of the disability allowance under the original plan is based on the FAS and years of service with OPERS, 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 benefit is fully taxable until normal retirement age and then a specified dollar amount each month representing the return of 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.

The benefit under the revised plan is based on the 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 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.

When the disability benefit under the revised plan ends, the member may have the opportunity to apply for a service retirement benefit or apply for a refund of the account, which is not reduced by the amount of disability benefits paid. The benefit amount would be 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 success 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 full months of Ohio service credit with three of those months within the two and one-half years immediately before death, or
2) Receiving a disability benefit from OPERS, or
3) Eligible for retirement but did not retire and continued to work.

If, at the member s death, none of these requirements were met, a refund of contributions paid into OPERS for the account 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 are allowed to select a cash refund of the account, the amount is reduced by the amount of disability benefits that had 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.

If the member had at least 10 full years of Ohio service credit, the surviving spouse (with no children eligible for monthly benefits) may receive benefits of $250 a month, an amount equal to 25% of FAS, or a percent determined by service credit (if more than 20 years), whichever is higher. If the member had less than 10 full years, but at least 18 full months, of Ohio service credit, the surviving spouse (at age 62 or older with no children eligible for monthly benefits) may receive the greater of $250 per month or 25% of FAS.

Benefits are payable to the surviving spouse who is adjudged physically or mentally incompetent. Also, a spouse with children eligible for monthly benefits will receive a benefit immediately regardless of the age of the spouse.

As long as the member did not have any children eligible for a monthly benefit, and the member was eligible to retire on a monthly benefit but chose to stay on the job, a monthly benefit for the spouse at the member s death may be calculated as though the member had retired and taken Plan D. This option provides for the monthly allowance to continue through the spouse s lifetime.

A child may qualify for monthly benefits if they have never been married or are a natural or legally adopted child under age 18, (or 22 if a qualified student attending an accredited school) or a child of any age who is physically or mentally incompetent at the time of the member s death. Benefits terminate upon the child s first marriage, adoption by someone other than a step-parent, abandonment, death, or during active military service.

Also, survivor benefits will be stopped after a child reaches age 18, unless proof is submitted that the child is attending an institution of learning or training and pursuing a program of study equivalent to at least two-thirds of the full-time curriculum requirement of the institution. Forms are provided by OPERS for submission of the necessary proof by the surviving spouse or student, and by the school.

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–OPERS-provided health care is not a statutorily required benefit. Currently, when applying for age-and-service retirement, a member with 10 years of Ohio service credit has OPERS health care plan coverage available. These 10 years may not include out-of-state and/or military service purchased after January 29, 1981, service granted under a retirement incentive plan, or credit purchased after May 4, 1992 for exempt service. Health care coverage for disability recipients and primary survivor recipients is available. Dependents of eligible recipients may be covered through premium deductions. Qualified benefit recipients also may be eligible for alternative health care plans (HMOs), which may require a premium deduction.

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

Medicare Part B Reimbursement–Recipients who are eligible for health care must enroll in Medicare B (medical) when they become eligible for Medicare B, even if they are covered by health care through their current employer. Proof of enrollment must be submitted and OPERS will then reimburse the recipient for the basic premium cost of the Medicare B premium as long as the recipient is enrolled in Medicare B. The amount is added to the monthly benefit.

Cost-of-Living Adjustment–Once a benefit recipient has received benefits for 12 months, an annual 3% cost-of-living adjustment is provided each year.

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, from $500 to $2,500, is 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 which allows OPERS recipients to receive the amount of their calculated benefit that exceeds the IRS limits.

Refunds

Before a refund may be issued, the law requires three months must elapse from the date certified by the employer that the member terminated public employment. Members of the Traditional Pension and Combined Plans may qualify for an employer match on their contributions. For members with at least five years of service credit, the match amount is 33% of the member s eligible contributions. For members with at least 10 years of service credit, the match amount is 67% of eligible contributions.

Under the Traditional Plan, full recovery of all employee contributions to OPERS is guaranteed. Members may apply for and receive their accumulated contributions, interest, and a matching amount if the member has five or more years of service credit. If the member is also a member of the State Teachers Retirement System or the School Employees Retirement System, an application for refund from the other system(s) must have been filed in order to receive the money from OPERS.

A member participating in the Combined Plan may receive all employee contributions and any investment gains and losses on those contributions. If a member had five or more years of service, the member may receive a matching amount of employer contributions.

If a refund is taken and the individual later returns to covered employment for at least 18 month, the amount refunded, plus interest, may be redeposited and service credit restored.

Benefits Under The Member-Directed Plan

Age-and-Service 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 payment options for payment of the vested portion of their individual OPERS accounts. They can purchase a monthly annuity from OPERS with their balance, which includes joint and survivor options. Other payment options include partial lump-sum payments (subject to limitations), payments for a guaranteed period, payments of a specific monthly amount, or a combination of these options. Members also may defer payment of their individual OPERS account.

Disability Benefits

The vested portion of a Member-Directed Plan participant s individual OPERS account will be available through a refund after the member becomes disabled.

Survivor Benefits

In the event of a Member-Directed Plan participant s death, the vested portion of the member s individual account balance will be available to the member s beneficiaries.

Additional Benefits

Health Care Coverage—For members participating in the Member-Directed Plan, a portion of the employer contribution is credited to a Retiree Medical Account (RMA) and vests on a 10-year schedule. Upon refund or retirement, vested contributions in the RMA 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 and any investment earnings on those contributions. Depending on length of participation in the Plan, a member may also receive a portion of the employer contributions, plus any investment earnings, based on the following schedule:

Years of Participation	PercentageVested
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 a job that is covered by OPERS, including service in an elected position, may affect continuing receipt of an age-and-service retirement benefit.

Retirees begin contributing from the first day of re-employment at a rate of 8.5% of earnable salary. State employers contribute 13.31% for these re-employed retirees and local employers contribute 13.55%.

A retiree should not be re-employed for at least two months after retirement from an OPERS-covered employer. A retiree who returns to work and has not been retired for two months must contribute to OPERS; however, the current retirement allowance for each month in which re-employment occurs during those two months will be forfeited.

Re-employed retirees have a choice of several payment options: Plans A through D are available. The choices include benefits payable throughout the member s lifetime (Plan B-single life annuity) 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 a 50% joint-survivor payment to a spouse (Plan A), 0-99% joint-survivor payment to a designated beneficiary (Plan C), or 100% payment to a designated beneficiary (Plan D). A benefit payable under Plans A, C, or D is the actuarial equivalent of Plan B, but the payment to the member is reduced because it is based on the combined life expectancies of the member and the beneficiaries.

The employer must provide the re-employed retiree s primary health care coverage if it is available to other employees in comparable positions. The employer health care coverage cannot be waived by the re-employed retiree. Suspension or forfeiture of the retirement allowance interrupts the retiree s health care coverage.

A person who is retired from OPERS and returns to OPERS-covered employment as an elected official is treated as a re-employed retiree. A person who is retired from another Ohio retirement system and becomes an OPERS member as an elected official is also treated as a re-employed retiree. However, if an OPERS member is covered for non-elected official service, and is also an elected official contributing to Social Security for the elected position, and then that person retires from the non-elected position, the individual's status is different: That individual is not treated as a re-employed retiree for the current elected position or for subsequent elected service.

An OPERS 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.

A disability or age-and-service benefit recipient from another Ohio system coming into OPERS-covered employment should be retired for at least two months and must begin contributions to OPERS from the first day of employment. These recipients will earn a money purchase annuity based on the calculation of the sum of employee contributions received for the period of re-employment, plus allowable interest, multiplied by two.

an elected official also is treated as a re-employed retiree. However, if an OPERS member is covered for non-elected official service, and is also an elected official contributing to Social Security for the elected position, that person's elected service has an effect on OPERS re-employed retirees for subsequent elected services.

OPERS retirees cannot continue to receive benefits and work as an independent contractor under contract for any period of time for the employer from which they retired.

A disability or age-and-service benefit recipient from another Ohio system coming into OPERS-covered employment should be retired for at least two months and must begin contributions to OPERS from the first day of employment. These recipients will earn a money purchase annuity based on the calculation of the sum of employee contributions received for the period of re-employment, plus allowable interest, multiplied by two.