OPERS

Ohio Public Employees Retirement System

The Comprehensive Annual Financial Report

For the years ended December 31, 2005 & 2004

OPERS will achieve its vision by acting in the best interest of its participants, maintaining the financial security of the trust fund, and providing exceptional service to our members, benefit recipients and employers.

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INTRODUCTORY SECTION

The OPERS Retirement Board

Front row, left to right, seated: Carol Nolan Drake, Director of the Ohio Department of Administrative Services; Helen Youngblood, representing county employees; Cinthia Sledz, representing miscellaneous employees; Warren W. Tyler, Treasurer-appointed investment expert

Second row, left to right standing: John W. Maurer, representing retirees, Robert C. Smith, gubernatorial-appointed investment expert; Ronald C. Alexander (chair), representing state employees; Sharon M. Downs (vice-chair) representing retirees; Charlie Adkins, representing state college and university employees; Ken Thomas, representing municipal employees.

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 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

Auditors

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

*As of February 2006

Advisors

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

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

See page 67 for a list of Investment Consultants and page 82 for a list of External Asset Managers.

Letter of Transmittal

OPERS Ohio Public Employees Retirement System
277 East Town Street Columbus, Ohio 43215-4642 1-800-222-7377 www.opers.org

April 26, 2006

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, 2005 and 2004. We are proud of OPERS' achievements during the year 2005, and we will continue to strive to improve customer service to our members and benefit recipients in the future. As in the past, the responsibility for the accuracy of the data presented here, 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 high quality 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 OPERS 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 to help maintain the solvency of the OPERS Health Care Fund. In 2005, significant progress was made on the three major objectives which underpin our strategic goals:

- Improving the System's funded status,
- Lengthening the solvency period of the Health Care Fund, and
- Enhancing member services and options.

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. As OPERS members, Ohio's public 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.

Readers of this document can find additional information on available benefits by reviewing the Plan Statement starting on page 124.

Currently, OPERS serves more than 709,000 members, and provides more than 151,000 retirees and surviving beneficiaries with monthly benefits. In addition, the System currently works with more than 3,700 public employers. As of December 31, 2005, OPERS managed an asset base of almost $70 billion, an increase of $4.4 billion, or 6.7%, from the $65.2 billion asset base reported at year-end 2004.

Employer Reporting Structure and Membership Information

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 123.

Annual Report Organization

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

- *Introductory Section*—with the Letter of Transmittal, organizational chart, and recognition awards garnered in 2005;
- *Financial Section*—with the Independent Auditor's Report, Management's Discussion and Analysis (unaudited), the financial statements of the System and Required Supplementary Information;
- *Investment Section*—with a report on investment activity, investment policies, investment results, and various investment schedules;
- *Actuarial Section*—with the Actuary's Certification Letter, and the most recent results of the annual actuarial valuation;

- *Statistical Section*—with significant data pertaining to the System, and the
- *Plan Statement*—with complete membership information and details about the retirement plans offered through OPERS.

2005 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 2005—a year during which the priorities established in the first part of the decade continued to be the overriding focus. As mentioned previously, the targeted priorities against which all activities are measured include:

- Improving the System's funded status,
- Lengthening the solvency period of the Health Care Fund, and
- Enhancing member services and options.

During 2005, significant strides were taken toward attaining our stated goals.

Funded status:

Simply put, the funded status measures OPERS' progress toward accumulating the funds necessary to meet future pension obligations. Ideally, OPERS targets a funding status of 90-95%. Although OPERS enjoyed a brief period of being fully funded in the 1990s, that full-funded status was eroded during the market downturns of 2000-2002. However, as of the date of OPERS' most current valuation (December 31, 2004), OPERS' funded status was 87.6%—an improvement over the last valuation (December 31, 2003) which marked OPERS' funded ratio at 85%. In general, this means that for every dollar of future pension liability, OPERS has accumulated almost $0.88 to meet that obligation.

To continue improving the System's funded status, investment returns must be generated that will help the System meet future obligations. Of course, the counterpart to generating more income in any fiscally responsible organization is controlling expenses. In 2005, OPERS experienced significant success both in generating income and controlling expenses.

Regarding the generation of income, the total OPERS investment portfolio returned slightly more than 9.0%, and added $5.7 billion to assets in 2005. These returns were excellent, and well above the actuarial target rate of 8%. In fact, all asset classes within the OPERS portfolio exceeded their respective benchmarks. Significantly, OPERS manages approximately 61% of its investments internally through a staff of 51 investment professionals. It's estimated that more than $9.6 million has been saved in commission fees in the non-U.S. equity area since 1999, and more than $437,000 in the externally managed area since 2004. The balance of the portfolio is managed by external money managers in Ohio, and throughout the world.

Investments are touched upon later in this Letter of Transmittal, and fully discussed in the Investments Section, beginning on page 69 of this Annual Report.

One 2005 initiative aimed at improving the funded status of OPERS relates to proposed legislation. At the request of the OPERS Retirement Board, House Bill 272 was introduced and is currently pending in the legislature. The bill includes provisions that would have a favorable impact on the System. As introduced, the bill:

- Requires employers to remit contributions monthly,
- Requires benefit recipients who are employed by a public or private employer with health care coverage to use that health care coverage as primary and OPERS health care as secondary coverage,
- Establishes a program in which participants in any of OPERS' retirement plans can contribute voluntarily to a retiree medical account,
- Increases the minimum earnable salary for which a member can earn one full year of service credit from $250/month to $450/month and provides a mechanism for this minimum to be indexed in future years, and
- Adjusts the contribution rate for members in the law enforcement division from a fixed percent to a formula-based percent. Although this will have no immediate impact, it does allow for future increases in the contribution rate.

In addition to these provisions, all of which will have a favorable impact on the funded status of OPERS, the bill also contains a number of customer service and administrative improvements. OPERS is working with the legislature to enact House Bill 272 in 2006.

Another significant 2005 event that will improve funding was the Retirement Board's approval of the member and employer contribution rate increase effective January 1, 2006. OPERS' contribution rates have not changed in more than 27 years (except for a slight temporary decrease in 2000). Beginning in 2006, member contribution rates will increase by 0.5% each year for three years, increasing from 8.5% of payroll to 10%. Similarly, employer contribution rates will increase from the current rate (13.31% for employers in the state division and 13.55% for employers in the local division) up to the statutory maximum of 14%, phased in, pro-rata, over the three years beginning in 2006. The contribution rate for employers in the Law Enforcement Division will increase from the current rate of 16.7% up to the statutory maximum of 18.1% phased in, pro-rata, over a six-year period beginning in 2006. The additional funding from the contribution rate increase will be used to improve both the pension funding and the health care funding. The Retirement Board's decision was not entered into lightly, but was determined to be the recommended course of action after reviewing future projections.

Regarding the controlling of expenses, in 2005, at the ongoing direction of the Retirement Board, management and staff worked together to identify and implement a variety of cost-savings initiatives. This resulted in the administrative expenses coming in under budget by $3.9 million, or 4.4% by year end.

Anticipating that the number of benefit recipients will continue to grow, many activities in 2005 were focused on implementing cost-control efficiencies to allow the System to effectively handle the exponentially growing retiree population without a corresponding increase in staff. Clearly, harnessing the use of technology to deliver efficiency and enhanced services was, and is, the answer.

To that end, one of the larger technology initiatives, the imaging and workflow software project, essentially replaces paper files with electronic images that move seamlessly through the many departments that are required to complete a work process. This imaging project will greatly increase the volume of work staff can handle and will improve efficiency. Although this project was in the design phase in 2005, future savings upon implementation are estimated at several million dollars per year.

Another significant technology initiative begun in 2005 was the new health care system. This system will form the information backbone in providing members and retirees data to make informed choices among available health care options.

Other successful cost-saving initiatives include the transition to mandatory direct deposit of pension checks, which resulted in a 96.5% participation rate from retirees and the implementation of employer reporting accuracy standards—both projects were successfully launched because of a collaboration of training, communications and system enhancements. The improved employer reporting accuracy standards have improved the quality of employer information submitted to OPERS, which ultimately has resulted in improved efficiency and reduced costs. Simultaneously, the number of employers submitting contribution information electronically has increased such that almost 90% of active members' contribution data is reported electronically.

Health care

Significant work was accomplished in 2005 to implement the Health Care Preservation Plan (HCPP), approved by the Retirement Board in 2004. 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-employment health care coverage for members and, by approving the HCPP, have decisively moved to help ensure that health care benefits can be provided, to the extent that funds are available, well into the future.

At the Retirement Board's direction, the development and implementation of HCPP is a multi-year, collaborative project involving the effort of every OPERS division. The Retirement Board recognized that all pension systems providing health care benefits have been challenged by specific marketplace trends. These include: skyrocketing health care costs, earlier retirements, increased longevity and the retirement of the baby-boomer generation. Because OPERS' Health Care Fund could have been almost exhausted in approximately 15 years if no action were taken, the Retirement Board made critical decisions that would help preserve the solvency of the fund.

The changes provided by the HCPP include altering the health care benefits plan design (increasing deductibles, coinsurance and cost sharing), changing eligibility (requiring longer length of service to qualify), introducing wellness and prevention programs and pursuing strategic and visionary initiatives such as health care industry reform and legislative action. The HCPP was also designed to be flexible. Annual reviews of the health care initiative will enable OPERS to monitor and continue to address marketplace changes.

Throughout 2005, OPERS management and staff have been working to smoothly and effectively implement the changes outlined by the HCPP. The HCPP's goal is for OPERS to have reserves set aside to fund 15-25 years of future health care expenditures. Currently, OPERS has funds set aside to adequately fund 17 years of health care. This target solvency figure is aggressive, but attainable—even with the current estimate that $50 million is required to add a year of solvency.

Because the HCPP changes are being phased in to minimize the impact on individuals, it is a complex plan to implement and ultimately to administer. To allow members and retirees time to understand the changes and make appropriate decisions, actual changes to health care coverage will not begin until January 2007.

It's rewarding and important—especially for a project of this magnitude—that the positive impact of HCPP has already become manifest. In 2005, OPERS experienced a 12.7% increase in total health care costs over 2004, a rate equal to the national average. However, this cost growth includes a 3.3% increase in the number of retirees receiving health care benefits.

Efforts to extend the solvency period of the Health Care Fund and reduce overall health care costs will continue. During 2005, the System enrolled in the Medicare D subsidy program. The anticipated savings of approximately $50 million from participating in this program is expected to add a year of solvency to the Health Care Fund. Finally, OPERS continues to explore other savings opportunities such as wellness initiatives and reimbursing for less-expensive alternatives to some of the higher-cost drugs.

The Retirement Board has directed staff to never forget that people—our members—are what make up the statistics. To that end, new initiatives will continue to be implemented to reward and support members for becoming better, more informed, health care and benefits consumers.

Member Service Initiatives

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

Many initiatives completed in 2005 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. Just as the applied use of information technology will allow OPERS to control administrative expenses, an ongoing focus on operational efficiency will allow the System to provide outstanding customer service to the escalating number of members and retirees. OPERS has targeted the use of enhanced information technology, and combining that technology with user-friendly access and communications, to enable members and benefits recipients to better make important, timely, financial decisions with all information available on demand. Here are some examples:

- Member Benefits System

  Recognizing that a retiree's financial status may determine many life decisions, in February 2005 OPERS opened the Web-based Member Benefit System (MBS) to retirees so that access to personal account information could be provided, 24/7. MBS also processes routine requests such as income verification letters and some forms. As of year-end, almost 161,945 members and retirees had registered to use MBS.

- Communication to inactive members

  For the first time ever, in 2005 almost 27,000 vested, inactive members received annual statements. This is an important step to help these members determine how they want to handle their retirement accounts. It's expected that a significant number of individuals may choose to close their accounts, ultimately providing OPERS with some cost savings as the System will no longer be responsible for administering what are essentially inactive accounts.

Customer service initiatives have long been a focal point of all OPERS activities. In 2005, OPERS was given a strong endorsement from members when the 2005 Annual Member Satisfaction Survey indicated that 70% of all members rated themselves to be very satisfied with OPERS.

Although members and benefits recipients are OPERS' main customers, the Retirement Board has directed staff to view the employer group as important, valued customers as well. The partnership between OPERS and employers is of critical importance for our members, Ohio's public employees. To facilitate this partnership, OPERS worked in 2005 to collaborate and partner with Ohio's public employers so that they receive all the necessary information for accurate retirement contribution reporting and retirement payment processing, as well as information about important marketplace actions and legislative updates that might affect how employers report contributions and answer employee (member) questions. In 2004-2005, to fully implement this partnership between OPERS and employers, OPERS enhanced its communications to employers. In 2005, OPERS began piloting an electronic distribution program for employers for printed publications. The electronic distribution program for employers is expected to be broadly available in 2006. The program, while improving service to the employer stakeholder group, is also expected to reduce print costs.

Impact of Legislation

Traditionally, OPERS has had strong and effective working relationships with federal, state and local lawmakers—the activities of 2005 continued to build on that tradition.

To keep up with the rate of change, and believing that strong working relationships are the result of excellent communications, three new communication vehicles were introduced in 2005 to further enhance the working relationship between OPERS and legislators. The brochure, *A Quick Reference Guide for Ohio Legislators*, was created to help inform legislators—new and established—about public pension issues. To further the prospect of informed advocacy, two quarterly informational pieces, *Capital Update* and *Legislative Agenda*, keep OPERS members and employers abreast of pending legislation. 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 that the position of pension systems has been heard at both the federal and state levels on health care issues. Because of strong advocacy efforts, public sector pension plans that were originally excluded from the Medicare Part D drug reimbursement plan were included in the final legislation. This means that beginning in 2006, OPERS will be able to use the new federal program to offset a portion of prescription drug costs. As noted above, estimates indicate an annual potential savings of approximately $50 million, and would help extend the solvency period of the OPERS Health Care Fund by a year.

Furthering the health care agenda, OPERS took a leadership role in developing a coalition of public pension funds and public sector health care providers across the United States to discuss common issues and seek solutions to control health care costs. At the first annual Public Sector Health Care Roundtable meeting in November 2005, representatives of many pension systems convened to exchange best practices and to ensure the best interests of members are represented to state and federal legislators.

Legislative and Advocacy Focus for 2006

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, while improving member benefits.

At the state level, OPERS continues to advocate legislation such as House Bill 272 that would positively impact the funded status of the System.

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.

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.

2005 Financial Results

OPERS completed the year with a strong financial performance. OPERS' total net assets for the year ended December 31, 2005 were $69.7 billion, which is a $4.4 billion increase over the prior year.

The collection of employer and employee contributions, as well as income from investments, provide the reserves needed to finance retirement benefits. As mentioned previously, investments in 2005 returned 9.0%, and added $5.7 billion to assets—the third consecutive year of positive returns since the market decline of 2000-2002. These figures are impressive in the face of a volatile U.S. equity market, rising oil prices and an essentially flat non-U.S. equity market. Complete information about OPERS' investment returns are more fully explained in the Investment Section, beginning on page 69.

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 for fiscal year 2005 totaled $4.05 billion, an increase of 9.7% over 2004. The increase is primarily due to an increase in the number of benefit recipients. The number of benefit recipients increased 3.3%, up to 151,758, from the 146,966 figure for 2004. In addition, as anticipated, there was an increase in retiree health care expenses from $963 million in 2004 to almost $1.1 billion in 2005, a 12.7% increase. This increase is attributed to health care inflation and an increase in the number of covered lives.

OPERS' 2005 administrative expenses, including investment expenses totaling $84.9 million, reflect a decrease of $0.2 million, or 0.3%, when compared to fiscal year 2004 expenses. However, it's important to note the 2005 actual administrative expenses were almost $3.9 million below the approved 2005 budget. Closing out the 2005 budget below the target amount is attributable to system-wide efforts to reduce costs by demonstrating cost-effective management. Administrative expenses are detailed in the Financial Section on page 66.

For a complete analysis of the additions and deductions to the Plan Net Assets, please see Management's Discussion and Analysis (unaudited) beginning on page 26.

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.

OPERS' actuarial policy requires that investment income gains and losses be recognized (smoothed) over a four-year period. According to the latest actuarial valuation, dated December 31, 2004, the actuarial value of pension liabilities exceeds the actuarial value of pension assets by $7.2 billion. This actuarial valuation is an improvement over the last available actuarial valuation and reflects the strong investment returns OPERS has achieved in the past three years (2003-2005).

As a result, the System's actuarial pension liabilities are 87.6% funded, and the accrued unfunded actuarial liability will be funded or amortized in 27 years under accounting standards, which is within the required 30-year limit stipulated in state statute. However, it is important to note that the accounting standards do not permit inclusion of Retirement Board-approved increases in future contribution rates in the calculations. Actuarial calculations used for planning purposes do permit the inclusion of the new contribution rates and these calculations indicate the accrued unfunded actuarial liability will be funded or amortized in 24 years. The unaudited Management's Discussion and Analysis, starting on page 26, has a more in-depth discussion of OPERS' funded status. Also see page 62 for complete information for OPERS' funding years.

Investments

The System's investments are governed by state statute requiring a "prudent person" standard to be applied to all investment decisions. 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 members of OPERS Retirement Board, as responsible fiduciaries of the System, guide and determine the policies and strategies for the System's investments.

The Retirement Board has recommended, implemented and adhered to an asset allocation strategy that has helped OPERS weather market downturns and positively positioned OPERS to take advantage of strong markets. Simply put, the OPERS 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 94 of this report.

Investments in 2005 returned 9.0%, and added $5.7 billion to assets—the third consecutive year of positive returns since the market decline of 2000-2002. The entire OPERS fund is divided into a pension fund (defined benefit) and a health care fund. At the end of 2005, the Defined Benefit Fund totaled $57.7 billion, with an absolute return of 9.3%. The Health Care Fund totaled $11.8 billion, and experienced a return of 8%. Both funds significantly outperformed benchmark funds.

The annualized rate of return for the total plan (defined benefit and defined contribution plans combined) over the past three years was 15.4%, and 5.6% over the past five years.

Please see the Investments Section, starting on page 69, for a more comprehensive discussion of OPERS' investment program.

A Few Words about the Future

It's relatively easy to look back and analyze the past, which is the essential purpose of any annual report. A look back is critical to determine where an organization has been, so that the future can be anticipated with some degree of accuracy. With three strong years of investment returns and controlled administrative expenses to report, this Annual Report that details the activities and results of 2005 is especially encouraging.

Of course, we're extremely pleased that OPERS garnered impressive returns through 2005; but we're proud of the manner in which OPERS emerged from the downturns created by the volatile markets of 2000-2002. It's important to realize that, well prior to 2000, the OPERS Retirement Board was working with OPERS management to position OPERS to capture strong returns in good markets, and to minimize the risk of volatile markets. As an institutional investor with an infinite time horizon, the investment policies established by the Retirement Board had to mitigate risk, be forward looking, and be based on sound investment and economic strategies. With certainty, we can state that the adherence to the investment policies established by the Retirement Board positioned us to weather the expected, cyclical economic downturns in the past. So, while this report reflects the positive markets of 2003-2005, it's important to remember our historical perspective and be secure in the knowledge that OPERS is positioned to capture the opportunities of strong markets and to mitigate the risks inherent in weak ones.

However, nothing can change the past so it's appropriate to take a moment to discuss what's anticipated in the future.

Although OPERS has a strong tradition as a pension system, it is anything but traditional—we simply cannot afford to remain static while the world around us is changing. To continue to positively position this System for 2006 and beyond, we expect the initiatives of 2006 to be far-reaching and all-encompassing. Here's a quick look:

Disaster Recovery and Business Resumption—The events of 2005 clearly demonstrated that no organization is immune to disaster. A prudent management must be prepared for any disaster, all the while maintaining day-to-day service standards. To this end, OPERS has launched a full Disaster Recovery and Business Resumption program that will ensure the financial status of our members and the stability of the System in the event of a disaster.

Technology and Business-practices Redesign—The rate of change continues to accelerate, making the need for accurate, proactive communications to all our stakeholder groups and the need for accurate systems and processes of vital importance to all our stakeholders. To ensure that OPERS can continue to meet or exceed our customer service standards, all divisions within OPERS have been mandated to pursue the use of technology and redesign our business practices so that our end-state vision can be a reality.

Health Care—As touched upon above, in 2006 the first of the incremental contribution rate increases goes into effect. This is the first increase implemented by OPERS in 27 years, and this step was taken only after careful consideration. As we continue to target the 15-25 year Health Care Fund solvency period, we are constantly looking to implement innovative cost-savings alternatives. To this end, in 2005 the Retirement Board approved measures that change co-pays, deductibles and drug coverage that will cut costs and contribute to the long-term solvency of the Health Care Fund. OPERS will continue to seek healthy lifestyle incentives and pursue collaborations that may result in cost savings. The health care initiative continues to evolve even as we move toward the January 1, 2007 target implementation date of the health care services plan changes.

Awards

Our mission and commitment to our members can only be accomplished by vigilant adherence to the highest possible fiscal standards. In 2005, OPERS was honored to have been recognized for its achievements:

- ***2005 Certificate of Achievement***

  For the twenty-second 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, 2004. This annual recognition is awarded to government agencies with annual reports that meet or exceed generally accepted accounting principles and applicable legal requirements.

- ***2005 Distinguished Budget Presentation Award***

  OPERS was again recognized with GFOA's Distinguished Budget Presentation Award in 2005. This annual award recognizes significant achievement in creating a budget that meets the highest principles of governmental budgeting.

- ***2004 Public Pension Principles Achievement Award***

  OPERS was awarded the Public Pension Coordinating Council's 2004 Public Pension Principles Achievement Award, the most recent year the award was given. 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.

Professional Services

Professional services are provided to OPERS by consultants appointed by the Retirement Board.

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.

Respectfully submitted,

Laurie Fiori Hacking	Karen E. Carraher
LAURIE FIORI HACKING*	KAREN E. CARRAHER, CPA
Executive Director	Director—Finance

* At the time of the preparation of this annual report, Executive Director Laurie Fiori Hacking announced her resignation from OPERS. As executive director for the time period covered by this Annual Report, the Letter of Transmittal is over her signature. The Retirement Board named Blake W. Sherry as interim executive director. Mr. Sherry has also reviewed and approved this document.

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

Laurie Fiori Hacking

Parting Thoughts

Six years ago when I had the enormous good fortune to be selected by the Retirement Board to serve as the Executive Director for the Ohio Public Employees Retirement System, I knew I had reached a career pinnacle. Few events could have induced me to leave this position, a position that has proven to be so personally and professionally rewarding, except for an opportunity to return to Minnesota, which I consider to be my home. I hope you'll allow me the privilege to pause and reflect on the past six years with these few words…

When I came to OPERS in 2000, I knew I was coming to a rock-solid pension system with an outstanding tradition of financial strength and delivering quality service to all stakeholders—members, retirees, employers and legislators. That tradition had been established as a priority by the OPERS Retirement Board, and carefully nurtured through the years as the Retirement Board's leadership has guided this System through its history. When I came to OPERS, it was my goal to work seamlessly with the Retirement Board and the Leadership Team of senior management to continue to enhance that tradition. With the hard work of both the board and staff, I believe we have been successful in that endeavor.

I leave you in good hands. I know this Leadership Team to be second to none and capable of many more accomplishments. To a person, they are dedicated, innovative, visionary and have worked tirelessly to attain the goals established by the Retirement Board. Please know that it has been an honor to serve this System and partner with the Retirement Board, the OPERS Leadership Team and staff as we worked to fulfill the stated mission of OPERS—to my mind, we've truly been engaged in a noble pursuit. I am confident that the organization's pursuit of excellence will continue so that the ultimate beneficiaries will be Ohio's public employees.

Who knows if our paths will cross again? I sincerely hope they will. Until then, please know that I will be reading of the many successes of this System, and—most importantly—learning of the achievements of my friends and colleagues who have contributed so much to make OPERS what it is today, and what it will become in the future.

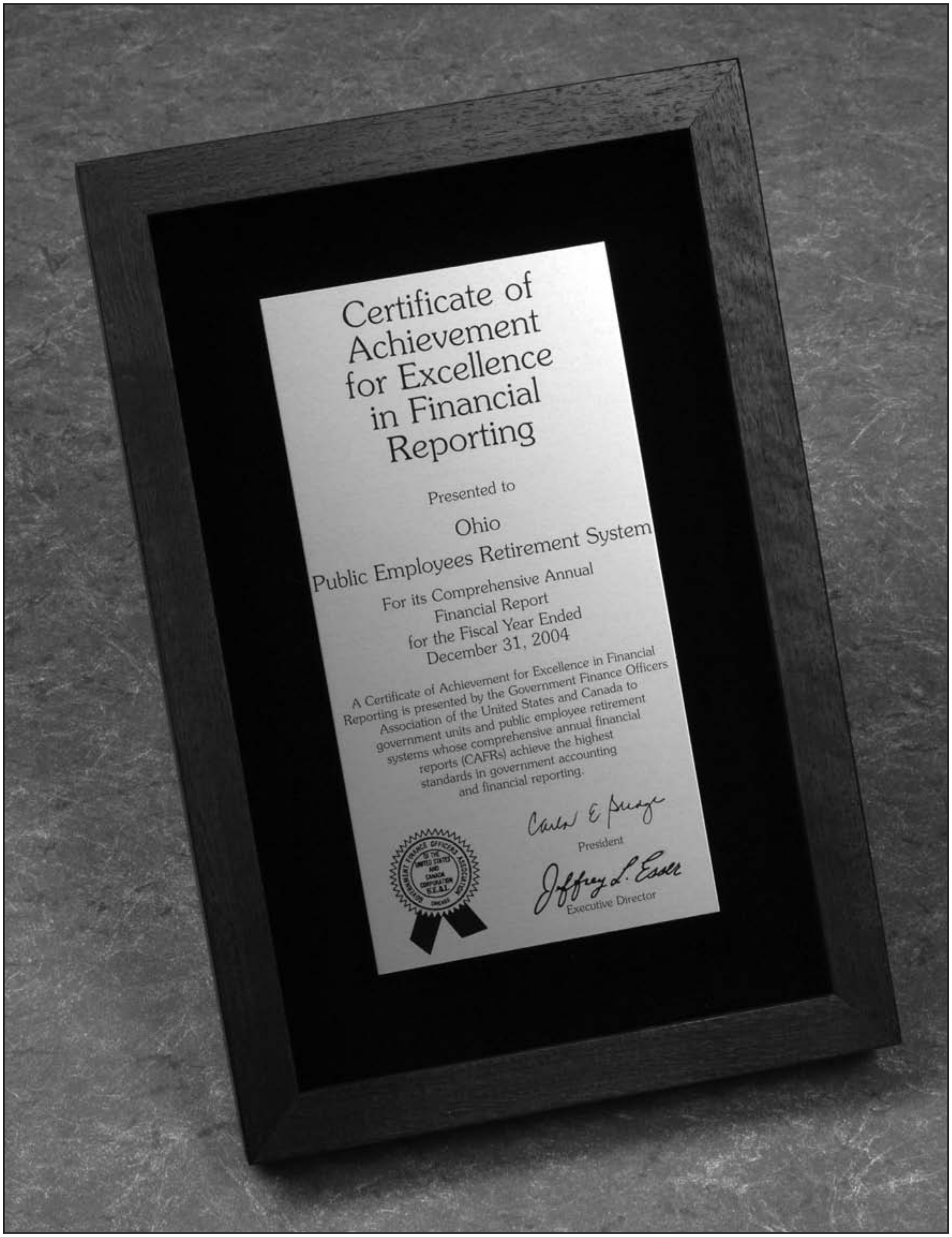
Please accept my sincere thanks for our time together.

Warm personal regards,

Laurie Fiori Hacking

Awards and Recognition

Certificate of Achievement in Financial Reporting



Public Pension Principles Achievement Award

Distinguished Budget Presentation Award

FINANCIAL SECTION

Independent Auditor's Report

KPMG

KPMG LLP
Suite 500
191 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, 2005 and 2004, 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 audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OPERS as of December 31, 2005 and 2004, and the changes in its fiduciary net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Audit Standards*, we have also issued a report dated April 25, 2006, 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.

The management's discussion and analysis on pages 26 through 35 and the schedules of funding progress and employer contributions and related notes on pages 62 through 65 are not a required part of the combining financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

The introduction section on pages 2 through 22, the investments section on pages 70 through 98, the actuarial section on pages 100 through 106, the statistical section on pages 108 through 122 and the Plan Statement on pages 124 through 130 have not been subjected to the auditing procedures applied in the audit of combining financial statements, and accordingly, we express no opinion on them.

KPMG LLP

Columbus, Ohio
April 25, 2006

Management's Discussion and Analysis
(Unaudited)

The management of the Ohio Public Employees Retirement System (OPERS) offers readers of the System's financial statements this narrative overview of the financial activities of OPERS for the years ended December 31, 2005 and 2004. 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 36.

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) Schedules of Employer Contributions, and
3) Notes to the Required Supplementary Information.

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

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

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

- The Traditional Plan is a defined benefit plan in which a member's retirement benefits are calculated on a formula that considers years of service and final average salary.
- The Combined Plan is a defined benefit plan with elements of a defined contribution plan. Under the Combined Plan, members earn a formula benefit similar to, but at a factor less than, the Traditional Plan benefit level. This defined benefit is funded by employer contributions and associated investment earnings. Additionally, member contributions are deposited into a defined contribution account in which the member self-directs the investment. Upon retirement or termination, the member may choose a defined contribution retirement distribution that is equal in amount to the member's contributions to the plan and investment earnings on those contributions.
- The Member-Directed Plan is a defined contribution plan in which members self-direct the investment of both member and employer contributions. The retirement distribution under this plan is equal to the sum of member and vested employer contributions, plus investment earnings on those contributions. Employer contributions and associated investment earnings vest over a five-year period at a rate of 20% per year.
- Post-employment Health Care Plan is 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. The health care portion of the employer contribution rate is the same for the Traditional and Combined Plans, and the same benefits are provided to participants in both plans.

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

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

- The Statement of Fiduciary Net Assets is a point-in-time snapshot of plan fund balances at fiscal year end. It reports the assets available to pay future benefits to retirees, and any liabilities that are owed as of the statement date. The resulting Net Asset Value (Assets – Liabilities = Net Assets) represents the value of assets held in trust for pension and post-employment health care benefits. (See Combining Statements of Fiduciary Net Assets for years ended December 31, 2005 and 2004 on pages 36-37 of this report.)

- The Statement of Changes in Fiduciary Net Assets shows the results of financial transactions that occurred during the fiscal year, where Additions – Deductions = Net Increase (or Net Decrease) in net assets. This net increase (or net decrease) in net assets reflects the change in the net asset value found in the Statements of Fiduciary Net Assets that occurred between the current and prior year.
  Both statements are in compliance with Governmental Accounting Standard Board (GASB) Pronouncements. (See Combining Statements of Changes in Fiduciary Net Assets for years ended December 31, 2005 and 2004 on pages 38-39 of this report.)

- 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, December 31, 2005 and 2004 on pages 40-61 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 and required notes. Each schedule includes historical trend information.

- The Schedule of Funding Progress (page 62) includes actuarial information about the status of the defined benefit plans from an ongoing, long-term perspective, and the progress made in accumulating sufficient assets to pay pension benefits under these plans when due. Valuation Assets in excess of Actuarial Accrued Liabilities indicate that sufficient assets exist to fund the future defined pension benefits of the current members and benefit recipients. Actuarial Accrued Liabilities in excess of Valuation Assets reflect an Unfunded Actuarial Accrued Liability (UAAL). The UAAL represents the value, in current dollars, that would need to be accumulated to fund the pensions of all active and retired members as of the date represented in the schedule. For OPERS, the UAAL is being systematically funded over 27 years.

- The Schedule of Employer Contributions (page 62) present historical trend information about the value of total annual contributions required to be paid by employers for the employees participating in each defined benefit plan, and the actual performance of employers in meeting this requirement.

- The Notes to Required Supplementary Information Schedules (pages 63-65) provide background information, a summary of the actuarial assumptions, and explanatory detail to help in understanding the required supplementary schedules.

The following schedules are provided about the expenses associated with administering the System.

- The Administrative Expense Schedule shows the total operating costs of managing the System, by major categories of expense, page 66.
- The Schedule of Investment Expenses summarizes the costs incurred by the Investment Division in managing the investment assets of the System. These costs are reported as Investment Administrative Expenses in the Combining Statements of Changes in Fiduciary Net Assets, and are reflected as a reduction in Net Investment Income, page 67.
- The Schedule of Payments to Consultants represents payments made to investment consultants for market analyses, performance statistics, etc. These payments are included in the Schedule of Investment Expenses, and provide a more detailed listing of the major investment service providers utilized by the System, page 67.
- The Schedule of Fees to External Asset Managers by Asset Class reports fees paid to external portfolio managers based on the value of assets managed. These External Asset Management Fees are not accounted for in OPERS administrative expenses, but are netted against investment income in the Combining Statements of Changes in Fiduciary Net Assets, page 67.

Financial Highlights

- The OPERS investment portfolio reported a total return of 9.0% for the year ended December 31, 2005, as compared to 12.5% in 2004.
- Plan net assets increased by $4.4 billion in 2005, or 6.7% over 2004 values, primarily due to investment returns. Plan net assets increased by $6.2 billion, or 10.4%, during 2004 due to a strong investment market.
- The year ended December 31, 2005 marked three consecutive years of investment returns in excess of the actuarial assumed return of 8%. These three consecutive years of investment returns exceeding the actuarial target were preceded by three straight years of market declines (2000–2002). Returns in excess of the actuarial assumption create an environment in which OPERS' actuarial accrued liabilities can be paid down at an accelerated rate. As of December 31, 2004, the date of the most recent actuarial valuation, OPERS' actuarial accrued liabilities exceeded its actuarial value of assets for an unfunded actuarial liability of $7.15 billion. This represents a reduction of $0.85 billion from the unfunded actuarial liability of $8.0 billion at December 31, 2003.
- OPERS' funding objective is to meet long-term benefit obligations and, to the extent possible, fund health care benefits. As of December 31, 2004 (again, the date of the latest actuarial valuation), OPERS' funded ratio was 87.6%. In general, this means that for each dollar's worth of future pension liability, OPERS has accumulated nearly $0.88 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 27 years. This represents an improvement in the funding status of the pension liability over that of the preceding

year. As of December 31, 2003, OPERS' funded ratio was 85.3%, with a funding year requirement of 29 years.

- Revenues (additions to plan net assets) for the year 2005 were $8.4 billion, which includes member and employer contributions of $2.7 billion, net gains from investment activities of $5.7 billion and other miscellaneous income totaling nearly $1.0 million. Miscellaneous income is comprised of gifts and bequests, cancellation of previous warrants, and litigation settlements. Additions to plan net assets for the year 2004 totaled $9.8 billion, comprised of $2.6 billion in contribution revenues, and $7.2 billion in net income from investment activities and other income.
- Expenses (deductions to plan net assets) increased from $3.7 billion during 2004 to $4.0 billion in 2005, or about 9.7%. The increase relates primarily to pension benefits and health care payments, which comprise $3.8 billion of the 2005 expenditures. Refunds of member contributions, including interest and some additional payments on withdrawal where required by statute, increased by $10.5 million or 5.0% from 2004 to 2005. Administrative expenses remained at approximately the same level as in 2004.

Analysis of Financial Activities

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

Net Assets (Table 1)

As of December 31, 2005, 2004, and 2003

	2005	2004	2003	Amount Increase/ (Decrease) from 2004 to 2005	Percent Increase/ (Decrease) from 2004 to 2005
Current and Other Assets	$ 840,574,773	$ 769,538,137	$ 715,624,089	$ 71,036,636	9.2%
Cash and Investments at Fair Value	80,279,862,945	73,568,348,371	63,823,372,963	6,711,514,574	9.1
Net Capital Assets	120,588,673	120,989,855	126,842,607	(401,182)	(0.3)
Total Assets	81,241,026,391	74,458,876,363	64,665,839,659	6,782,150,028	9.1
Total Liabilities	11,590,719,815	9,210,425,507	5,568,164,675	2,380,294,308	25.8
Net Assets, End of Year	**$69,650,306,576**	**$65,248,450,856**	**$59,097,674,984**	**$4,401,855,720**	**6.7%**
Net Assets, Beginning of Year	65, 248,450,856	59,097,674,984	47,986,297,065	6,150,775,872	10.4
Net Increases in Net Assets	4,401,855,720	6,150,775,872	11,111,377,919	(1,748,920,152)	(28.4)

Additions to Fiduciary Net Assets (Revenues):

(Refer to Table 2)

As noted, the reserves needed to finance retirement benefits are accumulated through the collection of member and employer contributions, and through investment income (net of investment expense). Revenues for the year ended December 31, 2005, totaled $8.4 billion, of which $5.7 billion, or 67.9%, resulted from net earnings on investments. For 2004, net investment income in the amount of $7.2 billion accounted for 73.1% of the $9.8 billion in total revenues.

Revenues for 2005 decreased by $1.4 billion, or 14.1%, from the prior year, primarily due to lower investment returns in 2005. However, it's important to put this decrease in the proper perspective. In 2003, OPERS generated a 25.3% investment return and ranked in the top one percent of its peer-group universe. In 2004 and 2005, OPERS continued to generate strong returns of 12.5% and 9.0%, respectively, despite a weakened investment market—well above the long-term actuarial assumption rate of 8.0%. The Investments Section found in this Annual Report summarizes the results of investment activity for the year ended December 31, 2005.

Member and employer contributions for 2005 increased by nearly $59.8 million over 2004, or 2.2%. This increase reflects a 1.7% growth in the population of actively contributing members, and a slight reduction in the average salary these members earn. See Table 3 for Membership information. Although the CPI-U salary trend for the Midwest reflected a 3.3% growth in wages, the lower average salary results from the retirement of higher-compensated, career employees who were, in turn, replaced by lower-paid individuals. During 2004, contributions decreased slightly from 2003 levels due to reductions in early retirement buyouts. Member and employer contribution rates have remained level as a percent of payroll for quite some time. The percentage of payroll that members and employers contribute for the state and local divisions of OPERS has not increased since 1977.

Other income results from the gain or loss on disposal of fixed assets, gifts and bequests, the cancellation of previous warrants, and litigation settlements. This activity totaled $980,539 of net additions in 2005 and ($107,798) of net deductions in 2004.

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

For the years ended December 31, 2005, 2004, and 2003

	2005	2004	2003	Amount Increase/ (Decrease) from 2004 to 2005	Percent Increase/ (Decrease) from 2004 to 2005
Member Contributions	$1,054,037,704	$1,041,342,350	$ 1,023,394,823	$ 12,695,354	1.2 %
Employer Contributions	1,653,257,139	1,606,120,209	1,626,778,671	47,136,930	2.9
Net Income from Investing Activities	5,740,076,574	7,192,406,571	11,868,086,475	(1,452,329,997)	(20.2)
Other Income, Net	980,539	(107,798)	411,093	1,088,337	(1,009.6)
Total Additions	**$8,448,351,956**	**$9,839,761,332**	**$14,518,671,062**	**$(1,391,409,376)**	**(14.1)%**

Membership (Table 3)

As of December 31, 2005, 2004, and 2003

	2005	2004	2003
Active Contributing	381,413	375,076	368,996
Inactive	327,864	313,248	302,546
Benefit Recipients	151,758	146,966	143,643
Total Membership	**861,035**	**835,290**	**815,185**

Deductions from Fiduciary Net Assets (Expenses):

(Refer to Table 4)

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

Expenses for the year ended December 31, 2005 totaled $4.0 billion, an increase of 9.7% over 2004. Expenses for 2004 increased by more than 8.3% when compared to 2003—from just over $3.4 billion in 2003, to nearly $3.7 billion in 2004. Approximately 93% of the expenses reported in each of these years relate to pension and post-employment health care benefits paid on behalf of current retirees and their beneficiaries.

Pension benefits increased by $225.0 million over the 2004 level, or 9.2%. This increase reflects a net growth of 3.3% in the number of retirees receiving benefits, and an increase in the final average salary on which the benefit is calculated. Final average salaries for new retirees in 2005 are nearly 5% higher than the salaries of those who retired in 2004. Pension benefits for 2004 reflected similar increases, rising $217.7 million over 2003 levels, or 9.7%.

The increase in health care benefits also reflects the expanding retiree population and the nation-wide trend in health care inflation that continues to be well in excess of general inflation. Health care expenses rose from $963.4 million in 2004 to $1.1 billion in 2005, or an increase of 12.7%. Annual health care expenses per retiree for 2005 were $7,152 compared to $6,555 in 2004, which reflects a growth of 9% in the expense per member. Thus, the actual increase in health care expense not attributable to increased retirees is less than 10%.

Deductions in Fiduciary Net Assets (Expenses) (Table 4)

For the years ended December 31, 2005, 2004, and 2003

	2005	2004	2003	Amount Increase/ (Decrease) from 2004 to 2005	Percent Increase/ (Decrease) from 2004 to 2005
Benefits	$3,764,595,257	$3,417,516,226	$3,144,246,755	$347,079,031	10.2%
Refunds	220,236,000	209,777,972	193,209,598	10,458,028	5.0
Administrative Expenses	61,664,979	61,691,260	69,836,790	(26,281)	0.0
Total Deductions	**$4,046,496,236**	**$3,688,985,458**	**$3,407,293,143**	**$357,510,778**	**9.7%**

Health care expenses are comprised of medical and prescription drug costs, as well as reimbursements to retirees for Medicare Part B premiums. Retirees must enroll in Medicare Part B when they become eligible, and OPERS reimburses the cost of the basic premium. During 2005, Medicare Part B reimbursements represented $80.1 million of the total health care expenses, rising 19% over 2004 levels. Medicare Part B reimbursements in 2004 totaled $67.3 million, or 14.6% higher than 2003 levels. These trends are indicative of the aging retiree population and increases in federal Medicare premium costs paid by retirees.

Refunds of member accounts are at the discretion of the member, and vary from year to year. In 2005, member elected refunds totaled $220.2 million, or slightly less than a 5.0% increase over the 2004 value of nearly $209.8 million.

OPERS has consistently managed within its administrative expense budget, with no material variances between planned and actual expenditures in either 2004 or 2005. Administrative expenses for 2005 totaled $84.9 million, down slightly from 2004 expenditures of $85.1 million.

Reserves (Refer to Tables 5 and 6):

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

These statutory funds are further subdivided to accumulate reserves by benefit plan. Table 6 displays the values in the statutory funds that comprise the net asset values held in trust for each benefit plan included in the financial statements for 2005 and 2004. The discussion below presents those statutory requirements that govern the transactions recorded in each fund.

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

Reserves (Table 5)

As of December 31, 2005, 2004, and 2003

	2005	2004	2003
Employees' Savings Fund	$ 9,810,364,125	$ 9,339,927,737	$ 8,896,964,040
Employers' Accumulation Fund Pension/Health Care	33,061,020,982	30,921,433,439	27,368,711,915
Annuity and Pension Reserve Fund	25,377,301,101	23,663,435,434	21,562,826,137
Survivors' Benefit Fund	1,209,472,794	1,171,933,656	1,143,463,941
Defined Contribution Fund Retirement/Health Care	102,223,154	62,970,790	35,826,751
Income Fund	87,484,700	84,749,285	89,838,868
Expense Fund	2,439,720	4,000,515	43,332
Total Fund Balance	**$69,650,306,576**	**$65,248,450,856**	**$59,097,674,984**

beneficiaries. Once these pension obligations have been met, reserves are accumulated to fund the future pension benefits of active members.

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

As of December 31, 2004, the date of the latest actuarial valuation, OPERS had not only accumulated sufficient assets to fund 100% of

Reserves by Plan (Table 6)

As of December 31, 2005 and 2004

	Traditional Plan	Post-Employment Health Care	Combined Plan	Member-Directed Plan	Voluntary Employees' Beneficiary Association	2005
Employees' Savings Fund	$ 9,810,182,770		$ 181,355			$ 9,810,364,125
Employers' Accumulation Fund Pension/Health Care	21,175,333,656	$11,845,713,012	39,974,314			33,061,020,982
Annuity and Pension Reserve Fund	25,377,301,101					25,377,301,101
Survivors' Benefit Fund	1,209,472,794					1,209,472,794
Defined Contribution Fund Retirement/Health Care			32,343,938	$54,502,026	$15,377,190	102,223,154
Income Fund	87,484,700					87,484,700
Expense Fund	2,439,720					2,439,720
Total Fund Balance	**$57,662,214,741**	**$11,845,713,012**	**$72,499,607**	**$54,502,026**	**$15,377,190**	**$69,650,306,576**

	Traditional Plan	Post-Employment Health Care	Combined Plan	Member Directed Plan	Voluntary Employees' Beneficiary Association	2004
Employees' Savings Fund	$ 9,339,889,114		$ 38,623			$ 9,339,927,737
Employers' Accumulation Fund Pension/Health Care	19,290,307,206	$11,609,113,358	22,012,875			30,921,433,439
Annuity and Pension Reserve Fund	23,663,435,434					23,663,435,434
Survivors' Benefit Fund	1,171,933,656					1,171,933,656
Defined Contribution Fund Retirement/Health Care			21,411,957	$33,579,873	$7,978,960	62,970,790
Income Fund	84,749,285					84,749,285
Expense Fund	4,000,515					4,000,515
Total Fund Balance	**$53,554,315,210**	**$11,609,113,358**	**$43,463,455**	**$33,579,873**	**$7,978,960**	**$65,248,450,856**

the benefits for retirees and their beneficiaries, but had also provided nearly 78% of the reserves necessary to fund pensions for active members based on service credit earned through year-end 2004. As of year-end 2003 OPERS had accumulated 74% of the reserves needed to fund pensions for active members. Changes in the funding status of a retirement system provide insights into the progress the system is making in building the reserves necessary to meet future pension and health care obligations.

Funding Status

As previously noted, OPERS' net investment income for the year ended December 31, 2005 totaled $5.7 billion, a total return of 9.0%. This gain continues a three-year period in which investment income has exceeded the actuarial funding requirement of 8.0%. As with all mature retirement systems, OPERS' primary means of funding benefit payments in the future will be through investment income. Ultimately, investment income will provide 80-90% of the funds necessary to pay retirement benefits. Therefore, the long-term rate of investment return is critical to the funding status of the 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 is not based on year-end fair value (market value) as of the valuation date. Market gains and losses for actuarial funding purposes are smoothed over a rolling four-year period. This smoothing of actuarial gains and 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, 2004, the date of our latest actuarial evaluation, the actuarial value of net assets set aside to pay defined benefit pension benefits (non-health care assets) was $50.5 billion. The fair value of these assets at December 31, 2004, included in the Traditional and Combined Plans on the financial statements of OPERS was $53.6 billion. Therefore, when viewing actuarial funding status, the market value of assets would provide a superior funding position to the actuarial value of assets as of December 31, 2004. This was also true in 2003. However, as a point of comparison, at the end of 2002 the actuarial value of pension assets exceeded the market value of pension assets making OPERS appear to be better funded than actual market values would have indicated.

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 2004 makes the System appear less well-funded than it actually is.

It's important to understand how these smoothing techniques affect funded status when reviewing the actuarial related data contained within this Annual Report. Based upon our latest actuarial valuation for the year ended December 31, 2004, the System's actuarial value of liabilities for defined pension benefits exceeded its actuarial value of assets by $7.15 billion. Actuarial projections indicate that the $7.15 billion in unfunded liabilities will be amortized and funded over a 27-year period, which is within generally acceptable funding guidelines. By comparison, the 2003 actuarial valuation reflected an unfunded actuarial liability of $8.0 billion and a 29-year funding period.

Financial Analysis Summary

Net asset reserves may serve over time as a useful indication of OPERS' financial position (Please refer to Table 1). At the close of calendar years 2005 and 2004, the net assets of OPERS totaled $69.7 billion and $65.2 billion, respectively. These net assets are available to meet OPERS' ongoing obligations to plan participants and their beneficiaries and, to the extent possible, to fund OPERS' post-employment health care benefits.

The market turnaround that began in 2003, and continued in 2004-2005, greatly boosted OPERS' funding position. However, in spite of the investment gains recorded, rising health care costs continue to impact OPERS' ability to fund retirement health care. As previously discussed, member and employer contribution rates are scheduled to increase to the maximum levels allowed under state law over the next several years. If favorable investment returns continue, it is anticipated that these contribution rate increases will permit the percentage of employer contributions used to fund post-employment health care benefits to be increased. However, OPERS' first priority remains to be in the position of adequately funding pension benefits.

Capital Assets

As of December 31, 2005, OPERS' investment in capital assets totaled $120.6 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 $8.7 million in capital assets during 2005, compared to an investment of $5.0 million in 2004. The most significant project included in this increase in capital expenditures is the renovation of the original office building ($2.3 million). This renovation project is expected to be completed by the end of 2006 at a cost of approximately $5.7 million. The majority of the remaining capital expenditures relate to the development of information technology systems necessary to support ongoing operations.

Combining Statements of Fiduciary Net Assets

As of December 31, 2005 and 2004

2005

	Traditional Plan	Post-Employment Health care	Combined Plan	Member-Directed	Voluntary Employees' Beneficiary Association
Assets:					
Cash and Short-Term Investments	$ 714,335,617	$ 250,418,690	$ 267,450	$ 738,324	$ 222,160
Receivables:					
Employers' and Employees' Contributions	223,411,815	67,383,947	3,576,622	2,917,211	1,245,074
Retirement Incentive Plans	23,031,233	1,805,631			
Investment Sales Proceeds	30,682,024	7,776,993	49,058	41,675	9,035
Accrued Interest and Dividends	191,522,071	51,057,887	153,683	38,512	56,398
Due From Other Plans	36,893,598				
Total Receivables	505,540,741	128,024,458	3,779,363	2,997,398	1,310,507
Investments, at fair value:					
Global Bonds	14,089,967,109	4,226,384,980	23,782,234	20,644,266	2,612,212
Equities	25,769,926,706	4,623,642,722	44,764,035	40,175,180	7,588,508
Real Estate	4,126,830,146	505,301,728	2,740,315		1,215,234
Private Equity	737,301,616		489,586		217,114
International Securities	11,694,519,347	2,281,196,185	14,040,415	9,116,753	3,443,702
Total Investments	56,418,544,924	11,636,525,615	85,816,585	69,936,199	15,076,770
Collateral on Loaned Securities	9,324,745,071	1,749,802,181	7,667,367	3,738,615	2,027,377
Capital Assets:					
Land	3,069,419	665,394			
Building and Building Improvements	88,216,497	19,096,169			
Furniture and Equipment	37,879,555	9,411,311	2,115,479	1,674,531	416,390
Total Capital Assets	129,165,471	29,172,874	2,115,479	1,674,531	416,390
Accumulated Depreciation	(33,189,160)	(6,266,653)	(1,257,428)	(995,331)	(247,500)
Net Capital Assets	95,976,311	22,906,221	858,051	679,200	168,890
Prepaid Expenses and Other	198,922,306				
TOTAL ASSETS	**67,258,064,970**	**13,787,677,165**	**98,388,816**	**78,089,736**	**18,805,704**
Liabilities:					
Undistributed Deposits	2,354,294				
Medical Benefits Payable		138,450,016			
Investments Commitments Payable	258,012,233	53,711,956	1,121,710	1,380,789	75,977
Accounts Payable and Other Liabilities	10,738,631				
Due To Other Plans			17,100,132	18,468,306	1,325,160
Obligations Under Securities Lending	9,324,745,071	1,749,802,181	7,667,367	3,738,615	2,027,377
TOTAL LIABILITIES	**9,595,850,229**	**1,941,964,153**	**25,889,209**	**23,587,710**	**3,428,514**
Net Assets Held in Trust for Pension and Post-Employment Health Care Benefits	**$57,662,214,741**	**$11,845,713,012**	**$72,499,607**	**$54,502,026**	**$15,377,190**

See Notes to Combining Financial Statements, beginning on page 40.
An unaudited Schedule of Funding Progress is presented on page 62.

2004

2005 Total All Plans	Traditional Plan	Post-Employment Health Care	Combined Plan	Member-Directed	Voluntary Employees' Beneficiary Association	2004 Total All Plans
$ 965,982,241	$ 889,697,209	$194,486,592	$22,755	$397,840	$165,830	$1,084,770,226
298,534,669	197,122,852	64,664,924	2,360,128	2,076,063	785,174	267,009,141
24,836,864	43,762,809	3,098,433				46,861,242
38,558,785	58,979,187	12,946,973	34,906	15,631	11,018	71,987,715
242,828,551	141,133,443	30,981,282	76,511	27,732	26,366	172,245,334
36,893,598	29,861,862					29,861,862
641,652,467	470,860,153	111,691,612	2,471,545	2,119,426	822,558	587,965,294
18,363,390,801	11,847,194,165	2,600,579,782	14,955,926	14,328,742.00	1,985,190	14,479,043,805
30,486,097,151	25,469,627,118	5,590,842,559	29,038,082	26,512,116	4,267,851	31,120,287,726
4,636,087,423	2,865,651,342	629,039,656	1,102,560		480,186	3,496,273,744
738,008,316	318,138,100	69,834,553	122,403		53,309	388,148,365
14,002,316,402	12,168,133,289	2,671,029,189	8,608,889	5,411,935	2,038,968	14,855,222,270
68,225,900,093	52,668,744,014	11,561,325,739	53,827,860	46,252,793	8,825,504	64,338,975,910
11,087,980,611	6,701,310,056	1,429,823,432	6,657,051	5,720,220	1,091,476	8,144,602,235
3,734,813	3,069,419	665,394				3,734,813
107,312,666	85,914,200	18,624,614				104,538,814
51,497,266	33,979,181	7,366,060	2,115,479	1674532	416,390	45,551,642
162,544,745	122,962,800	26,656,068	2,115,479	1,674,532	416,390	153,825,269
(41,956,072)	(25,619,709)	(5,553,881)	(835,763)	(661,558)	(164,503)	(32,835,414)
120,588,673	97,343,091	21,102,187	1,279,716	1,012,974	251,887	120,989,855
198,922,306	181,572,843					181,572,843
81,241,026,391	**61,009,527,366**	**13,318,429,562**	**64,258,927**	**55,503,253**	**11,157,255**	**74,458,876,363**
2,354,294	888,937					888,937
138,450,016		116,024,321				116,024,321
314,302,665	744,671,099	163,468,451	1,193,165	1,234,257	139,116	910,706,088
10,738,631	8,342,064					8,342,064
36,893,598			12,945,256	14,968,903	1,947,703	29,861,862
11,087,980,611	6,701,310,056	1,429,823,432	6,657,051	5,720,220	1,091,476	8,144,602,235
11,590,719,815	**7,455,212,156**	**1,709,316,204**	**20,795,472**	**21,923,380**	**3,178,295**	**9,210,425,507**
$69,650,306,576	**$53,554,315,210**	**$11,609,113,358**	**$43,463,455**	**$33,579,873**	**$7,978,960**	**$65,248,450,856**

Combining Statements of Changes in Fiduciary Net Assets

For the years ended December 31, 2005 and 2004

2005

	Traditional Plan	Post-Employment Health Care	Combined Plan	Member-Directed	Voluntary Employees' Beneficiary Association
Additions:					
Contributions:					
Members'	$1,027,553,641		$13,978,417	$12,505,646	
Employers'	1,157,407,447	$460,534,741	15,637,682	12,424,689	$7,252,580
Total Contributions	**2,184,961,088**	**460,534,741**	**29,616,099**	**24,930,335**	**7,252,580**
Income From Investing Activities:					
Net Appreciation in Fair Value of Investments	1,511,086,799	382,822,937	2,408,241	2,339,126	325,775
Bond Interest	740,647,020	124,871,047	518,992	168,903	159,676
Dividends	474,658,829	99,647,424	814,338	820,295	102,332
Real Estate Operating Income, net	648,411,391		354,320		139,791
International Income	1,342,128,203	262,947,660	1,441,940	1,047,300	289,349
Other Investment Income	220,291,371	6,773,879	120,377		47,493
Security Lending Income, net	21,857,062	3,082,946	16,400	6,587	4,713
External Asset Management Fees	(79,532,403)	(7,188,895)	(155,388)	(200,690)	(8,328)
Net Investment Income	4,879,548,272	872,956,998	5,519,220	4,181,521	1,060,801
Investment Administrative Expenses	(18,912,015)	(4,056,337)	(99,140)	(103,338)	(19,408)
Net Income from Investing Activities	4,860,636,257	868,900,661	5,420,080	4,078,183	1,041,393
Other Income, net	432,175	548,364			
Total Additions	**7,046,029,520**	**1,329,983,766**	**35,036,179**	**29,008,518**	**8,293,973**
Deductions:					
Benefits	2,679,084,743	1,085,508,757			1,757
Refunds of Contributions	215,398,602		1,390,162	3,447,236	
Administrative Expenses	44,375,744	7,875,355	4,432,803	4,128,233	852,844
Total Deductions	**2,938,859,089**	**1,093,384,112**	**5,822,965**	**7,575,469**	**854,601**
Interplan Activity:					
Balance Transfer	(25,923)		4,166	21,757	
Plan Changes by Participants	150,369		(6,082)	(144,287)	
Settlement Activity	(838,435)		421,665	333,774	82,996
Interest on Settlement	1,443,089		(596,811)	(722,140)	(124,138)
Total Interplan Activity	**729,100**		**(177,062)**	**(510,896)**	**(41,142)**
Net Increase	4,107,899,531	236,599,654	29,036,152	20,922,153	7,398,230
Net Assets Held in Trust for Pension and Post-Employment Health Care Benefits					
Balance, Beginning of Year	53,554,315,210	11,609,113,358	43,463,455	33,579,873	7,978,960
Balance, End of Year	**$57,662,214,741**	**$11,845,713,012**	**$72,499,607**	**$54,502,026**	**$15,377,190**

See Notes to Combining Financial Statements, beginning on page 40.

2004

2005 Total All Plans	Traditional Plan	Post-Employment Health Care	Combined Plan	Member-Directed	Voluntary Employees' Beneficiary Association	2004 Total All Plans
$ 1,054,037,704	$ 1,019,785,485		$ 11,408,263	$10,148,602		$1,041,342,350
1,653,257,139	1,113,946,023	$464,096,679	12,170,311	10,051,013	$5,856,183	1,606,120,209
2,707,294,843	**2,133,731,508**	**464,096,679**	**23,578,574**	**20,199,615**	**5,856,183**	**2,647,462,559**
1,898,982,878	3,875,975,957	856,405,146	3,203,692	2,774,348	474,874	4,738,834,017
866,365,638	554,015,332	122,129,931	174,425	11,510	67,721	676,398,919
576,043,218	485,704,694	107,071,190	448,952	411,192	59,371	593,695,399
648,905,502	237,244,398	52,299,350	70,799		29,000	289,643,547
1,607,854,452	749,694,175	165,266,361	435,135	285,895	91,640	915,773,206
227,233,120	47,185,083	10,401,718	14,081		5,769	57,606,651
24,967,708	17,362,104	1,861,915	5,395	3,900	1,032	19,234,346
(87,085,704)	(61,689,596)	(13,599,165)	(29,698)	(15,258)	(7,542)	(75,341,259)
5,763,266,812	5,905,492,147	1,301,836,446	4,322,781	3,471,587	721,865	7,215,844,826
(23,190,238)	(18,803,670)	(4,544,563)	(40,140)	(47,856)	(2,026)	(23,438,255)
5,740,076,574	5,886,688,477	1,297,291,883	4,282,641	3,423,731	719,839	7,192,406,571
980,539	(107,798)					(107,798)
8,448,351,956	**8,020,312,187**	**1,761,388,562**	**27,861,215**	**23,623,346**	**6,576,022**	**9,839,761,332**
3,764,595,257	2,454,131,826	963,384,400				3,417,516,226
220,236,000	207,121,141		601,042	2,055,789		209,777,972
61,664,979	47,589,813	2,694,253	5,032,027	4,898,872	1,476,295	61,691,260
4,046,496,236	**2,708,842,780**	**966,078,653**	**5,633,069**	**6,954,661**	**1,476,295**	**3,688,985,458**
0	22,072		(15,722)	(6,350)		0
0	199,643		(59,233)	(140,410)		0
0	2,544,577		(1,279,716)	(1,012,974)	(251,887)	0
0	744,183		(300,506)	(393,492)	(50,185)	0
0	**3,510,475**		**(1,655,177)**	**(1,553,226)**	**(302,072)**	**0**
4,401,855,720	5,314,979,882	795,309,909	20,572,969	15,115,459	4,797,655	6,150,775,874
65,248,450,856	48,239,335,328	10,813,803,449	22,890,486	18,464,414	3,181,305	59,097,674,982
$69,650,306,576	**$53,554,315,210**	**$11,609,113,358**	**$43,463,455**	**$33,579,873**	**$7,978,960**	**$65,248,450,856**

Notes to Combining Financial Statements

1. DESCRIPTION OF OPERS

a. Organization The Ohio Public Employees Retirement System (OPERS, or the System) is a cost-sharing multiple-employer public employee retirement system comprised of three separate pension plans: the Traditional Plan—a defined benefit plan; the Combined Plan—a combination defined benefit/defined contribution plan; and the Member-Directed Plan—a defined contribution plan. All public employees in Ohio except those covered by one of the other state or local retirement systems in Ohio, are members of OPERS. The Member-Directed Plan and the Combined Plan began 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 five 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 who participate in the Traditional and Combined Plans. 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 members are elected by the group they represent: the retirees (two representatives); employees of the state, employees of counties, employees of municipalities, non-teaching employees of state colleges and universities and miscellaneous employees. The remaining four members are appointed or designated by position. The governor, general assembly and treasurer of state each appoint a representative. The 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, 2005 and 2004 follows:

	2005	2004
Employer Units		
State group	277	268
Local government group	3,188	3,193
Law enforcement and public safety group	247	241
Employees, Members and Retirees		
Retirees and beneficiaries currently receiving benefits	151,758	146,966
Terminated employees not yet receiving benefits	97,668	92,408
Active Employees		
State group	117,405	110,207
Local government group	255,806	256,696
Law enforcement group and public safety group	8,202	8,173

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

b. Benefits All benefits of the System, and any benefit increases are established by the legislature pursuant to ORC Chapter 145. The Retirement Board, pursuant to Chapter 145 of the ORC, has elected to maintain funds to provide health care benefits to Traditional and Combined plan retirees and survivors of members. Health care benefits do not vest and are not a required benefit under ORC 145. As a result they may be reduced or eliminated at the discretion of the 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 five years or 60 contributing months of service credit, at age 55 with 25 or more years of service credit, or at any age with 30 or more years of service credit. The annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. Members retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment.

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

Prior to 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. Monthly QEBA payments start when the total amount of benefits received by the recipients exceed the IRC limit. The portion of the benefit in excess of the 415(b) limit is paid out of the QEBA and taxed as normal payroll.

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

- ***Defined Contribution Benefits:*** A participant of the Member-Directed and Combined Plans who has attained the age of 55, who has money on deposit in the defined contribution plans and whose public service terminated, may apply for retirement benefits. A variety of payout options are available to members eligible for these benefits. The amount available for defined contribution benefits in the Combined Plan consists of the members' contributions plus-or-minus the investments gains-or-losses resulting from the members' investment selections. Combined Plan members wishing to receive both a defined benefit and defined contribution benefit must meet the requirements for both types of benefits. The amount available for defined contribution benefits in the Member-Directed Plan consists of the members' contributions; vested employer contributions and gains or losses incurred as a result of the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period at a rate of 20% a year.
- ***Early Retirement Incentive Pla***n: 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 for participants in the Traditional and Combined 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. Under the original plan, a member who becomes disabled before age 60, and has completed 60 contributing months, is eligible for a disability benefit. Benefits are funded by the employee and employer contributions and terminate if the member is able to return to work. The revised plan differs in that a member who becomes disabled at any age with 60 contributing months will be eligible for disability benefits until a determined age. After the disability benefit ends, the member has an opportunity to apply for a service retirement benefit, or a refund of contributions, which are not reduced by the amount of disability

benefits received. Law enforcement officers are immediately eligible for disability benefits if disabled by an on-duty illness or injury. Members of the Member-Directed Plan are not eligible for disability benefits.

- ***Survivor Benefits:*** Dependents of deceased members who participated in either the Traditional or the Combined Plans may qualify for survivor benefits if the deceased employee had at least 18 months of service credit with the plan and at least three months of credit within the two and one-half years immediately preceding death. ORC Chapter 145 specifies the dependents and the conditions under which they qualify for survivor benefits.
- ***Health Care Benefits:*** The ORC permits, but does not require, OPERS to offer health care benefits. The ORC allows a portion of the employers' contributions to be used to fund health care benefits. OPERS maintains a Health Care Fund to provide benefits to the retirees and beneficiaries of the Traditional and Combined plans. The System currently provides comprehensive health care benefits to retirees with 10 or more years of qualifying service credit 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' Beneficiary Association (VEBA, Retiree Medical Account or RMA) on behalf of members in the Member-Directed Plan. Terminated members and retirees may be reimbursed for qualified medical expenses from their RMA funds.
- ***Other Benefits:*** Once a benefit recipient retiring under the Traditional Plan has received benefits for 12 months, an annual 3% cost-of-living adjustment is provided. 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. Upon termination of service, the member can elect to receive a lump sum payout or a monthly annuity.
- ***Refunds:*** Members who have terminated service in OPERS-covered employment may file an application for refund of their account. The 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.

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

c. Contributions OPERS' funding policy provides for periodic 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 were approved based upon the recommendations of the System's actuary. All contribution rates were within the limits authorized by the Ohio Revised Code.

Member and employer contribution rates, as a percent of covered payroll, were the same across all three plans for the year ended December 31, 2005. 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. Employer contribution rates as a level percent of payroll dollars are determined using the entry age normal actuarial funding method. This formula determines the amount of contributions necessary to fund: (1) the current service cost, which represents the estimated amount necessary to pay for defined benefits earned by the employees during the current service year; and (2) the prior service cost for service earned prior to 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. The annual employer contributions reported for the Traditional Plan for 2005 and 2004 were $1,157,407,447 and $1,113,946,023, respectively. Employer contributions for the Combined Plan for 2005 and 2004 were $15,637,682 and $12,170,311, respectively. Employers satisfied 100% of the contributions requirements.

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 for Traditional and Combined Plan members. The members of the Member-Directed Plan have funds deposited to a VEBA account on their behalf. For 2005 and 2004, 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 years of 2005 and 2004. The percentage of the employer contribution rate deposited to the VEBA for Member-Directed plan participants for 2005 and 2004 was 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, 2005, the Retirement Board adopted the contribution rates that were recommended by the actuary.

Retirement Board-Approved Contribution Rates: All Plans

	Employee Rate			Employer Rate		
	2005	2004	2003	2005	2004	2003
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, 2004, the date of the last actuarial study, and December 31, 2003, the necessary funding period for all divisions in the Traditional and Combined Plans was 27 and 29 years, respectively.

d. Commitments and Contingencies OPERS has committed to fund various private equity investments totaling approximately $738.0 million at December 31, 2005, and $388.1 million at December 31, 2004. The expected funding dates for these commitments extend through 2015. OPERS is a party in various lawsuits relating to plan benefits. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material adverse effect on OPERS' financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies followed by OPERS:

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, for any member who make a written application to withdraw their contributions are due 90 days after the member's termination of OPERS-covered employment Revenues, which consist of member and employer contributions, are recorded in the period the 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, 2005 and 2004 include year-end accruals based upon estimates derived from subsequent payment activity and historical payment patterns. Member and employer contributions, which are based on members' salaries, are due 30 days after the month in which salaries are earned. 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.

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. GASB Statement No. 40 was implemented for the year ended December 31, 2005. See Footnote 3 for disclosures required by this statement.

GASB Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans,* establishes standards that pension systems must use when reporting post-employment benefits, other than pension benefits (such as post-employment health care). The effective date of this statement, for OPERS, is for plan years beginning after December 15, 2005. Accordingly, OPERS anticipates implementation of the disclosure requirements of this Statement in its Comprehensive Annual Financial Report for the year ended December 31, 2006.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pensions,* established the standards that employers must use when reporting participation in retirement systems that administer post-employment benefit plans. Among these standards are requirements for displaying a plan's: funded status of their Other Post-employment retirement benefit (OPEB), OPEB liabilities, and for determining the adequacy of employers' contributions in meeting the funding objectives. The effective date of this statement, for OPERS, is for plan years beginning after December 15, 2006. Accordingly, OPERS anticipates implementation of the disclosure requirements of this Statement in its Comprehensive Annual Financial Report for the year ended December 31, 2007.

b. Investments OPERS is authorized by ORC Section 145.11 to invest under a prudent person standard and does so through an investment policy established by the 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."

Member-Directed Plan participants self-direct the investment of both member and employer contributions. Contributions must be invested with an investment manager approved by the OPERS Retirement Board. Similarly, participants in the Combined Plan 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 2005 and 2004 were $22,056,453 and $25,940,918, 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 personnel to total OPERS' personnel, as appropriate.

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

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

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

The table below is a schedule of the capital asset account balances as of December 31, 2004, and changes to those accounts balances during the year ended December 31, 2005.

	Land	Building and Building Improvements	Furniture Fixtures, and Equipment	Total Capital Assets
Cost				
Balances December 31, 2004	$3,734,813	$104,538,814	$45,551,642	$153,825,269
Additions		2,773,852	6,137,741	8,911,593
Write-offs			(192,117)	(192,117)
Balances December 31, 2005	3,734,813	107,312,666	51,497,266	162,544,745
Accumulated Depreciation				
Balances December 31, 2004		6,834,428	26,000,986	32,835,414
Depreciation Expense		2,141,932	7,088,579	9,230,511
Write-offs			(109,853)	(109,853)
Balances December 31, 2005		8,976,360	32,979,712	41,956,072
Net Capital Assets December 31, 2005	**$3,734,813**	**$98,336,306**	**$18,517,554**	**$120,588,673**

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

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

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

Traditional Plan

- ***The Employees' Savings Fund*** represents members' contributions held in trust pending their refund or transfer to a benefit disbursement fund. Upon an employee's refund or retirement, such employee's account is credited with an amount of interest (statutory interest) on the employee's contributions based on a 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, 2004, 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, 2004.
- ***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 used to fund the gains or losses incurred by participants and to fund administrative expenses of the Member-Directed Plan.
- ***The Expense Fund*** provides for the payment of administrative expenses with the necessary monies allocated to it from the Income Fund.
- ***The Voluntary Employees' Beneficiary Association (VEBA) Fund*** is the fund used to accumulate employer contributions in a Retiree Medical Account. The effective date of the VEBA program coincides with the effective date of the Member-Directed Plan. Accordingly, since January 1, 2003, a portion of employer contributions made on behalf of members electing to participate in the Member-Directed Plan have been deposited to the VEBA. Upon termination Member-Directed participants can used vested VEBA funds for reimbursements of qualified medical expenses. VEBA funds vest with the member over a 10-year period.

Combined Plan

- ***The Defined Contribution Fund*** represents members' contributions held in trust pending their refund or commencement of benefit payments. Members self-direct the investment of these funds.
- ***The Employees' Savings Fund*** represents members' deposits for the purchase of service credit held in trust pending their refund or transfer to the Annuity & Pension Reserve or Survivors' Benefit Funds. Upon an employee's refund or retirement, such employee's accounts are credited with an amount of interest (statutory interest) on the employee's deposits based on a rate of 1%.
- ***The Employers' Accumulation Fund*** is used to accumulate employers' contributions to be used in providing the reserves required for transfer to the Annuity and Pension Reserve Fund as members retire. Disability and survivor benefits are 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, 2005, there were no benefits being paid out of the fund to Combined Plan participants.
- ***Qualified Excess Benefit Arrangement (QEBA)*** is the fund from which annuity benefits exceeding the IRC 415(b) limits are paid for the defined benefit portion of the Combined Plan. As of December 31, 2005, 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 if from the Income Fund.

Statutory and IRC Fund balances at December 31, 2005 and 2004 are as follows:

For Year Ending December 31, 2005	Traditional	Post-Employment Health Care	Combined	Member-Directed	VEBA	Total
Employees' Savings Fund	$ 9,810,182,770		$ 181,355			$ 9,810,364,125
Employers' Accumulation Fund	21,175,333,656	$11,845,713,012	39,974,314			33,061,020,982
Annuity & Pension Reserve Fund	25,377,301,101					25,377,301,101
Survivors' Benefit Fund	1,209,472,794					1,209,472,794
Defined Contribution Fund			32,343,938	$54,502,026	$15,377,190	102,223,154
Income Fund	87,484,700					87,484,700
Expense Fund	2,439,720					2,439,720
Total	**$57,662,214,741**	**$11,845,713,012**	**$72,499,607**	**$54,502,026**	**$15,377,190**	**$69,650,306,576**

For Year Ending December 31, 2004	Traditional	Post-Employment Health Care	Combined	Member-Directed	VEBA	Total
Employees' Savings Fund	$ 9,339,889,114		$ 38,623			$ 9,339,927,737
Employers' Accumulation Fund	19,290,307,206	$11,609,113,358	22,012,875			30,921,433,439
Annuity & Pension Reserve Fund	23,663,435,434					23,663,435,434
Survivors' Benefit Fund	1,171,933,656					1,171,933,656
Defined Contribution Fund			21,411,957	$33,579,873	$7,978,960	62,970,790
Income Fund	84,749,285					84,749,285
Expense Fund	4,000,515					4,000,515
Total	**$53,554,315,210**	**$11,609,113,358**	**$43,463,455**	**$33,579,873**	**$7,978,960**	**$65,248,450,856**

g. Risk Management OPERS is exposed to various risks of loss related to theft of, damage to, and destruction of assets; injuries to employees; and court challenges to fiduciary decisions. To cover these risks OPERS maintains commercial insurance and holds fidelity bonds on employees. There were no reductions in coverage nor have there been any settlements exceeding insurance coverage for the past three years. As required by state law, OPERS is registered and insured through the state of Ohio Bureau of Workers' Compensation for injuries to employees. OPERS is self-insured for employee health care coverage. The only outstanding liabilities at the end of 2005 and 2004 were related to the employee health care coverage (see Note 8).

3. CASH AND INVESTMENTS

A summary of cash and short-term securities and investments held at December 31, 2005 and 2004 is as follows:

	2005 Fair Value	2004 Fair Value
Cash and Short Short-Term Investments:		
Cash	$ 24,935,192	$ 42,758,103
Short-term Securities		
Commercial Paper	167,901,582	399,736,719
U.S. Treasury Obligations	99,032	275,131,372
Agency Discount Notes	395,178	
Repurchase Agreements	450,000,000	
Money Market Bonds	140,029,077	
Short-term Investment Funds (STIF)	182,622,180	367,144,032
Total Short-term Securities	**941,047,049**	**1,042,012,123**
Total Cash & Short-term Investments	**$965,982,241**	**$1,084,770,226**
Investments:		
Global Bonds:		
Corporate Bonds	$ 5,795,257,289	$ 5,356,925,572
Government and Agencies	5,690,793,956	3,874,375,984
Mortgage Backed	6,877,339,556	5,247,742,249
Total Global Bonds	**18,363,390,801**	**14,479,043,805**
Equities	30,486,097,151	31,120,287,726
Real estate	4,636,087,423	3,496,273,744
Private Equities	738,008,316	388,148,365
International Securities	14,002,316,402	14,855,222,270
Total Investments Before Collateral	**68,225,900,093**	**64,338,975,910**
Collateral on Loaned Securities:		
Cash	11,087,980,611	8,013,899,805
Securities		130,702,430
Total Collateral on Loaned Securities	**11,087,980,611**	**8,144,602,235**
Total Investments	**$79,313,880,704**	**$72,483,578,145**

Custodial Credit Risk—Deposits

Custodial credit risk for deposits is risk that, in the event of the failure of a depository financial institution, OPERS will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. All non-investment related bank balances at year end were insured or collateralized with securities held by OPERS' pledging financial institution. Deposits held in the investment related bank account were neither insured nor collateralized for amounts in excess of $100,000. As of December 31, 2005, deposits totaling $4,121,163 were neither insured nor collateralized. OPERS has no formal policy specific to custodial credit risk. These assets are under the custody of the Treasurer of the State of Ohio.

Custodial Credit Risk—Investments

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

Credit Risk

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

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

The following table presents the quality ratings of OPERS' global bond assets, including short-term investments as of December 31, 2005.

Average Credit Quality and Exposure Levels of Non-government Guaranteed Securities

Fixed Income Security Type	Fair Value	Percent of All Fixed Income Assets	Rating Dispersion Detail
Agency Discount Notes	**$ 395,178**	**0.0%**	**AAA**
Commercial Paper:	118,018,354		A1+
	29,930,895		A2
	19,952,333		A3
Commercial Paper Total	**167,901,582**	**0.9%**	
Repurchase Agreements:	200,000,000		AA
	250,000,000		Not Rated

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Fixed Income Security Type	Fair Value	Percent of All Fixed Income Assets	Rating Dispersion Detail
Repurchase Agreements Total	**450,000,000**	**2.3%**	
Short Term Investment Funds	**182,622,180**	**0.9%**	**Not Rated**
Corporate Bonds - Short Term:	50,010,800		AAA
	16,799,430		AA
	48,218,847		A
	25,000,000		Not Rated
Corporate Bonds - Short Term Total	**140,029,077**	**0.7%**	
Corporate Bonds:	325,001,595		AAA
	464,947,436		AA
	1,405,213,627		A
	1,356,275,236		BBB
	212,801,866		BB
	503,151,715		B
	59,183,802		CCC
	16,958		CC
	129,873,930		Not Rated
Corporate Bonds Total	**4,456,466,165**	**23.1%**	
Asset Backed Securities:	611,918,459		AAA
	98,101,185		AA
	47,333,932		A
	81,364,787		BBB
	528,820		B
	406,037,333		Not Rated
Asset-Backed Securities Total	**1,245,284,516**	**6.5%**	
Mortgage-Backed Securities	**3,558,116,340**	**18.4%**	**AAA**

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Fixed Income Security Type	Fair Value	Percent of All Fixed Income Assets	Rating Dispersion Detail
Collateralized Mortgage Obligations:	2,786,527,432		AAA
	49,136,211		AA
	5,514,872		A
	45,187,573		BBB
	309,611,834		Not Rated
Collateralized Mortgage Obligations Total	**3,195,977,922**	**16.6%**	
Agencies	**1,598,326,166**	**8.3%**	**AAA**
Foreign Government Issues:	1,973,400		A
	195,787,469		BBB
	361,210,551		BB
	69,578,999		B
	9,038,500		CCC
	3,576,062		D
	98,368,440		Not Rated
Foreign Government Issues Total	**739,533,421**	**3.8%**	
Pooled Investments	**216,751,901**	**1.1%**	**Not Rated**
Total Non-Government Guaranteed	**15,951,404,448**	**82.6%**	
U.S. Treasuries	**3,352,934,370**	**17.4%**	
Government Short Term T-Bills	**99,032**	**0.0%**	
Total Global Bonds and Short-Term Securities	**19,304,437,850**	**100.0%**	

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. There is no single issuer exposure with the OPERS' portfolio that comprises 5% of the overall portfolio and, therefore, there is no concentration of credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. OPERS monitors the interest rate risk inherent in its portfolio by measuring the weighted average duration of its portfolio. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The effective duration measures the sensitivity of the market price to parallel shifts in the yield curve. OPERS manages its exposure to fair value losses by maintaining the average effective duration of all global bond assets within 20% of the Lehman Universal Index.

OPERS' fixed income portfolio is managed as two segments–internally managed and externally managed. The attached tables list the effective duration of OPERS' global bond assets, including short-term Investments, at December 31, 2005.

INTERNALLY MANAGED			
Fixed Income Security Type	**Fair Value at December 31, 2005**	**Percent of All Fixed Income Assets**	**Weighted Average Duration to Maturity (years)**
U.S. Treasury Notes	$ 1,183,458,116	7.1%	4.27
U.S. Treasury Bonds	745,466,105	4.4	13.78
U.S. Treasury Strips	243,504,010	1.5	15.55
U.S. Treasury Inflation Protected	1,109,591,507	6.6	5.42
Federal Agency Securities	1,565,054,519	9.3	2.11
Mortgages	3,303,112,467	19.8	3.16
Collateralized Mortgage Obligations	3,051,759,509	18.2	3.65
Asset Backed Securities	1,214,207,932	7.2	1.35
Short-Term Corporate Bonds	140,029,077	0.8	0.65
Corporate Bonds	3,501,063,637	21.0	5.73
Foreign Government Issues	24,700,000	0.1	9.89
Commercial Paper	153,913,010	0.9	0.04
Repurchase Agreements	450,000,000	2.7	0.01
Short Term Investment Funds	66,319,907	0.4	0.16
Total	**$16,752,179,796**	**100.0%**	**4.30**

EXTERNALLY MANAGED			
Fixed Income Security Type	**Fair Value at December 31, 2005**	**Percent of All Fixed Income Assets**	**Weighted Average Duration to Maturity (years)**
U.S. Treasury Bills	$ 99,032	0.0%	0.21
U.S. Treasury Notes	38,434,639	1.5	3.02
U.S. Treasury Bonds	9,853,760	0.4	11.84
U.S. Treasury Inflation Protected	22,626,233	0.9	11.79
Federal Agency Discount Notes	395,178	0.0	0.15
Federal Agency Securities	33,271,647	1.3	5.40
Mortgages	255,003,873	10.0	5.79
Collateralized Mortgage Obligations	144,218,413	5.7	10.67
Asset Backed Securities	31,076,584	1.2	10.74
Corporate Bonds	955,402,528	37.4	5.58
Foreign Government Issues	714,833,421	28.0	7.88
Commercial Paper	13,988,572	0.5	0.02
Pooled investments	216,751,901	8.5	0.00
Short Term Investment Funds	116,302,273	4.6	0.00
Total	**$2,552,258,054**	**100.0%**	**6.47**

Foreign Currency Risk

The following is a summary of international investments at December 31, 2005 and 2004.

INTERNATIONAL INVESTMENTS	2005	2004
Cash	$ 59,269,092	$ 67,957,499
Cash Equivalents	91,464,906	111,548,680
Depository Receipts	375,419,887	452,297,639
Preferred Stock	52,625,580	44,151,682
Corporate Bonds	22,513,009	
Netted Receivable/ Income	13,734,394	11,992,490
Netted Receivable/(Payable) Trades	(3,300,988)	(8,788,332)
Netted Receivable/ Foreign Exchange	(267,007)	2,453,080
International Stock	5,892,437,462	5,287,267,230
Convertible Bonds		5,599,909
Stock Index Funds	7,474,262,433	8,872,724,935
Warrants	21,158,957	8,017,458
Foreign Currency Option	2,998,677	
TOTAL International Investments	**$14,002,316,402**	**$14,855,222,270**

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

OPERS' exposure to foreign currency risk in U.S. dollars as of December 31, 2005 is as follows:

Currency	Cash	Fixed Income	International Equities	Real Estate	Private Equities
Argentine Peso	$ 928,549	$41,227,018			
Australian Dollar	597,924		$ 165,549,355		
Brazilian Real	1,480,700	2,067,675	47,271,601		
British Pound Sterling	3,852,696		995,689,492	$7,019,592	
Canadian Dollar	1,474,144		198,493,095		
Colombian Peso		3,182,023			
Czech Koruna	74,508				
Danish Krone	37,012		30,910,830		
Egyptian Pound	31	4,103,363			
Euro Currency	26,716,259	18,772,311	1,536,740,049		$72,977,911
Hong Kong Dollar	1,232,101		198,791,477		
Hungarian Forint	269,530		9,079,831		
Indonesian Rupiah	727,542		7,330,438		
Israeli Shekel	398,523	6,149,367	30,504,722		
Japanese Yen	580,629		1,613,828,437		
Kuwaiti Dinar	3				
Malaysian Ringgit	601,147		36,542,535		
Mexican Peso	560,790	8,827,995	24,239,446		
New Zealand Dollar	3,507		9,117,537		
Norwegian Krone	53,067		28,322,612		
Philippine Peso	266,569		4,539,905		
Polish Zolty	187,095		3,786,995		
Singapore Dollar	54,313		54,140,314		
South African Rand	867,109		78,885,567		
South Korean Won	2,267,443		201,723,264		
Sri Lanka Rupee	2		2,272,815		
Swedish Krona	322,808		68,909,610		
Swiss Franc	857,703		409,087,963		
Taiwan Dollar	12,588,375		125,077,091		
Thailand Baht	2,212,534		28,183,003		
Turkish Lira	1,883,522	12,185,614	26,660,518		
TOTAL	**$61,096,135**	**$96,515,366**	**$5,935,678,502**	**$7,019,592**	**$72,977,911**

Securities Lending

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

As of December 31, 2005, the fair value of securities on loan was $10,778,303,085. Associated collateral totaling $11,087,980,611 was comprised of cash.

As of December 31, 2004, the fair value of securities on loan was $7,997,990,341. Associated collateral totaling $8,144,602,235 was comprised of cash equaling $8,013,899,805 and securities equaling $130,702,430.

Collateral on loaned securities at year-end 2005 and 2004 consisted of cash and repurchase agreements. At year-end 2005, collateral on loaned securities consisted of cash, repurchase agreements, and short-term investments in money market type instruments.

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 2005 and 2004 was recorded on a cash basis, which approximated accrual basis.

Income from Security Lending Activity	2005	2004
Security Lending Gross Income	$281,629,786	$108,677,320
Security Lending Expenses		
Security Lending-Agent Fees	(3,744,772)	(4,310,465)
Security Lending-Broker Rebates	(252,917,306)	(85,132,509)
Total Expenses	(256,662,078)	(89,442,974)
Net Income from Security Lending Activity	$ 24,967,708	$ 19,234,346

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:

Forward—Currency Contracts

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

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

	December 31, 2005	December 31, 2004
Forward-currency purchases	$9,428,230	$ 231,585,823
Forward-currency sales	7,922,714	154,871,069
Unrealized gain (loss)	(13,632)	92,868

The fair values of contracts hedged were:

	December 31, 2005	December 31, 2004
Hedge-contract purchases	$267,591,138	$151,653,205
Hedge-contract sales	217,166,593	227,360,689
Unrealized gain (loss)	1,116,215	(1,007,271)

Stock Index Futures Contracts

OPERS enters into various stock index futures contracts to manage exposure to changes in foreign equity markets and to take advantage of equity index movements on an opportunistic basis. A stock index future is a futures contract that uses a stock index as its base, and which is settled by cash or delivery of the underlying stocks in the index. Financial futures represent an off-balance sheet obligation as there are no balance sheet assets or liabilities associated with those contracts. Futures contracts differ from forward contracts by their standardization, exchange trading, margin requirements, and daily settlement (marking to market). Risk associated with stock index futures contracts includes adverse movements in the underlying stock index. The following table shows the futures positions held by OPERS as of December 31, 2005 and 2004.

	2005		2004	
Stock Index Futures	Number of Contracts	Contract Principal	Number of Contracts	Contract Principal
Equity Futures purchased	4	$ 1,356,600	30	$9,149,850
U.S. Treasury Futures purchased	271	30,353,156		

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, 2005 OPERS held no return swaps. As of December 31, 2004, the notional amount of total return swap was $10,000,000.

4. LEASES

OPERS leases equipment with lease terms of one year or less. Total lease expense was $324,224 and $410,524 for the years ended December 31, 2005 and 2004, respectively.

5. VACATION AND SICK LEAVE

As of December 31, 2005 and 2004, $4,738,683 and $4,609,269, 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 IRC Section 457 benefits from the claims of an employer's general creditors. Accordingly, OPERS does not include the deferred compensation assets or liabilities of the Ohio Deferred Compensation Plan in its financial statements.

7. SCHEDULE OF REQUIRED CONTRIBUTIONS

All employees of the System are eligible for membership in OPERS. The System's annual required contribution for the year ended December 31, 2005 and for each of the two preceding years is as follows:

Year Ended December 31	Annual Required Contribution*	Percent Contributed
2003	$4,006,036	100%
2004	4,271,274	100
2005	4,956,387	100

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 2005 and 2004. OPERS also maintained a lifetime maximum stop-loss coverage per employee for medical benefits in the amount of $2,500,000 for both 2005 and 2004.

The summary of changes in incurred but unreported claims for the years ended December 31, 2005 and 2004 follows:

	General Health Insurance*
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**
Claims Incurred	4,338,852
Claims Paid	(4,329,019)
Claims Liability as of December 31, 2005	**$ 45,437**

* Figures include pharmacy expenses.

Required Supplementary Information

Schedule of Funding Progress* (Traditional and Combined Plans)

($ 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
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
2004	57,604	50,452	7,152	88	11,454	62

* The amounts reported in this schedule do not include assets or liabilities for post-employment health care benefits.
** Valuation assets were in excess of AAL.
# Revised Actuarial Assumptions

Schedule of Employer Contributions—Traditional Plan*

Year Ended December 31	Annual Required Contributions	% Contributed
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
2005	1,157,407,447	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
2005	15,637,682	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
2005	460,534,741	100

*The Retirement Board has approved all contribution rates as recommended by the actuary.
See Notes to Required Supplementary Schedules, page 63.
See accompanying independent auditor's report on pages 24 to 25.

Notes to Required Supplementary Information

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 experiences are less favorable than assumed financial experiences, the difference is added to unfunded actuarial accrued liability.

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar 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–An entry-age normal actuarial cost method of valuation is used to determine 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, 2004, the date of the last actuarial study, the funding period was 27 years.

As of December 31, 2003, the funding period 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, 2004, the date of the latest actuarial study, and 2003 include:

- Investment Return–An investment return rate of 8% compounded annually, for all members, retirees, and beneficiaries was assumed for the years 2004 and 2003.

- Salary Scale–As of December 31, 2004, 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 0.50% to 6.30% per year depending on age, attributable to seniority and merit.

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

Multiple Decrement Tables:

- Mortality–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 17 years based on the current plan design. Health care expenses are assumed to increase between 6.5% and 11% from 2003 through 2011. Years 2012 and after are assumed to increase at a level of 4%.

The portion of employer contributions used to fund health-care expenses was 4% of member covered payroll for 2005 and 2004, 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 Survivor's 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

Traditional Pension Plan

	State Group	Local Government Group	Public Safety Group	Law Enforcement Group	December 31, 2004 Total	December 31, 2003 Total**
Present value of actuarial accrued liability for active and inactive accounts	$12,431,124,833	$18,247,967,628	$9,017,717	$1,187,487,424	$31,875,597,602	$31,045,462,888
Less:						
Employers' Accumulation Fund*	7,333,537,041	10,530,098,852	(40,771,522)	694,134,219	$18,516,998,590	15,525,809,892
Employees' Savings Fund	3,574,676,056	5,435,097,337	2,553,993	327,561,728	$9,339,889,114	8,896,961,910
Plus Market Value Adjustment	1,251,147,149	1,757,417,686	(1,234,356)	116,832,246	$3,124,162,725	1,405,764,611
Unfunded/(Assets in excess of) actuarial accrued liability	$2,774,058,885	$4,040,189,125	$46,000,890	$282,623,723	$7,142,872,623	$8,028,455,697

Combined Pension Plan

	State Group	Local Government Group	December 31, 2004 Total
Present value of actuarial accrued liability for active and inactive accounts Less:	$10,149,868	$20,801,638	$30,951,506
Employers' Accumulation Fund*	6,944,692	15,106,806	$22,051,498
Employees' Savings Fund			$0
Market Value Adjustment	25,059	54,509	$79,568
Unfunded/(Assets in excess of) Actuarial Accrued Liability	$3,180,117	$5,640,323	$8,820,440

* Amounts shown reflect transfers out of the Employers' Accumulation Fund to fully fund the Annuity and Pension Reserve Fund and Survivors' Benefits Fund.
** Combined Plan commenced January 1, 2003, thus seperate data not available.

Additional Information

Administrative Expenses*

As of December 31, 2005 and 2004

	2005	2004
Personnel Services		
Salaries and Wages	$34,008,850	$33,028,227
Retirement Contributions	4,875,699	4,728,823
Employee Insurance	4,396,449	3,921,390
Other Personnel Expense	434,442	279,416
Other Services and Charges:		
Professional Services:		
Actuarial Services	584,410	716,901
Audit Services	196,586	312,442
Consulting Services	3,715,624	4,120,689
Investment Services	2,514,510	2,233,170
Legal and Investigation Services	897,652	890,205
Medical Examinations	2,217,493	2,071,774
Retirement Study Council	293,781	389,417
Banking Fees and Financial Services	8,417,980	8,894,754
Communication:		
Postage & Shipping	1,880,595	1,740,129
Printing and Publications	596,266	1,029,628
Information Technology	3,036,941	2,459,854
Office Equipment & Supplies	1,237,887	1,209,586
Training and Travel Expense	1,594,384	1,684,151
Facility Expenses	4,396,108	4,445,371
Child Care Center Expenses	124,636	166,359
Miscellaneous	204,412	193,215
Subtotal Operating Expenses	75,624,705	74,515,501
Depreciation		
Building Depreciation	2,141,932	2,127,538
Equipment Depreciation	7,088,580	8,486,476
Subtotal Depreciation	9,230,512	10,614,014
Total Administrative Expenses	**84,855,217**	**85,129,515**
Investment Expenses	**(23,190,238)**	**(23,438,255)**
Net Administrative Expenses	**$61,664,979**	**$61,691,260**

*Includes investment-related administrative expenses

See accompanying independent auditor's report on pages 24 to 25.

Schedule of Investment Expenses

For the years ended December 31, 2005 and 2004

	2005	2004
Investment Services	$11,722,956	$11,074,820
Investment Staff Expense	9,181,780	9,802,783
Investment Legal Services*	446,280	547,037
Allocation of Administrative Expenses (See Note 2b to Financial Statements)	1,839,222	2,013,615
Total Investment Expenses*	**$23,190,238**	**$23,438,255**

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

Schedule of Payments To Consultants

OPERS paid the following investment consultants during 2005:

Brown Brothers Harriman & Co.	$114,463
Cost Effective Measurement Inc.	18,500
Ennis Knupp + Associates	630,813
Focus Consulting Group, Inc.	7,393
Information Control Corporation	7,980
Investor Responsibility Research	25,000
Macroeconomic Advisors LLC	24,264
Pacific Corporate Group	1,083,333
The Townsend Group	320,000
W.F. Pridmore LTD	7,922
Total	**$2,239,668**

Schedule of Fees to External Asset Managers

For the Years Ended December 31, 2005 and 2004

	2005	2004
Global Bonds	$ 6,389,230	$ 7,539,680
Domestic Equity	9,262,310	8,206,648
International	30,267,095	30,257,690
Real Estate	23,755,653	14,958,294
Private Equity	17,323,380	14,378,947
Other	88,036	
Total Fees	**$87,085,704**	**$75,341,259**

See accompanying independent auditor's report on pages 24 to 25.

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INVESTMENTS SECTION

Investments Report

(unaudited)

Dear Members and Beneficiaries,

Overview

It is an honor and privilege to present to you the Investments Section of *The Comprehensive Annual Financial Report* for the year ended December 31, 2005.

The investment return for the defined benefit portfolio (consisting of Traditional, Combined and VEBA) plan assets for 2005 was 9.3%; a favorable outcome relative to the 7.8% median performance of corporate and public pension plans as reported by *Pensions & Investments.* The 2005 return exceeded the policy portfolio benchmark by 1.1%, the best relative performance since 1991. OPERS' investment returns in 2004 and 2003 were 12.5% and 25.4%, respectively. Combining the last three years, the OPERS cumulative investment return for the three-year period is more than 54%—the largest three-year gain since the 1980s.

The OPERS health care portfolio (consisting of post-employment health care assets) investment return for 2005 was 8.0%. The return in 2005 exceeded the policy portfolio by 0.7%. The health care assets were segregated from the defined benefit portfolio beginning January 1, 2005, as required by OPERS' investment asset allocation policy.

The defined contribution portfolio (consisting of Member-Directed and Combined Plan assets) was initiated on January 1, 2003, and its assets have grown to $118.5 million.

The defined benefit portfolio combined with health care and defined contribution portfolios comprise OPERS' total investment portfolio. The OPERS' total investment return for the year was 9.0%. The OPERS' total portfolio ended the year with assets of $69.2 billion, $3.8 billion more than last year, and representing a record high for the System.

Industry rankings cite OPERS as the 16th largest pension fund in the country by assets, and the 11th largest state retirement plan for the period ending December 31, 2005.

Performance Measures

The OPERS Retirement Board measures performance of the investment program in different ways:

(1) Returns Relative to the Policy Portfolio

Total return, by itself, is an inappropriate measure for comparison and focus. It does not portray the reasons behind a good or bad relative performance. Thus, it is important to compare OPERS performance relative to the return of the policy portfolio, net of investment expenses, over a five-year period. This approach facilitates the understanding between the contribution to return from policy asset mix, which is the OPERS Retirement Board's responsibility, and the implementation decision, which is management's responsibility.

In February 2005, the defined benefit investments policy asset mix benchmark was modified to adopt actual weights at each calendar quarter-end for the private equity and real estate asset classes, while maintaining the long-term policy targets of 9.0% for real estate, and 4.0% for private equity. This approach was necessary due to the inability to deploy assets quickly in these illiquid asset classes and challenging market conditions. This allowed staff to pursue investments based solely on merit and not based on a need to increase exposure.

The average defined benefit policy targets for 2005 are shown below, along with the corresponding market index for each asset class:

2005 Defined Benefit Portfolio Policy Targets		
Asset Class	**Average Target**	**Market Index**
U.S. Equity	46.1%	Russell 3000
Global Bonds	25.9	LB Universal
Non-U.S. Equity	20.0	MSCI ACWI x U.S.
Real Estate	6.1	Custom Real Estate Index*
Private Equity	0.9	Russell 3000 + 3%
Cash	1.0	LB 90-Day T-Bill
Total	**100.0%**	

* Custom Real Estate Index—90% National Council of real estate Investment Fiduciaries (NCREIF) adjusted for representative fees, plus 10% Dow Jones Wilshire Real Estate Securities Index (WRESI) adjusted for representative fees.

As mentioned, the defined benefit portfolio return was 9.3%, or 1.1% greater than the 8.2% return of the policy portfolio. Over the past four years, the period following the significant repositioning of the investment program in 2000 and 2001, the actual annualized return has exceeded the return of the policy portfolio by more than 0.5%. The out-performance equates to more than $1 billion in incremental wealth to the fund.

The health care portfolio assets were segregated from the defined benefit portfolio assets on January 1, 2005. Interim targets were established to transition the investments to a more conservative asset mix and the policy targets shift every six months through the end of 2006, at which time the transition will be complete.

The health care portfolio policy average targets for 2005 are below, along with the corresponding market index for each asset class:

2005 Health Care Portfolio Policy Targets		
Asset Class	**Average Target**	**Market Index**
U.S. Equity	42.5%	Russell 3000
Non-U.S. Equity	20.0	MSCI ACWI x U.S.
Global Bonds	20.0	LB Universal
REITs	4.0	DJ Wilshire RESI
TIPS	7.5	LB U.S. TIPS
Short Term Bonds	6.0	LB 1-3 Year Gov't
Cash	<1.0	LB 90-Day T-Bill
Total	**100.0%**	

(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 an established time horizon. The figure used to estimate the growth in liabilities is the actuarial interest rate assumption. For the OPERS defined benefit investments, that assumption figure is 8.0%. Over the past 20 years, the defined benefit investment portfolio has realized an annualized return of 8.7%, exceeding the actuarial interest rate assumption by 0.7% per year, on average. For the OPERS health care portfolio, the actuarial interest rate assumption is set at 6.5%. With the January 1, 2005 inception date, the health care portfolio realized an annualized return of 8.0%, exceeding the actuarial interest rate assumption by 1.5%.

(3) Performance Relative to Peer Funds

A secondary measure of performance is to compare OPERS' defined benefit portfolio return to those achieved by other pension plans. OPERS' returns are compared to the Russell/Mellon Public Fund Index. The results of this benchmarking for the OPERS defined benefit portfolio are:

- For the one-year period, OPERS' return ranked at the 30th percentile, indicating that the OPERS return exceeded the return of 70% of the funds in the universe.

- For the trailing three-year period, OPERS' return ranked at the 22nd percentile, indicating that the return exceeded the return of 78% of the funds in the universe.
- For the trailing five-year period, OPERS' return ranked at the 40th percentile, indicating that our return exceeded the return of 60% of the funds in the universe.

A comparable universe for peer comparisons with only the OPERS health care portfolio is not currently available, as very few public pension plans have segregated their health care portfolios.

Disciplined Investment Approach

The stellar performance that OPERS has experienced over the past few years is a result of the many actions taken since 2000 to reposition the investments program to become more competitive. The OPERS Retirement Board's willingness to support new initiatives and staff's dedication to pursue innovative investments were key success factors to the management of the total fund.

Key initiatives undertaken during 2005 include:

- Separation of investment portfolios—In 2005, OPERS separated its pension and health care assets so that a dedicated health care portfolio could be created. This two-year undertaking will allow health care portfolio assets to have the risk-and-return profile more reflective of the health care plan. OPERS added two new investment options, namely the Short Duration and Treasury Inflation Protected Securities (TIPS), to provide liquidity and inflation hedge for the health care portfolio liabilities.
- Alpha Initiatives—In 2005, a number of initiatives were completed including the selection of hedge fund managers, the addition of a high-yield Commercial Mortgage Backed Securities (CMBS) manager, the commodities evaluation project, and research on active currency management.
- Securities Lending Program—OPERS conducted an online auction of the U.S. Equity composite, becoming the second public pension system in the country to implement such a program. This initiative, coupled with internally managed active cash composite, increased securities lending revenue by 50% over last year.
- Investments Policies Review—During 2005, a comprehensive review of the Division's 15 investment policies to reflect changes in the investment program was conducted. Additionally, a new cash management policy and a Member-Directed Fund policy were adopted and approved by the OPERS Retirement Board. The External Manager Search and Ohio-Qualified, Minority and Emerging Manager (OME) Policies are being reviewed pending the development and full implementation of an OME program.
- Culture Development—Staff continued work on the implementation of the Investments Division's vision and values that were identified in late 2004. Staff defined the Division's six core values of accountability, candor, creativity, ethics, empowerment and employee fulfillment. Likewise, staff identified specific behaviors supporting each core value. These core values will be incorporated into every employee's evaluation process.
- Real Estate Policy and Strategy—A comprehensive assessment of its policy and strategy to reflect current market conditions was performed. Through the end of 2008, an estimated $1.1 billion is scheduled to be invested in real estate annually to achieve its target allocation of 8.0%.

- Private Equity Ohio/Midwest Discretionary Mandate—A manager was selected to implement this mandate for OPERS. This initiative will target private equity opportunities located in the Ohio and Midwest regions.

Looking Ahead

As a result of the disciplined approach of the recent past, the portfolio is positioned long-term to perform well. During 2006, staff will continue to work on several key initiatives that will allow the fund to capture future investment opportunities and generate excess returns.

In closing, I wish to thank the OPERS Retirement Board, the Executive Director and the investment staff for working collaboratively to achieve respectable returns in order to fulfill our vision–to be a top-tier retirement fund providing quality retirement, disability, survivor and health care benefits and services.

Respectfully,

Jennifer C. Hom

Jennifer Hom, CFA
Director—Investments

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.

OPERS

Letter from Investment Consultant

ENNISKNUPP

March 17, 2006

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 and accurately 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 investment industry in general and public pension funds in particular.

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,

Kristine L. Ford, CFA
Principal

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

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Investments Overview

Introduction

OPERS' total investments portfolio, as reflected in the Combining Statements of Fiduciary Net Assets, pages 36-37, is comprised of defined benefit (DB), defined contribution (DC) and health care portfolio (HC) assets. The DB assets originate from member and employer contributions to the Traditional Plan and employer contributions to the Combined Plan, and VEBA. The management of these assets is the responsibility of OPERS' investments staff under the direction of the Retirement Board. Defined contribution assets originate from member contributions to the Combined Plan and both member and employer contributions to the Member-Directed Plan. The investment of DC assets is self-directed by members of the Combined and Member-Directed Plans, but is limited to the investment vehicles approved by the Retirement Board. During 2005, the health care portfolio assets were segregated from the pension portfolio and invested with a more conservative asset-allocations strategy. The health care portfolio is comprised of the assets set aside to provide post-employement health care for the Traditional and Combined Plans.

The Investments Summary—OPERS' Total Investments Summary (below), relates to System-wide investments and includes defined benefit portfolio, health care portfolio and defined contribution assets. The balance of information in this Investments Section is organized as follows: OPERS' defined benefit portfolio investments (pages 84-86) relates exclusively to the defined benefit investments; OPERS health care portfolio (pages 87-89) relates exclusively to the health care investments; OPERS defined contribution investments (pages 90-91) relates exclusively to the defined contribution investments. The Investments Policies Summaries (page 93) provides information on both system-wide and investments-specific policies.

Total Investments Summary

As of December 31, 2005

	2005		2004	
	Fair Value	Percentage of Total Fair Value	Fair Value	Percentage of Total Fair Value
Global Bonds:				
Government and Agencies	$ 5,690,793,956	8.2%	$ 3,874,375,984	5.9%
Corporate Bonds	5,795,257,289	8.4	5,356,925,572	8.2
Mortgage & Mortgage Backed	6,877,339,556	9.9	5,247,742,249	8.0
Total Global Bonds	**$18,363,390,801**	**26.5%**	**$14,479,043,805**	**22.1%**
Common Stock	30,486,097,151	44.1	31,120,287,726	47.6
Real Estate	4,636,087,423	6.7	3,496,273,744	5.3
Private Equities	738,008,316	1.1	388,148,365	0.6
International	14,002,316,402	20.2	14,855,222,270	22.7
Total Long-term Investments	**$68,225,900,093**	**98.6%**	**$64,338,975,910**	**98.3%**

Continued on page 76

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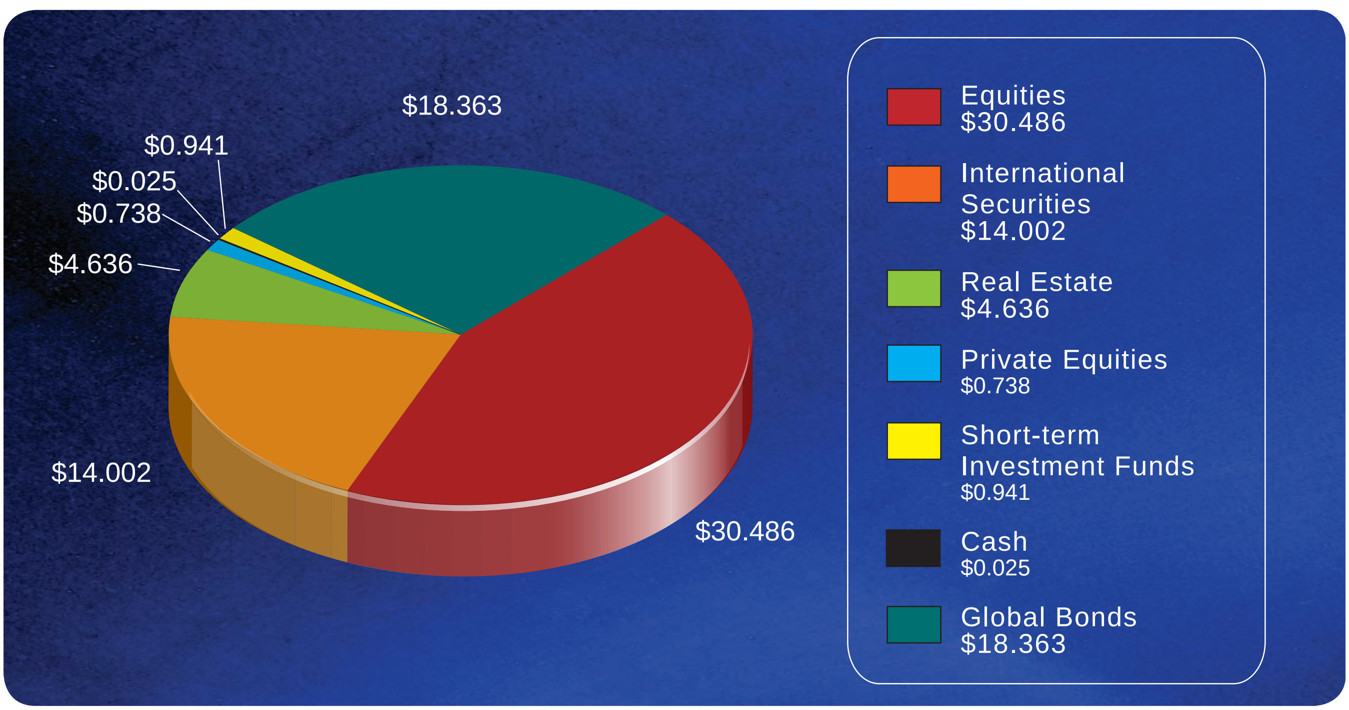
	2005		2004	
	Fair Value	Percentage of Total Fair Value	Fair Value	Percentage of Total Fair Value
Short-term Investments:				
Cash	$ 24,935,192	0.1%	$ 42,758,103	0.1
Commercial Paper	167,901,582	0.2	399,736,719	0.6
U.S. Treasury Obligations	590,523,287	0.8	275,131,372	0.4
Short-term Investment Funds (STIF)	182,622,180	0.3	367,144,032	0.6
Total Cash and Short-term Investments	**$965,982,241**	**1.4%**	**$1,084,770,226**	**1.7%**
Total Cash & Investments	**$69,191,882,334**	**100.0%**	**$65,423,746,136**	**100.0%**

2005 Total Asset Allocation

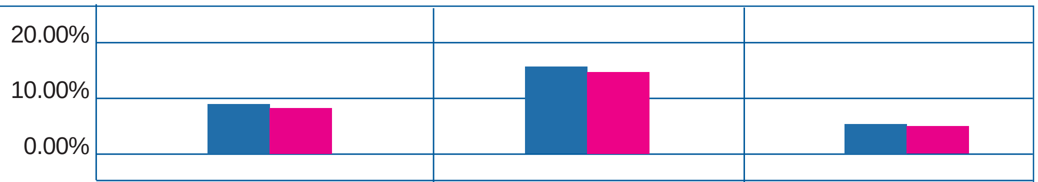
As of December 31, 2005



The pie chart above shows the OPERS total portfolio based on the value of each asset class. The portfolio value includes market value and excludes accruals for investment receivables and commitments payable.

OPERS Total Investments Returns • Annual Rates of Return

Annual rates of return*



	2005	Rolling 3-year	Rolling 5-year
OPERS	9.0%	15.4%	5.6%
Policy Benchmark Return	8.0%	14.8%	5.2%

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

List of Largest Assets Held

Largest Equity Holdings (by fair value)*

As of December 31, 2005

Stock	Fair Value	Shares
General Electric Company	$860,754,886	24,557,914
Exxon Mobil Corporation	789,934,269	14,063,277
Citigroup Incorporated	557,864,919	11,495,259
Microsoft Corporation	532,613,629	20,367,634
Bank America Corporation	459,099,600	9,947,987
Procter & Gamble Corporation	455,327,895	7,866,757
Altria Group Incorporated	389,926,021	5,218,496
Johnson & Johnson	382,057,142	6,357,024
American International Group Incorporated	350,830,336	5,141,878
Pfizer Incorporated	339,572,361	14,561,422

Largest Global Bond Holdings (by fair value)*

As of December 31, 2005

Asset	Fair Value	Par Value	Coupon	Maturity	Rating
U.S. Treasury Bond	$645,998,378	$574,778,000	5.375%	02/15/31	AAA
U.S. Treasury Note	246,803,112	249,897,000	4.250	08/15/15	AAA
U.S. Treasury Note	197,664,563	195,950,000	4.500	11/15/15	AAA
Federal Home Loan Mortgage Corporation Agency Bond	154,082,818	157,855,000	4.125	11/18/09	AAA
Federal National Mortgage Association Agency Bond	149,463,600	150,000,000	2.250	02/28/06	AAA
Federal National Mortgage Association	133,522,663	137,031,228	4.500	05/01/19	AAA
Federal National Mortgage Association Agency Bond	130,966,749	132,800,000	4.250	05/15/09	AAA
Federal Nat. Mort. Assoc. TBA	125,452,500	129,000,000	4.500	01/01/21	AAA
U.S. Treasury Bond Strip Principal	105,506,773	206,600,000		08/15/20	AAA
Structured Asset Securities Corporation	103,588,068	102,894,364	6.000	09/25/35	AAA

* A complete list of assets held at December 31, 2005, is available from OPERS upon request.

Schedule of Brokerage Commissions Paid

Non-U.S. Equity

Brokerage Firm	Total Commissions Paid	Number of Shares Traded	Commissions Per Share (Average Cents)
Merrill Lynch	$ 1,122,569	268,094,903	0.42
UBS	910,549	186,691,374	0.49
Credit Suisse First Boston	832,010	195,160,658	0.43
Deutche Bank	764,065	119,199,160	0.64
Citigroup	747,298	95,688,574	0.78
Goldman Sachs	708,145	95,409,195	0.74
Morgan Stanley	689,399	98,236,013	0.70
Lehman Brothers Inc	585,885	221,391,081	0.26
J P Morgan	525,280	69,589,677	0.75
Warburg	281,525	49,186,164	0.57
Abn Amro	280,391	44,340,858	0.63
HSBC	260,292	19,450,228	1.34
Macquarie(USA) Inc / NY	204,173	27,770,130	0.74
Nomura International Plc	171,559	18,331,105	0.94
Credit Lyonnais	156,927	39,182,225	0.40
Credit Agricle Indosuez	124,971	5,659,316	2.21
Societe Generale	112,175	3,485,436	3.22
Kleinwortbenson	110,668	5,404,265	2.05
Cazenove + Co	105,076	19,208,045	0.55
Salomon Smith Barney Inc	101,339	11,946,277	0.85
Bear Stearns	100,394	335,045,020	0.03
Daiwa Securities America	99,960	4,794,904	2.08
Pershing DLJ S L	92,454	5,303,639	1.74
RBC Dominion Securities	79,166	4,006,452	1.98
KBC Financial Products UK	70,705	3,946,806	1.79
CLSA Securities Korea Ltd.	67,295	484,981	13.88
Mizuho International PLC	64,761	5,051,608	1.28
BNP Paribas	51,902	11,750,246	0.44
Exane Inc.	51,172	1,764,408	2.90
ING Bank N V	48,389	2,108,969	2.29
Samsung Securities Co. Ltd.	48,027	487,917	9.84
Sanford C. Bernstein Ltd.	44,211	837,917	5.28
Brockhouse + Cooper Inc	35,812	2,983,868	1.20
Calyon	34,738	11,310,124	0.31

Continued on page 80

Brokerage Firm	Total Commissions Paid	Number of Shares Traded	Commissions Per Share (Average Cents)
Tokyo Mitsubishi Int'l.	$ 34,634	1,442,657	2.40
Enskilda Securities Ab	34,200	2,132,556	1.60
Investec Asset Management	32,390	1,401,879	2.31
Fox-Pitt Kelton Ltd.	30,651	1,473,025	2.08
Instinet Clearing Services	29,529	9,498,352	0.31
Banco Santander S.A.	27,251	2,008,053	1.36
ING Baring Securities Ltd.	26,137	312,143	8.37
Mainfirstbank DE	25,811	388,550	6.64
BNY ING Bank NV London	24,921	322,031	7.74
SG Securities HK	22,571	13,086,150	0.17
Elvi Securities Ltd.	22,141	248,435	8.91
G.K.Goh Stockbrokers	20,125	6,027,710	0.33
Others (Includes 116 Brokerage Firms)	620,453	262,887,201	0.24
Total Non-U.S. Equity	**$10,634,096**	**2,284,530,285**	**0.47**

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

U.S. Equity

Brokerage Firm	Total Commissions Paid	Number of Shares Traded	Commissions Per Share (Average Cents)
Merrill Lynch	$1,796,395	151,548,741	1.2
Lehman Brothers Inc.	836,939	20,558,227	4.1
J P Morgan Securities Inc.	676,188	16,379,184	4.1
Wave Securities LLC.	662,622	70,376,075	0.9
Banc of America	604,439	18,802,388	3.2
Goldman Sachs + Co.	586,523	18,207,072	3.2
Citigroup Global	554,644	14,297,571	3.9
Deutsche Bank	536,241	12,353,985	4.3
Bear Stearns + Co. Inc.	461,007	10,313,916	4.5
UBS Securities LLC.	410,295	9,980,170	4.1
Edwards Ag Sons Inc.	367,379	8,085,226	4.5
Sanford C Bernstein Co. LLC.	317,294	7,550,573	4.2
Prudential Equity Group	298,011	6,123,135	4.9
S.G. Cowen & Co., LLC.	289,037	6,323,210	4.6
Robert W. Baird	255,251	5,303,654	4.8
Oppenheimer & Co. Inc.	243,407	5,056,610	4.8
Legg Mason Wood Walker	235,489	4,976,091	4.7
Morgan Stanley	214,635	8,106,704	2.6
Credit Suisse First Boston	186,248	4,860,887	3.8
Mcdonald And Company	155,122	3,121,916	5.0
Jefferies+ Company Inc	118,749	3,513,639	3.4
Midwest Research	110,075	2,284,183	4.8
Harris Nesbitt Corp.	109,611	2,275,738	4.8
Wachovia Securities, LLC.	96,461	2,037,888	4.7
William Blair & Company, LLC.	92,593	1,925,603	4.8
ISI Group Inc.	85,532	1,746,572	4.9
Thomas Weisel Partners	84,529	2,082,703	4.1
Miller Tabak + Company	75,517	1,514,714	5.0
Leerink Swann And Co.	75,209	1,578,244	4.8
Others	886,915	29,000,895	3.1
Total U.S. Equity Commission	**$11,422,357**	**450,285,514**	**2.5**
Total Non-U.S. Equity & U.S. Equity	**$22,056,453**	**2,734,815,799**	**0.81**

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

Schedule of Fees to External Asset Managers

For the year ended December 31, 2005

	Defined Benefit	Health Care	Defined Contribution	Total
U.S. Equity	$ 7,773,938	$1,393,442	$ 94,930	$ 9,262,310
Global Bonds	5,367,628	868,609	152,993	6,389,230
Non-U.S. Equity	25,280,661	4,926,844	59,590	30,267,095
Real Estate	23,755,653			23,755,653
Private Equity	17,323,380			17,323,380
Short-Term	60,581		27,455	88,036
Total Fees	**$79,561,841**	**$7,188,895**	**$334,968**	**$87,085,704**

Schedule of External Asset Managers•

As of December 31, 2005

U.S. Equity Managers	Non-U.S. Equity Managers	Global Bond Managers
Alliance Bernstein U.S. Large Cap	Capital Guardian Core Non-U.S.	Fidelity Core
Wellington U.S. Large Cap	Brandes Non-U.S. Value	Smith Breeden Core
Barclays R1000 Enhanced	TT International Non-U.S. Core	AFL-CIO Housing Investment Trust
JP Morgan U.S. Large Cap	JP Morgan Fleming Non-U.S. Core	Golden Tree Corporate High Yield
Piedmont U.S. Large Cap	Walter Scott Non-U.S. Core	Passive High Yield
Goldman Sachs S&P 500	Alliance Bernstein Non-U.S. Core	Shenkman Corporate High Yield
Fidelity Small Cap	First State Emerging Mkts.	W.R. Huff Corporate High Yield
Invesco Small Cap	Lazard Emerging Mkts.	Clarion CMBS High Yield
	Boston Company Emerging Mkts.	Capital Guardian Emerging Mkts.
	Wellington Small Cap Non-U.S.	Salomon Emerging Mkts.
	Acadian Small Cap Non-U.S.	
	Barclays ACWIxU.S. Enhanced	
	Baring Non-U.S.	
	Barclays ACWIxU.S. Index	

* Contact OPERS investments staff for a complete list of real estate and private equity managers.

As noted previously, the Investments Division manages the OPERS total investment portfolio by dividing it into three sub-portfolios. These portfolios are the defined benefit portfolio, the defined contribution portfolio and the health care portfolio. All information prior to this point has been reported on the OPERS total investment portfolio, however, all information following this will be presented on the specific portfolio level. All portfolio information is presented on a cash basis and excludes accruals for investment receivables and commitments payable. The following chart reflects the total investment portfolio by sub-portfolio category.

Total Investments Summary by Portfolio

Assets Summarized on Performance Basis • For the year ended December 31, 2005

	Defined Benefit	Health Care	Defined Contribution	Total
Bonds				
Global Bonds	$14,173,156,482	$2,261,236,278	16,887,089	$16,451,279,849
TIPS		1,135,719,764		1,135,719,764
Short Duration		847,002,292		847,002,292
Stable Value	40,039,797		18,503,979	58,543,776
Total Bonds	14,213,196,279	4,243,958,334	35,391,068	18,492,545,681
U.S. Equity	25,869,708,298	4,637,445,253	67,733,361	30,574,886,912
Real Estate	4,137,878,140	515,060,060		4,652,938,200
Private Equity	738,008,316			738,008,316
Non-U.S. Equity	11,705,728,492	2,281,196,185	15,316,800	14,002,241,477
Total Long-term Investments	56,664,519,525	11,677,659,832	118,441,229	68,460,620,586
Total Cash and Short-term Investments	505,925,163	171,706,535		677,631,698
Investments on Cash Basis	**57,170,444,688**	**11,849,366,367**	**118,441,229**	**69,138,252,284**
Other Adjustments*	15,334,211	37,577,938	717,901	53,630,050
Total Cash and Investments	**$57,185,778,899**	**$11,886,944,305**	**$119,159,130**	**$69,191,882,334**

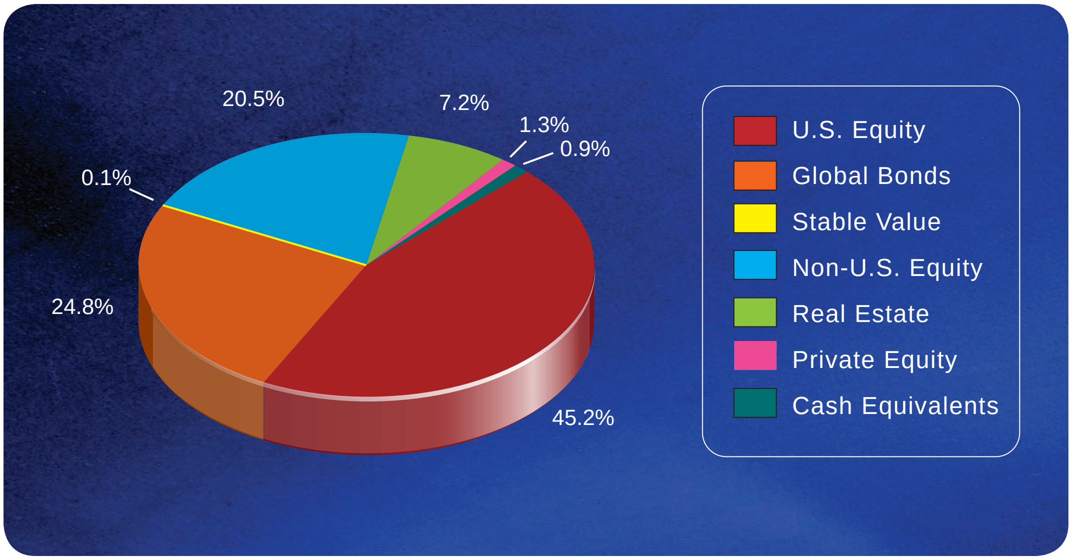
* Other adjustments includes accrued income and proceeds, commitments payable and other non-cash items. These non-cash items, while included in the total portfolio for financial statement purposes, are excluded for purposes of determining the portfolio available for investing.

OPERS' Defined Benefit Portfolio

The DB portfolio totaled $57,170,444,688 at December 31, 2005. The asset allocations defined for the defined benefit investments are displayed in the following chart:

2005 Defined Benefit Portfolio Asset Allocation

As of December 31, 2005



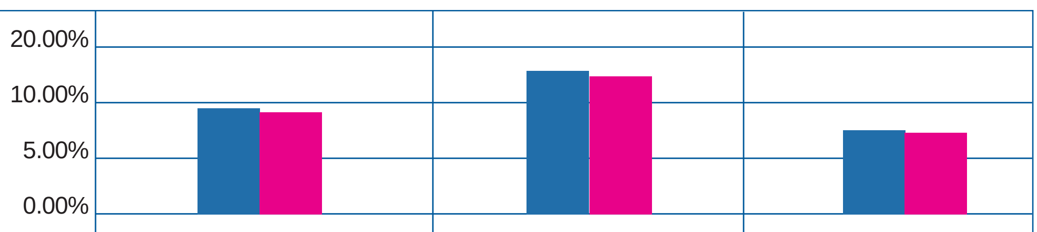
* *The actual allocation to stable value is determined by the amount of employee contributions to the OPERS Additional Annuity program.*

Investments Returns

The OPERS defined benefit portfolio returned 9.3% in 2005. The overall portfolio return is compared to a composite benchmark return that could be achieved by a portfolio that is passively invested in the broad market, with percentage weights allocated to each asset class as specified in OPERS' *Statement of Investment Objectives and Policies*. The return of the policy benchmark for 2005 was 8.2%.

Investments Returns • Annual Rates of Return • Defined Benefit Portfolio

For the year ended December 31, 2005



	2005	Rolling 3-year	Rolling 5-year
OPERS Defined Benefit Portfolio	9.3%	15.5%	5.6%
Policy Benchmark Return	8.2%	14.8%	5.2%

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

Schedule of Investment Results • Defined Benefit Portfolio

For the year ended December 31, 2005

	2005	Rolling 3-Year	Rolling 5-Year
Total Defined Benefit Portfolio	9.3%	15.5	5.6
Custom Benchmark*	8.2	14.8	5.2
U.S. Equity Composite	6.8	16.2	2.1
Russel 3000 Stock Index**	6.1	15.9	1.8
Global Bond Composite	3.8	5.2	6.7
Lehman Universal Index***	2.7	4.5	6.4
Stable Value Composite	4.3	3.9	4.6
90-day U.S. Treasury Bill****	3.1	1.8	2.4
Non-U.S. Equity Composite	18.0	26.3	6.5
MSCI ACWIF x U.S.*****	16.6	25.7	6.3
Real Estate Composite	20.1	15.5	12.1
Custom Real Estate Index******	18.5	14.8	12.0
Private Equity Composite	34.3	25.8	8.8
Russel 3000 Stock Index + 3%*******	18.0	21.7	0.6
Cash Equivalents Composite	3.3	2.0	2.3
90-day U.S. Treasury Bill****	3.1	1.8	2.4

Footnotes for Schedule of Investment Results—Defined Benefit Portfolio

* 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	Average Year 2005	Full Year 2003—2004	Full Year 2001—2002
U.S. Equity	46.1%	46.0%	47.0%
Global Bonds	25.9	20.0	20.0
Stable Value	N/A	N/A	N/A
Non-U.S. Equity	20.0	23.0	23.0
Real Estate	6.1	9.0	9.0
Private Equity	0.9	1.0	0.6
Cash Equivalents	1.0	1.0	0.4
Total	**100.0%**	**100.0%**	**100.0%**

Footnotes for Schedule of Investment Results continued on next page.

Footnotes for Schedule of Investment Results—Defined Benefit Portfolio, continued

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	10/1/98 through 1/31/01	2/01/01 through 11/30/01	12/31/01	1/1/02 through 12/31/05
U.S. Equity	S&P Supercomposite	S&P 1500/Russell 3000 Blend	Russell 3000	Russell 3000
Global Bonds	SSB BIG Index	Lehman Aggregate	Lehman Universal	Lehman Universal
Stable Value	90-day U.S. Treasury Bill	90-day U.S. Treasury Bill	90-day U.S. Treasury Bill	90-day U.S. Treasury Bill
Non-U.S. Equity	MSCI AWI Free x US	MSCI ACWI Free x U.S.	MSCI ACWI Free x U.S.	MSCI ACWI Free x U.S.
Real Estate	Custom RE Index	Custom RE Index	Custom RE Index	Custom RE Index
Private Equity	S&P 500	S&P 500	S&P 500	Russell 3000 + 3%
Cash Equivalents	90-day U.S. Treasury Bill	90-day U.S. Treasury Bill	90-day U.S. Treasury Bill	90-day U.S. Treasury Bill

** *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.*

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

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

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

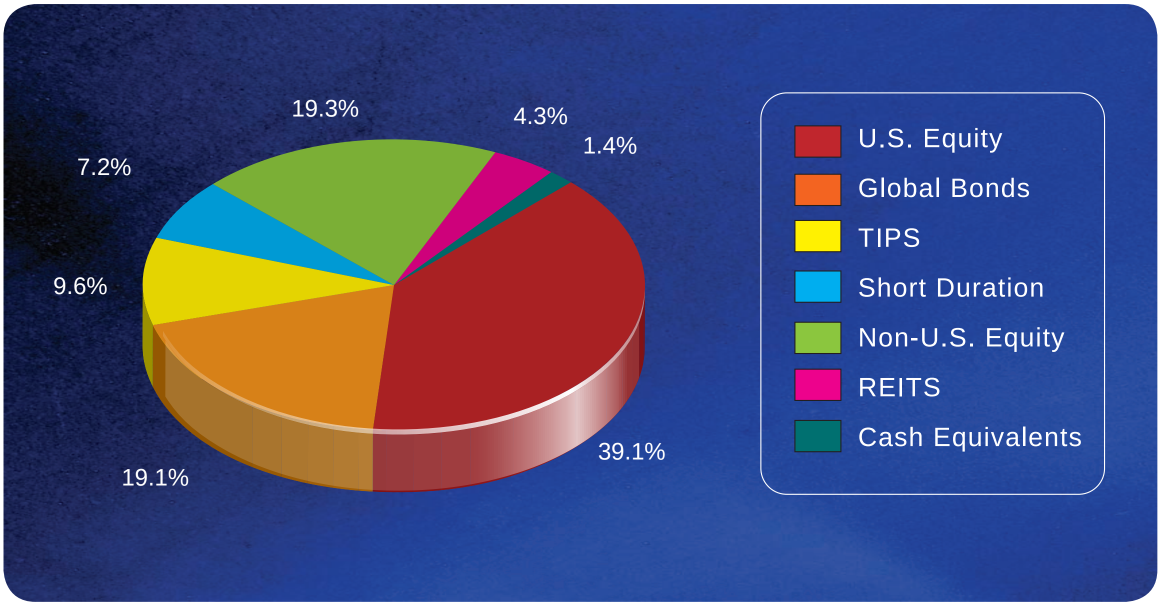
******* *Russell 3000 Stock Index + 300 bps—A capitalization-weighted stock index consisting of the 3,000 largest publicly traded U.S. stocks by capitalization adjusted for risk.*

OPERS' Health Care Portfolio

The health care portfolio totaled $11,849,366,367 at December 31, 2005. The actual asset allocations defined for the health care portfolio are displayed in the following chart.

2005 Health Care Portfolio Asset Allocation

As of December 31, 2005

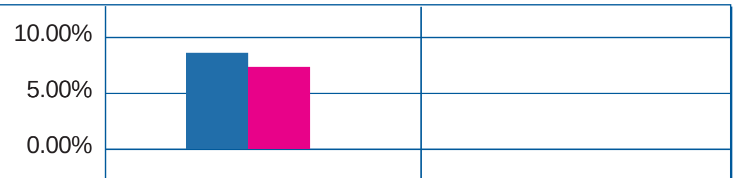


Investment Returns

The OPERS health care portfolio returned 8.0% in 2005. The overall portfolio return is compared to a composite benchmark return that could be achieved by a portfolio that is passively invested in the broad market, with percentage weights allocated to each asset class as specified in OPERS' *Statement of Investment Objectives and Policies*. The return of the policy benchmark for 2005 was 7.3%.

OPERS Investments Returns • Annual Rates of Return • Health Care Portfolio

For the year ended December, 31, 2005



	2005	Rolling 3-year
OPERS Health Care Portfolio	8.0%	N/A
Policy Benchmark Return	7.3%	N/A

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

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

Schedule of Investment Results • Health Care Portfolio

For the year ended December 31, 2005

	2005	Rolling 3-Year	Rolling 5-Year
Total Health Care Investments	8.0%	N/A	N/A
Custom Benchmark*	7.3	N/A	N/A
U.S. Equity Composite	6.8	N/A	N/A
Russel 3000 Stock Index**	6.1	N/A	N/A
Global Bond Composite	3.8	N/A	N/A
Lehman Universal Index***	2.7	N/A	N/A
TIPS Portfolio	N/A	N/A	N/A
Lehman U.S. TIPS****	2.8	N/A	N/A
Short Duration Compositie	N/A	N/A	N/A
Lehman Government 1-3 Year*****	1.7	N/A	N/A
Non U.S. Equity Composite	17.8	N/A	N/A
MSCI ACWIF x U.S.******	16.6	N/A	N/A
REITS Composite	14.9	N/A	N/A
Custom REITS Index*******	13.8	N/A	N/A
Cash Equivalents Composite	3.6	N/A	N/A
90-day U.S. Treasury Bills********	3.1	N/A	N/A

Footnotes for Schedule of Investment Results—Health Care Portolio

* 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 health care portfolio assets were segregated from the defined benefit portfolio assets during the year. The transition occurred using interim target allocations; thus only the average asset allocation target was calculated for reporting purposes. The asset allocation targets and associated time intervals these targets were in effect are displayed in the following table:

Asset Class	Average Year 2005
U.S. Equity	42.5%
Global Bonds	20.0
TIPS	7.5
Short Duration	6.0
Non-U.S. Equity	20.0
REITS	4.0
Cash Equivalents	N/A
Total	100.0%

Footnotes for Schedule of Investment Results continued on next page.

Footnotes for Schedule of Investment Results—Health Care Portfolio, continued

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	1/1/05 through 12/31/05
U.S. Equity	Russell 3000
Global Bonds	Lehman Universal
TIPS	Lehman U.S. TIPS
Short Duration	Lehman Government 1-3 Year
Non-U.S. Equity	MSCI ACWI Free x U.S.
REITS	REITS Index
Cash Equivalents	90-day U.S. Treasury Bill

** *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.*

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

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

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

******* *Custom REITS Index—Wilshire Real Estate Securities Index adjusted for representative fees.*

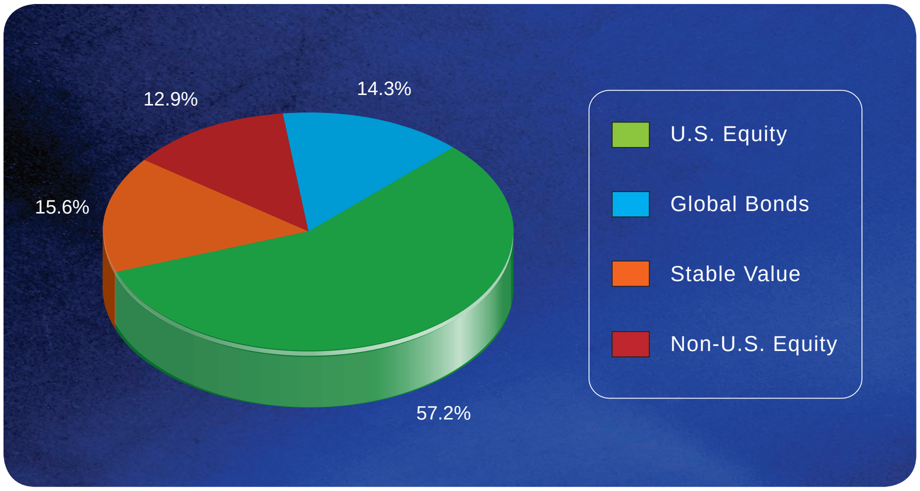
******** *90-day U.S. Treasury Bill—The 90-day Treasury Bill return as measured by Lehman Brothers.*

OPERS' Defined Contribution Portfolio

The OPERS defined contribution portfolio as of December 31, 2005 totaled $118,441,229. This represents total assets held in the nine OPERS investment options by members in the Member-Directed and Combined Plans. The asset allocation for the defined contribution investments and corresponding investments results are determined by the investment decisions of the individual participants. The actual collective asset allocation for the defined contribution investments is displayed in the following chart.

2005 Defined Contribution Portfolio Asset Allocation

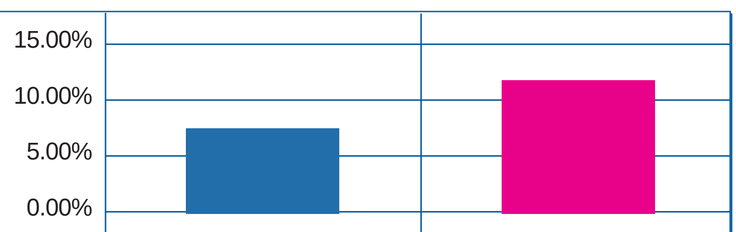
As of December 31, 2005



Investments Returns

The OPERS defined contribution portfolio returned 6.9% in 2005. The returns for the OPERS investment options compared favorably against their respective indexes as shown on the following page.

OPERS' Investments Returns • Annual Rates of Return • Defined Contribution Portfolio



	2005	3-year
OPERS Defined Contribution Portfolio	6.9%	11.3%

Historical returns for the defined contribution investments underlying asset class composites and their respective benchmarks are shown on the following page.

Note: The defined contributions option commenced January 1, 2003, thus only three year historical results are available.

Schedule of Investments Results • Defined Contribution Portfolio

For the year ended December 31, 2005

	2005	Rolling 3-Year	Rolling 5-Year
Total Defined Contribution Portfolio	6.9%	11.3%	N/A
Stable Value Portfolio	4.2	4.1	N/A
ML 3-Month Treasury Bill*	3.1	2.1	N/A
Bond Portfolio	2.7	4.8	N/A
Lehman Universal Index**	2.7	4.5	N/A
Stock Index Portfolio	6.2	15.8	N/A
Russel 3000 Stock Index***	6.1	15.9	N/A
Large Cap Portfolio	6.3	14.6	N/A
Russel 1000 Stock Index****	6.2	15.4	N/A
Small Cap Portfolio	8.0	21.8	N/A
Russel 2000 Stock Index*****	4.6	22.1	N/A
Non U.S. Equity Portfolio	16.1	23.2	N/A
MSCI ACWIF x U.S.******	16.6	25.7	N/A
Conservative Portfolio	4.9	8.4	N/A
Custom Conservative Index*******	4.4	7.7	N/A
Moderate Portfolio	6.4	12.3	N/A
Custom Moderate Index********	5.9	12.0	N/A
Aggressive Portfolio	7.4	15.1	N/A
Custom Aggressive Index*********	7.0	15.3	N/A

Footnotes for Schedule of Investments Results

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

** *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.*

*** *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.*

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

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

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

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

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

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

Ohio Investments

OPERS' direct and indirect equity and bond security exposures across all portfolios in the state of Ohio totaled approximately $6.0 billion at the end of 2005.

- Direct investments in the state, measured as investment in the securities of firms headquartered in Ohio, totaled $1.46 billion at the end of the year, representing about 24% of total in-state investments.
- Indirect investments, measured as investment in the securities of companies that maintain a significant employment presence within the state, totaled $4.55 billion, representing approximately 76% of total in-state investments.

Ohio's top employers are measured by the largest estimated headcount of persons employed at a business located in Ohio, as defined by the Office of Strategic Research Ohio Department of Development. The accompanying chart displays the top holdings of in-state investments by portfolio value at the end of 2005.

Top Ohio Holdings

As of December 31, 2005

DIRECT		INDIRECT	
Ten Largest Ohio Holdings December 31, 2005	Fair Value	Ten Largest Ohio Holdings December 31, 2005	Fair Value
Procter & Gamble	$455,327,895	General Electric	$968,012,476
Progressive Corp	74,444,447	JP Morgan Chase	405,885,153
AEP	69,848,195	Wal Mart	251,421,487
Cardinal Health	68,432,306	Home Depot	205,092,122
KeyCorp	58,534,747	Verizon Communications	183,749,017
Kroger Co	52,224,059	Target Corp	146,956,963
National City	35,978,815	Nestle	146,206,904
FirstEnergy	32,441,374	Lowe's	122,059,393
Nationwide	30,842,127	Bank of America	121,667,602
Eaton Corp	30,808,869	HSBC	89,446,566
TOTAL	**$908,882,834**	**TOTAL**	**$2,640,497,683**

Investments Policies Summaries

The OPERS investments program performs investment management services at the discretion of the OPERS Retirement Board. The investment management services are governed by three master polices related to the defined benefit, health care and defined contribution portfolios, eight underlying asset class policies, five supporting administrative polices and three policies related to external investment managers in the public markets. Please refer to page 98 for a graphical representation of this structure.

The Retirement Board reviews all policies and approves changes or additions as appropriate. The investment staff fulfills the mandates and obligations described in the policies and recommends changes to the Retirement Board, as appropriate.

The following information summarizes the major components of the investment policies and describes how they govern the investments program. The policies are posted on the OPERS Web site, www.OPERS.org, where they can be viewed in their entirety.

Scope, Purpose and Legal Authority

Each policy states its scope and purpose. The scope of a policy typically refers to the assets, or investment activity, to which the policy applies. Some policies are limited in scope, such as the three master policies, which apply only to defined benefit, health care or defined contribution investments. Other policies are broad in scope, such as the Derivatives Policy, which applies to all investment activity. The purpose of OPERS' policies is to provide a broad strategic framework for managing portfolios.

The three master polices, and several administrative policies, describe the legal authority related to the management of OPERS investments. The three master policies recognize the investment powers and fiduciary responsibilities of the Retirement Board as specified in Section 145.11 of the Ohio Revised Code and the requirements of the OPERS Code of Ethics and Personal Trading Policy. The Brokerage, Derivatives, Responsible Contractor and Soft Dollar and Commission Recapture Policies recognize specific obligations related to the Ohio Revised Code.

Investments Philosophy

Each policy describes an underlying investment philosophy that provides the rationale for the mandates, obligations and responsibilities contained within the policy. Each policy maintains a different investment philosophy that relates to the investment activity governed by that policy. The following summarizes the philosophy contained within the master policies.

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 rebalancing 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.

Investments Objective

The three master policies broadly summarize the investment objective of the investment activities governed by each respective policy. The primary objective of the defined benefit portfolio is to secure the funds necessary to pay statutory benefits provided by OPERS. Meeting this objective requires prudent management of risk, while maintaining a reasonable cost structure.

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

The defined contribution portfolio policy maintains distinct investment objectives for each of the nine investment options offered to defined contribution members.

Allocation

Master Policies

The three master policies and the eight asset class policies define the allocation guidelines associated with the investment activity of each respective policy. As stated above in the investment philosophy, asset allocation is a key determinant to return and the Retirement Board, with recommendations from investments staff, use allocation guidelines as a primary tool to set return expectations and control risk.

The following tables list the allocation guidelines for the defined benefit, health care and defined contribution (pre-mixed options only) portfolios, respectively. These guidelines set asset class target allocations and associated allocation ranges.

Defined Benefit Portfolio

Asset Class	Target Allocation	Allocation
US Equity	43%	+/- 3%
Non-U.S. Equity	20	+/- 3
Real Estate	9	+/- 4
Private Equity	4	+/- 3
Global Bonds	23	+/- 3
Opportunity Fund	1	+/- 1
Cash	N/A	0–3
Total	**100%**	

Health Care Portfolio

Asset Class	Target Allocation	Allocation
U.S. Equity	30%	+/- 3%
Non-U.S. Equity	15	+/- 3
REITS	5	+/- 3
Global Bonds	15	+/- 3
TIPS	20	+/- 3
Short-Duration Bonds	15	+/- 3
Cash	< 1	N/A
Total	**100%**	

Defined Contribution Pre-Mixed Options

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%

The eight asset class policies set allocation guidelines according to the underlying sectors of each asset class. The asset allocation targets and ranges for the global bond and U.S. Equity asset classes, which are the largest asset classes with the defined benefit and health care portfolio, are listed below.

U.S. Equity

	Range	Target
Active	35–45%	40%
Index	55–65	60
Russell 1000	89–97	92
Russell 2000	4–10	8

Global Bonds

Portfolio	Range	Target
Core	85-95%	92%
High Yield	4-10	7
Emerging Market Debt	1-6	3

Performance Objectives and Risk Management

Master Policies

The three master policies establish the performance objectives for the defined benefit, health care and defined contribution portfolios, which are to exceed the return of their respective total fund benchmarks, net of investment expenses over five year periods. The total fund benchmarks are composed of performance benchmarks for each asset class combined according to the target allocations listed above. The defined benefit and health care portfolios also target actuarial interest rate performance objectives of 8.0% and 6.5%, respectively, over a reasonable longer-time horizon. The following tables list the performance benchmarks for each asset class.

Defined Benefit

Asset Class	Performance Benchmark
U.S. Equity	Russell 3000 Stock Index
Non-U.S. Equity	MSCI ACWIxU.S.
Real Estate	Custom Real Estate Index
Private Equity	Russell 3000 Stock Index + 300 basis points
Global Bonds	Lehman U.S. Universal Index
Opportunity Fund	Customized Benchmark*
Cash	91 Day Treasury Bill

*The customized benchmark for the Opportunity Fund is the total defined benefit fund benchmark.

Health Care

Asset Class	Market Index
U.S. Equity	Russell 3000 Stock Index
Non-U.S. Equity	MSCI ACWIxU.S.
Global Bonds	Lehman U.S. Universal
Short-Duration Bonds	Lehman 1-3 Year Govt. Bond Index
TIPS	Lehman U.S. TIPS Index
REITS	Wilshire Real Estate Securities Index

Defined Contribution

The defined contribution portfolio does not have a total fund benchmark because each member elects their own customized asset allocation. The performance benchmark for each OPERS fund is listed below.

OPERS Fund	Asset Class	Benchmark
Stable Value	Stable Value	Custom Stable Value Index
Bond	Global Bond	Lehman U.S. Universal
Stock Index	U.S. Equity Index	Russell 3000
Large Cap	U.S. Equity Large Cap	Russell 1000
Small Cap	U.S. Equity Small Cap	Russell 2000
Non-U.S. Stock	Non-U.S. Equity	MSCI ACWIxU.S.

The Retirement Board ensures adequate risk control of the defined benefit, health care and defined contribution portfolios by:

- Diversification
- Portfolio Guidelines
- Risk Budgeting
- Compliance Monitoring

Asset Class Policies

Each asset class policy specifies a performance objective relative to its benchmark index. Each performance objective is stated in terms of excess return above the associated index over a three-to-five year market cycle, net of fees.

For risk management purposes, each asset class policy also specifies a tracking error target relative to its benchmark index. A tracking error figure describes the divergence of returns between an individual asset class and its index. Each asset class policy describes additional risk management techniques to control for the risks associated with liquidity, individual issuers and managers, geographic and sector exposures and country and currency exposures.

Roles and Responsibilities

Each policy describes the roles and responsibilities of the OPERS Retirement Board, investments staff and investments advisors. Certain policies may identify additional roles and responsibilities associated with the investment activity governed by those policies.

The OPERS Retirement Board is responsible for, among others, establishing asset allocation policies, approving asset classes, reviewing and approving policies and the OPERS annual investment plan, determining delegations of authority, ensuring adequate risk controls, establishing performance benchmarks and evaluating the investment staff's capability and performance.

The investments staff is responsible for taking a leadership role in investment management, advising the Board, establishing monitoring processes, recommending policies and policy changes, defining investment goals and strategy parameters and selecting securities and investment managers in accordance with defined procedures and policies.

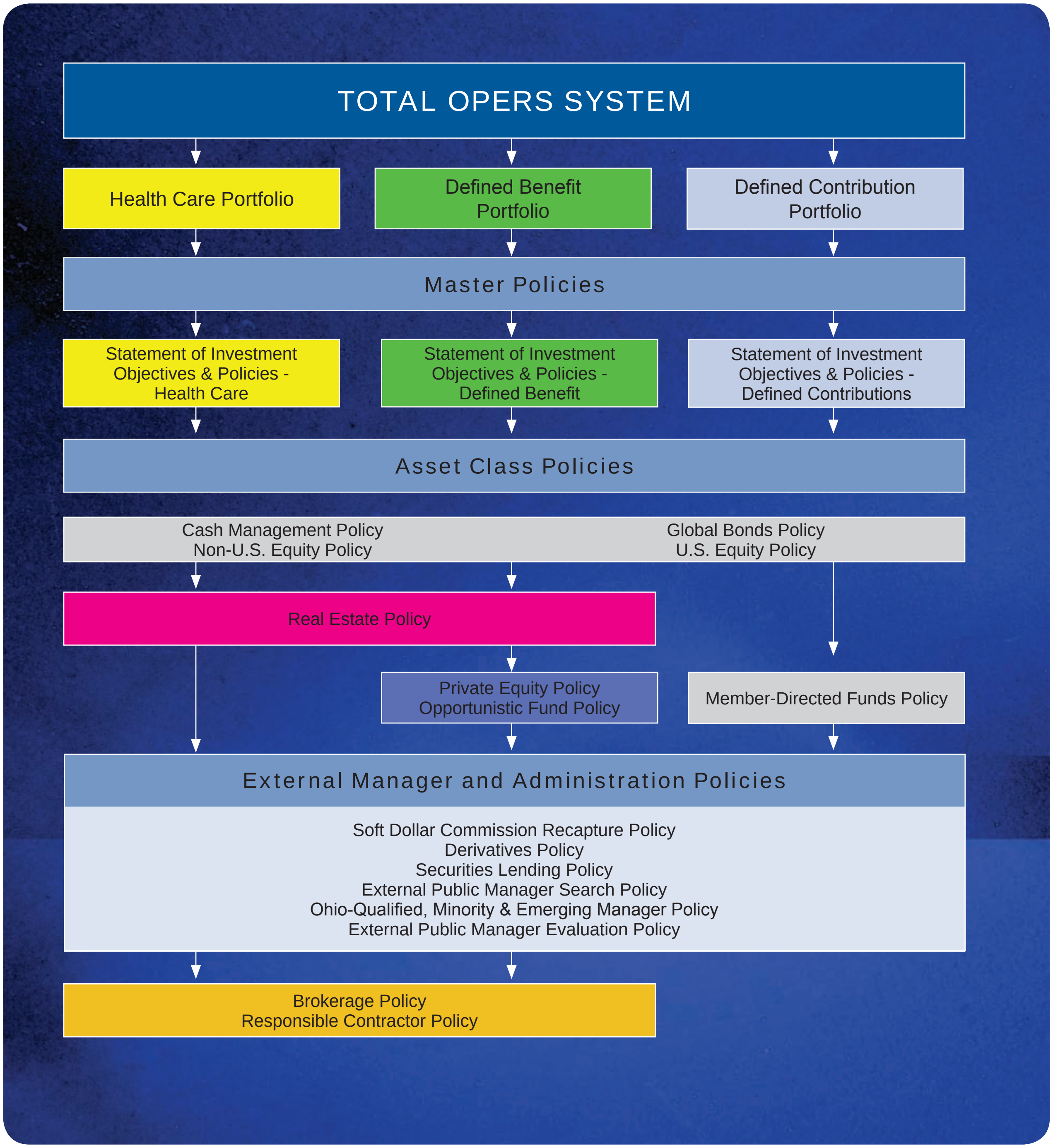
The investment advisors are responsible for performing functions established through contractual agreements and may include: advising the Retirement Board, evaluating policies, procedures and the OPERS annual investment plan, independently monitoring investments and reporting to the Retirement Board, conducting period and special studies for the Retirement Board and assisting and supporting staff.

Monitoring and Reporting

Each policy defines the reports, their frequency and their sources, that will be reviewed with the Retirement Board to ensure monitoring and compliance with the Retirement Board's policies and guidelines.

Structure and Relationship of Investments Policies

The following exhibit illustrates the structure and relationship of the 19 investment policies.



ACTUARIAL SECTION

Report of the Actuary

Gabriel, Roeder, Smith & Company
Consultants & Actuaries

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January 4, 2006

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

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, 2004.

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

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

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

Financial Section
- Schedule of Funding Progress

The Retirement Board January 4, 2006
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, 2004 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 2004, with investment return of approximately 12% being an important factor. The amortization period for unfunded liabilities is now below 30 years. The solvency period in the retiree health plan went down by one year since the prior valuation, including the effect of 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, 2004 valuations, we are pleased to report to the Board that with respect to pension benefits, the Public Employees Retirement System of Ohio is meeting its basic financial objective and continues in sound condition in accordance with actuarial principles of level percent of payroll financing. The Health Plan will need to be the subject of continuing review as envisioned in the Health Care Preservation Plan (HCPP). 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
(unaudited)

The Retirement Board approved and adopted the following methods and assumptions in 2004 after consulting with the actuary.

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

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

Investment Return: 8.00%, compounded annually, net after administrative expenses.

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

Individual Employee Pay Increases: An employee's 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 and Public Safety		State	Local	Law and Public Safety
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

Sample Ages	Years of Service	Death		Withdrawal					Disability				
				State		Law Enforcement & Public Safety	Local		State		Local		Law Enforcement & Public Safety
		Men	Women	Men	Women		Men	Women	Men	Women	Men	Women	
	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, the funding value of Defined Benefit assets recognizes assumed investment return fully each year. Differences between actual and assumed investment return are phased in over a closed 4 year period. Funding value is not permitted to deviate from market value by more than 12%.

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

Decrement Assumptions: The following tables of probabilities for the indicated risk areas are used by the actuary.

Mortality: *The tables used in evaluating age and service survivor benefit allowances to be paid were 90% of the 1971 Group Annuity Mortality Male and Female tables, projected to 1984. The mortality rates for disability allowances were 300% of rates in the 1983 Group Annuity Mortality Table for Males, and 400% of rates in the 1983 Group Annuity Mortality Table for Females.*

Retirement: Probabilities of normal age and service retirement applicable to members eligible to retire are:

Percent of Eligible Active Members Retiring Within Next Year

Retirement Age	State		Local		Law & Public Safety
	Men	Women	Men	Women	
48-49					22%
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 • Traditional Plan

	Active Members				Retired Lives		
Valuation Year	Number	Annual Payroll ($ Millions)	Average Pay	Percent Increase In Average Pay	Number*	Annual Allowance ($ Millions)	Average Allowance
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	350,022	11,057	31,589	3.00	145,263	2,265	15,588
2004	350,835	11,313	32,246	2.08	149,296	2,443	16,365

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

Actuarial Valuation Data • Combined Plan

	Active Members				Retired Lives		
Valuation Year	Number	Annual Payroll ($ Millions)	Average Pay	Percent Increase In Average Pay	Number*	Annual Allowance ($ Millions)	Average Allowance
2003	3,562	109	30,497				
2004	4,452	141	31,618	3.68			

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
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
2005	9,720	333,614,618	4,928	108,654,716	151,758	2,679,106,643	9.17	17,654

*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 plan's progress under its funding program. In a short-term solvency test, the plan'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; 3) the liabilities for service already rendered by active members.

In a plan 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 plan 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 • Traditional Plan ($ 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)
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
2004*	9,340	25,698	22,536	50,430	100	100	68

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

Combined Plan

Valuation Year	Aggregate Accrued Liabilities for (1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members (Employer-Financed Portion)	Valuation Assets	Portions of Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)
2003*	0	0	18	9	N/a	N/a	50
2004*	0	0	31	22	N/a	N/a	71

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

Analysis of Financial Experience ($ in millions)

Gains and Losses in Accrued Liabilities Resulting from Differences Between Assumed Experience and Actual Experience

	Gain (or Loss) For Year			
Type of Activity	**2004**	**2003**	**2002**	**2001**
Age-and-Service Retirements If members retire at older ages than assumed, there is a gain. If at younger ages, a loss.	$23.7	$11.4	$(43.8)	$(22.8)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, there is a loss.	(9.8)	(30.4)	(26.4)	1.7
Death-In-Service Annuities If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	35.7	7.6	2.7	13.4
Other Separations If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, there is a loss.	18.9	(122.2)	(190.5)	(147.6)
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, there is a loss.	733.1	301.4	53.7	525.9
Investment Return If there is greater investment return than assumed, there is a gain. If less return, there is a loss.	503.2	(33.1)	(8,869.3)	(1,456.7)
Gain (or Loss) During Year From Financial Experience	$1,304.8	$134.7	$(9,073.6)	$(1,086.1)

Actual vs. Recommended Contribution Rates

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

STATISTICAL SECTION

Statistical Section

(unaudited)

OPERS opted for early implementation of GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section,* issued in May 2004. This pronouncement establishes and modifies requirements related to the supplementary information presented in this section of the report. This section provides detailed information about OPERS as a context for understanding what the information in the financial statements note disclosures, and required supplementary information indicates about the System's overall financial condition.

The schedules and graphs beginning on page 109 show trend information about the growth of OPERS' assets over the past 10 years. These schedules, and others, provide detailed information about the trends of key sources of additions and deductions to plan assets:

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

The chart and schedule of Pension Assets Compared to Pension Liabilities, found on page 113, show the funding progress of the pension plans for the past 10 years on accumulating assets to cover projected pension liabilities which will ultimately be due at retirement.

The Contribution Rates chart on pages 116-117 provides historical information on the total member and employer contribution rates and how these contribution rates have been allocated to funding the required liabilities.

The charts on pages 118-119 include detailed information regarding the number and type of benefit recipients, and information as to the benefit amount.

The charts on page 120 contain information on the total number of members by type and by plan.

Finally, the charts on pages 121-122 reflect historical information on the number and types of employer units participating in the System, as well as the primary employer units.

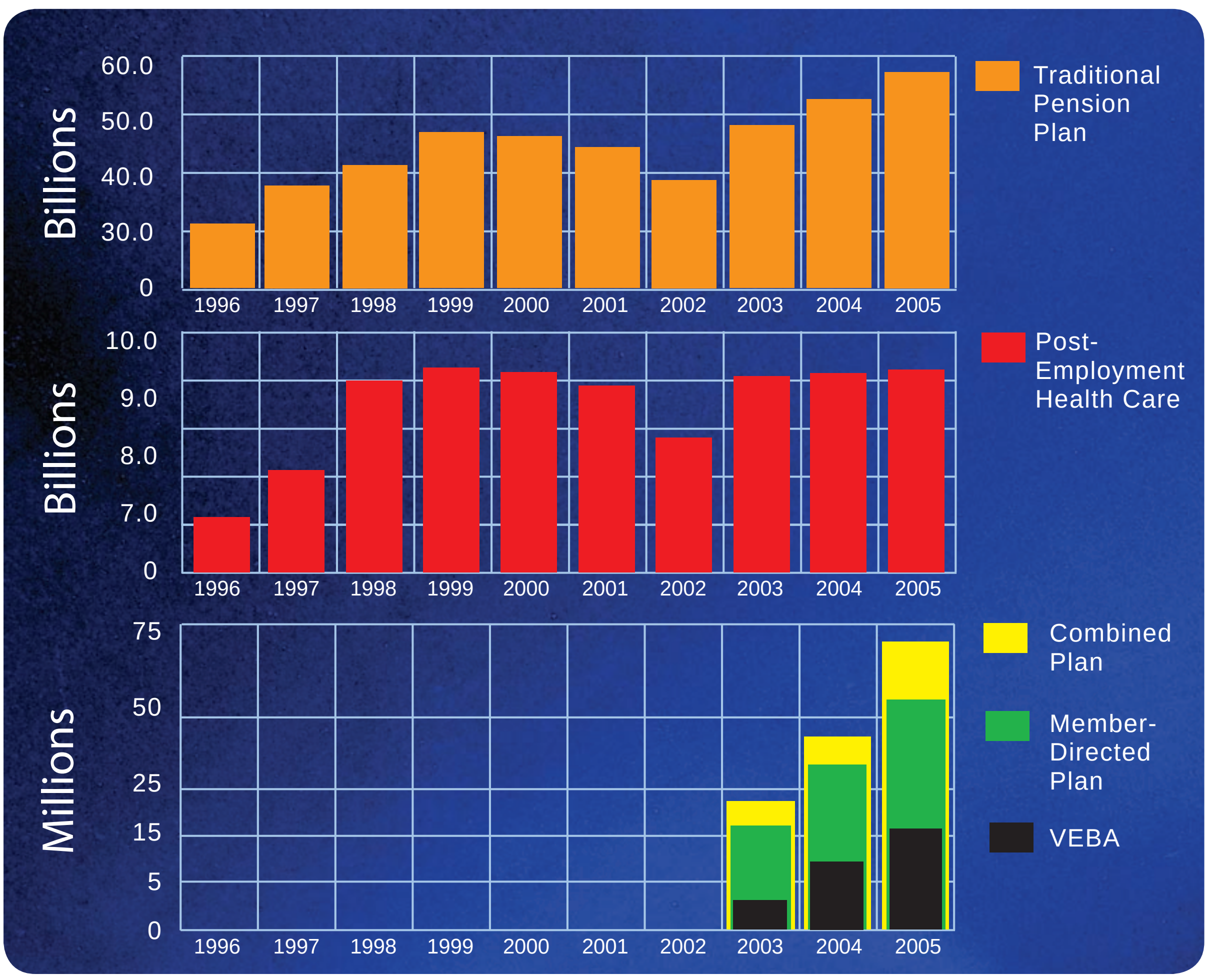
All non-accounting data is derived from OPERS' internal sources.

Net Assets by Plan

Last ten years

Year	Traditional Pension Plan	Post-Employment Health Care	Combined Plan	Member-Directed Plan	VEBA	Total Net Assets
1996	$32,426,936,891	$7,331,122,842				$39,758,059,733
1997	37,209,839,303	8,123,392,016				45,333,231,319
1998	41,443,240,834	10,011,840,228				51,455,081,062
1999	46,782,213,151	11,163,213,257				57,945,426,408
2000	46,261,950,182	10,965,429,369				57,227,379,551
2001	44,036,346,352	9,936,383,994				53,972,730,346
2002	39,100,014,979	8,886,282,086				47,986,297,065
2003	48,239,335,328	10,813,803,449	$22,890,488	$18,464,414	$3,181,305	59,097,674,984
2004	53,554,315,210	11,609,113,358	43,463,455	33,579,873	7,978,960	65,248,450,856
2005	57,662,214,741	11,845,713,012	72,499,607	54,502,026	15,377,190	69,650,306,576

Net Assets by Plan



Changes in Net Assets

Last ten fiscal years

Year	1996	1997	1998	1999
Traditional Plan				
Additions:				
Members' contributions	$737,292,990	$773,100,594	$799,281,516	$839,186,449
Employers' contributions	777,781,045	811,485,028	886,684,170	935,429,954
Net income (loss) from investing activity	2,746,261,358	4,659,970,627	4,094,859,358	5,211,527,606
Other income, net	867,738	754,023	237,360	1,785,346
Total addition to plan net assets	4,262,203,131	6,245,310,272	5,781,062,404	6,987,929,355
Deductions:				
Pension benefits	1,197,320,905	1,304,604,400	1,402,239,075	1,505,940,162
Refunds	110,043,743	139,624,174	125,609,907	120,631,961
Administrative expenses	18,436,392	18,179,286	19,811,891	22,384,915
Total deductions from plan net assets	1,325,801,040	1,462,407,860	1,547,660,873	1,648,957,038
Interplan activity, net				
Net increase (decrease)	2,936,402,091	4,782,902,412	4,233,401,531	5,338,972,317
Net assets held in trust, beginning of year	29,490,534,800	32,426,936,891	37,209,839,303	41,443,240,834
Net assets held in trust, end of year	32,426,936,891	37,209,839,303	41,443,240,834	46,782,213,151
Post-employment Health Care				
Additions:				
Employer contributions	403,816,027	422,152,429	379,761,098	392,459,727
Investment income, net of expense	103,372,724	761,890,450	1,951,002,761	1,284,270,009
Other Income, net				
Total addition to plan net assets	507,188,751	1,184,042,879	2,330,763,859	1,676,729,736
Deductions:				
Health care benefits	369,213,858	389,845,273	440,596,663	523,599,349
Administrative expenses	1,724,482	1,928,432	1,718,984	1,757,358
Total deductions from plan net assets	370,938,340	391,773,705	442,315,647	525,356,707
Interplan activity, net				
Net increase (decrease)	136,250,411	792,269,174	1,888,448,212	1,151,373,029
Net assets held in trust, beginning of year	7,194,872,431	7,331,122,842	8,123,392,016	10,011,840,228
Net assets held in trust, end of year	7,331,122,842	8,123,392,016	10,011,840,228	11,163,213,257

2000	2001	2002	2003	2004	2005
$879,844,987	$931,050,640	$1,094,343,553	$1,006,863,812	$1,019,785,485	$1,027,553,641
718,807,713	977,289,237	1,109,983,205	1,026,594,837	1,113,946,023	1,157,407,447
(353,942,104)	(1,954,230,267)	(4,841,899,792)	9,603,775,739	5,886,688,477	4,860,636,257
884,651	664,919	623,421	411,093	(107,798)	432,175
1,245,595,247	(45,225,471)	(2,636,949,613)	11,637,645,481	8,020,312,187	7,046,029,520
1,656,264,159	1,880,704,941	2,060,130,216	2,236,477,663	2,454,131,826	2,679,084,743
81,830,345	262,681,258	187,051,815	192,768,335	207,121,141	215,398,602
27,763,712	36,992,160	52,199,729	57,195,937	47,589,813	44,375,744
1,765,858,216	2,180,378,359	2,299,381,760	2,486,441,935	2,708,842,780	2,938,859,089
			(11,883,197)	3,510,475	729,100
(520,262,969)	(2,225,603,830)	(4,936,331,373)	9,139,320,349	5,314,979,882	4,107,899,531
46,782,213,151	46,261,950,182	44,036,346,352	39,100,014,979	48,239,335,328	53,554,315,210
46,261,950,182	44,036,346,352	39,100,014,979	48,239,335,328	53,554,315,210	57,662,214,741
452,867,242	431,103,750	573,038,298	579,904,361	464,096,679	460,534,741
(89,166,082)	(763,575,827)	(843,065,908)	2,258,066,075	1,297,291,883	868,900,661
					548,364
363,701,160	(332,472,077)	(270,027,610)	2,837,970,436	1,761,388,562	1,329,983,766
559,606,294	693,484,110	776,006,852	907,769,092	963,384,400	1,085,508,757
1,878,754	3,089,188	4,067,446	2,679,981	2,694,253	7,875,355
561,485,048	696,573,298	780,074,298	910,449,073	966,078,653	1,093,384,112
(197,783,888)	(1,029,045,375)	(1,050,101,908)	1,927,521,363	795,309,909	236,599,654
11,163,213,257	10,965,429,369	9,936,383,994	8,886,282,086	10,813,803,449	11,609,113,358
10,965,429,369	9,936,383,994	8,886,282,086	10,813,803,449	11,609,113,358	11,845,713,012

Changes in Net Assets

Last three fiscal years*

Year	2003	2004	2005
Combined Plan			
Additions:			
Members' contributions	$8,807,214	$11,408,263	$13,978,417
Employers' contributions	8,452,579	12,170,309	15,637,682
Investment income, net of expense	3,077,755	4,282,641	5,420,080
Total addition to plan net assets	20,337,548	27,861,213	35,036,179
Deductions:			
Refunds	49,490	601,042	1,390,162
Administrative expenses	4,480,051	5,032,027	4,432,803
Total deductions from plan net assets	4,529,541	5,633,069	5,822,965
Interplan activity, net	7,082,481	(1,655,177)	(177,062)
Net increase	22,890,488	20,572,967	29,036,152
Net assets held in trust, beginning of year		22,890,488	43,463,455
Net assets held in trust, end of year	22,890,488	43,463,455	72,499,607
Member-Directed Plan			
Additions:			
Member's contributions	7,723,797	10,148,602	12,505,646
Employer's contributions	7,464,773	10,051,013	12,424,690
Investment income, net of expense	2,753,472	3,423,731	4,078,183
Total addition to plan net assets	17,942,042	23,623,346	29,008,518
Deductions:			
Refunds	391,773	2,055,789	3,447,236
Administrative expenses	5,098,717	4,898,872	4,128,233
Total deductions from plan net assets	5,490,490	6,954,661	7,575,469
Interplan activity, net	6,012,862	(1,553,226)	(510,896)
Net increase	18,464,414	15,115,459	20,922,153
Net assets held in trust, beginning of year		18,464,414	33,579,873
Net assets held in trust, end of year	18,464,414	33,579,873	54,502,026
VEBA Plan			
Additions:			
Employer contributions	4,362,121	5,856,183	7,252,580
Investment income, net of expense	413,434	719,839	1,041,393
Total addition to plan net assets	4,775,555	6,576,022	8,293,973
Deductions:			
Benefits			1,757
Administrative expenses	382,104	1,476,295	852,844
Total deductions from plan net assets	382,104	1,476,295	854,601
Interplan activity, net	(1,212,146)	(302,072)	(41,142)
Net increase	3,181,305	4,797,655	7,398,230
Net assets held in trust, beginning of year		3,181,305	7,978,960
Net assets held in trust, end of year	3,181,305	7,978,960	15,377,190

* Plans commenced January 1, 2003

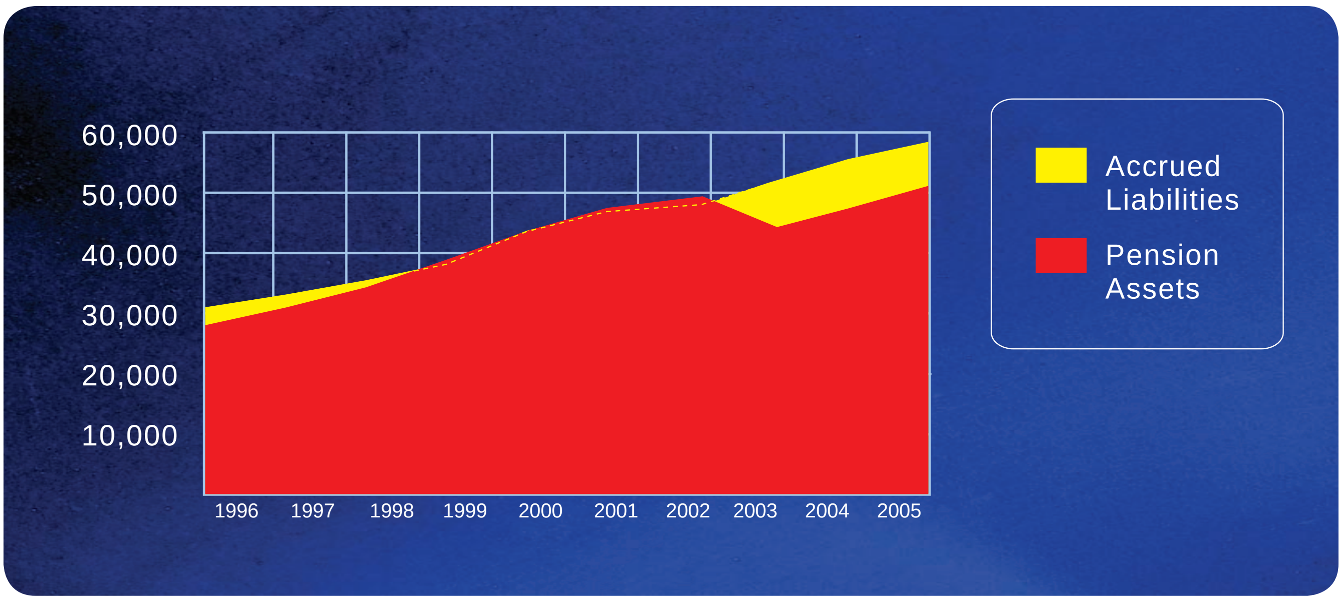
Pension Assets vs Pension Liabilities • Traditional Plan

Last ten years ($ in Millions)

Year	1995	1996	1997	1998*	1999	2000*	2001*	2002	2003	2004
Pension assets	$27,651	$30,534	$33,846	$38,360	$43,060	$46,844	$48,748	$43,706	$46,746	50,452
Accrued liabilities	30,556	32,631	34,971	37,714	43,070	46,347	47,492	50,872	54,774	57,604
Unfunded liabilities	(2,905)	(2,097)	(1,125)	646	(10)	497	1,256	(7,166)	(8,028)	(7,152)
Funded ratio	90.49%	93.57%	96.78%	101.71%	99.98%	101.07%	102.64%	85.91%	85.34%	87.58%

* Pension assets were in excess of accrued liabilities

Pension Assets vs Pension Liabilities



Benefits and Refunds by Type

Traditional and Post-Employment Health Care

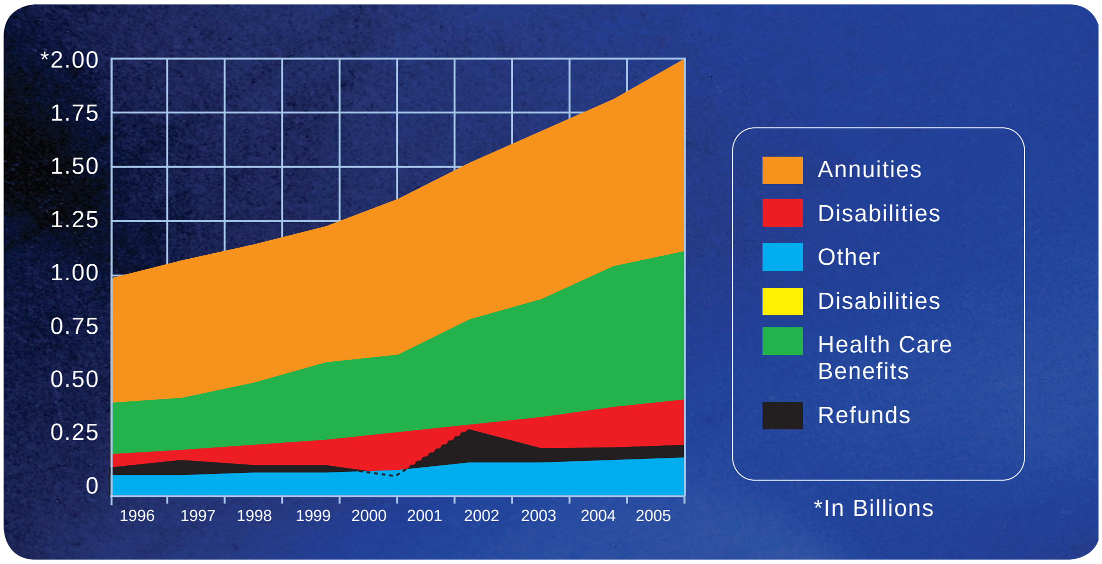
Last ten years

Year	1996	1997	1998	1999	2000
Pension benefits:					
Annuities	$953,871,804	$1,035,952,493	$1,109,378,935	$1,189,128,416	$1,300,982,670
Disabilities	163,656,060	183,368,625	204,540,532	224,029,395	251,751,580
Other systems	4,734,682	6,037,460	5,937,875	6,688,026	7,767,254
Survivors	69,071,031	72,781,064	76,059,739	79,786,105	89,297,851
Death	5,987,329	6,464,758	6,321,994	6,308,220	6,464,804
QEBA					
Total pension benefits	1,197,320,906	1,304,604,400	1,402,239,075	1,505,940,162	1,656,264,159
Health care benefits:					
Medicare Part B (statutorily required)	39,716,814	41,746,562	42,076,921	43,954,974	44,470,799
Medical	329,497,044	222,242,008	242,210,735	281,725,936	308,735,099
Prescription drug*		125,856,703	156,309,007	197,918,419	206,400,396
Total health care benefits	369,213,858	389,845,273	440,596,663	523,599,329	559,606,294
Refunds:					
Separation	102,212,756	131,184,720	116,866,392	101,426,721	69,381,933
Beneficiaries	5,598,156	5,827,194	5,824,082	4,477,399	2,374,820
Other	2,232,831	2,612,260	2,919,433	14,727,841	10,073,592
Total refunds	110,043,743	139,624,174	125,609,907	120,631,961	81,830,345
Total benefits and refunds	$1,676,578,507	$1,834,073,847	$1,968,445,645	$2,150,171,452	$2,297,700,798

* Perscription drug benefits are included with medical benefits in 1996.

	2001	2002	2003	2004	2005
	$1,464,902,740	$1,603,187,593	$1,746,038,446	$1,921,376,875	$2,107,916,570
	287,759,349	319,946,811	352,768,476	384,376,167	418,066,051
	6,984,942	11,242,369	7,812,726	13,431,599	11,331,852
	114,098,852	118,754,718	123,185,630	127,926,096	134,275,593
	6,959,058	6,998,725	6,672,385	6,831,559	7,237,063
				189,530	257,614
	1,880,704,941	2,060,130,216	2,236,477,663	2,454,131,826	2,679,084,743
	49,192,479	53,572,102	58,704,582	67,295,184	80,094,041
	377,912,277	408,221,504	489,843,513	516,037,981	602,230,428
	266,379,354	314,213,246	359,220,997	380,051,235	403,184,288
	693,484,110	776,006,852	907,769,092	963,384,400	1,085,508,757
	231,665,029	159,348,529	150,846,499	177,227,660	189,019,842
	22,378,095	15,180,435	28,263,206	19,872,224	18,510,705
	8,638,134	12,522,851	13,658,630	10,021,257	7,868,056
	262,681,258	187,051,815	192,768,335	207,121,141	215,398,602
	$2,836,870,309	$3,023,188,883	$3,337,015,090	$3,624,637,367	3,979,992,102

Deductions by type



Contribution Rates • Traditional Plan

		Member Rates	Employer Rates						Total Combined Employer and Member Rates
			Current			Unfunded Liability		Total Employer Rates	
	Year		Normal	Health	Survivor Benefits	Past Service	Health		
State	1996	8.50%	5.57%	3.54%	1.09%	2.36%	0.75%	13.31%	21.81%
	1997	8.50	5.62	3.31	0.59	2.81	0.98	13.31	21.81
	1998	8.50	5.62	4.20	0.59	2.90	0.00	13.31	21.81
	1999	8.50	5.62	4.20	0.59	2.90	0.00	13.31	21.81
	2000*	8.50	4.90	4.30	0.51	0.94	0.00	10.65	19.15
	2001	8.50	6.96	4.30	0.72	1.33	0.00	13.31	21.81
	2002	8.50	6.27	5.00	0.72	1.32	0.00	13.31	21.81
	2003	8.50	5.75	5.00	0.42	2.14	0.00	13.31	21.81
	2004	8.50	5.53	4.00	0.42	3.36	0.00	13.31	21.81
	2005	8.50	5.29	4.00	0.41	3.61	0.00	13.31	21.81
Local	1996	8.50	5.16	4.44	1.00	2.28	0.67	13.55	22.05
	1997	8.50	5.57	4.29	0.59	2.28	0.82	13.55	22.05
	1998	8.50	5.57	4.20	0.59	3.19	0.00	13.55	22.05
	1999	8.50	5.57	4.20	0.58	3.20	0.00	13.55	22.05
	2000*	8.50	4.92	4.30	0.51	1.11	0.00	10.84	19.34
	2001	8.50	6.96	4.30	0.72	1.57	0.00	13.55	22.05
	2002	8.50	6.26	5.00	0.72	1.57	0.00	13.55	22.05
	2003	8.50	5.66	5.00	0.48	2.41	0.00	13.55	22.05
	2004	8.50	5.45	4.00	0.47	3.63	0.00	13.55	22.05
	2005	8.50	5.19	4.00	0.47	3.89	0.00	13.55	22.05
Law Enforcement	1996	8.50	8.15	4.95	1.56	1.10	0.94	16.70	25.20
	1997	8.50	9.61	4.70	0.89	0.74	0.76	16.70	25.20
	1998	8.50	9.61	4.20	0.89	2.00	0.00	16.70	25.20
	1999	8.50	9.61	4.20	0.88	2.01	0.00	16.70	25.20
	2000*	8.50	9.76	4.30	0.81	0.83	0.00	15.70	24.20
	2001	10.10	10.62	4.30	0.88	0.90	0.00	16.70	26.80
	2002	10.10	10.02	5.00	0.85	0.83	0.00	16.70	26.80
	2003	10.10	8.34	5.00	0.54	2.82	0.00	16.70	26.80
	2004	10.10	8.23	4.00	0.54	3.93	0.00	16.70	26.80
	2005	10.10	8.11	4.00	0.54	4.05	0.00	16.70	26.80
Public Safety	2001**	9.00	10.90	4.30	0.89	0.61	0.00	16.70	25.70
	2002	9.00	10.01	5.00	0.98	0.71	0.00	16.70	25.70
	2003	9.00	8.34	5.00	0.54	2.82	0.00	16.70	25.70
	2004	9.00	8.23	4.00	0.54	3.93	0.00	16.70	25.70
	2005	9.00	8.11	4.00	0.54	4.05	0.00	16.70	25.70

Contribution Rates • Member-Directed Plan

	Year	Employee Rate	Employer Pension	Employer RMA***	Employer Total	Total Rates
State	2003	8.50%	8.50%	4.81%	13.31%	21.81%
	2004	8.50	8.50	4.81	13.31	21.81
	2005	8.50	8.50	4.81	13.31	21.81
Local	2003	8.50	8.50	5.05	13.55	22.05
	2004	8.50	8.50	5.05	13.55	22.05
	2005	8.50	8.50	5.05	13.55	22.05

Contribution Rates • Combined Plan

	Year	Employee Rates	Employer Pension	Employer Health	Employer Total	Total Rates
State	2003	8.50%	8.31%	5.00%	13.31%	21.81%
	2004	8.50	9.31	4.00	13.31	21.81
	2005	8.50	9.31	4.00	13.31	21.81
Local	2003	8.50	8.55	5.00	13.55	22.05
	2004	8.50	9.55	4.00	13.55	22.05
	2005	8.50	9.55	4.00	13.55	22.05

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

Number of Benefit Recipients by Category

Traditional Plan Only*

Year-end	Annuities	Disabilities	Survivors	Total
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
2005	118,099	20,732	12,927	151,758

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

Schedule of Benefit Recipients by Benefit Type

Traditional Plan Only*

As of December 2005

Amount of Monthly Benefit	Number of Recipients	Annuities	Disabilities	Survivors
$1-299	14,216	12,965	469	782
300-499	14,135	11,061	530	2,544
500-999	34,471	25,622	2,960	5,889
1,000-1,499	26,752	19,563	5,012	2,177
1,500-1,999	20,947	15,203	4,906	838
2,000 & Over	41,237	33,685	6,855	697
Totals	**151,758**	**118,099**	**20,732**	**12,927**

*This schedule includes only the Traditional defined benefit plan as the other plans do not have benefit recipients due to the maturity of the plans.

Schedule of Average Benefit Payments

Traditional Plan Only

Retirement Effective Dates		Years Credited Service 5-9	10-14	15-19	20-24	25-30	30+
1996	Average Monthly Benefit*	$343	$455	$757	$1,037	$1,351	$2,074
	Average Final Average Salary	$19,534	$22,127	$27,333	$29,754	$32,534	$37,820
	Number of Active Recipients	417	1,048	907	917	952	1,774
1997	Average Monthly Benefit*	$381	$513	$800	$1,090	$1,400	$2,234
	Average Final Average Salary	$21,967	$25,138	$28,674	$31,290	$33,908	$40,650
	Number of Active Recipients	415	1,091	908	846	908	2,037
1998	Average Monthly Benefit*	$385	$498	$781	$1,108	$1,434	$2,176
	Average Final Average Salary	$20,226	$24,160	$28,008	$31,530	$34,492	$40,098
	Number of Active Recipients	426	1,197	931	877	939	1,991
1999	Average Monthly Benefit*	$468	$545	$835	$1,135	$1,497	$2,316
	Average Final Average Salary	$22,725	$26,514	$29,828	$32,856	$35,701	$42,948
	Number of Active Recipients	446	1,095	846	897	960	2,079
2000	Average Monthly Benefit*	$529	$546	$860	$1,195	$1,674	$2,483
	Average Final Average Salary	$22,833	$25,995	$29,947	$32,448	$37,508	$44,155
	Number of Active Recipients	443	1,114	880	896	974	2,313
2001	Average Monthly Benefit*	$635	$621	$953	$1,286	$1,777	$2,554
	Average Final Average Salary	$24,281	$28,405	$32,628	$35,007	$39,560	$45,092
	Number of Active Recipients	470	1,079	890	929	1,098	2,561
2002	Average Monthly Benefit*	$703	$611	$965	$1,290	$1,855	$2,667
	Average Final Average Salary	$25,392	$27,426	$33,170	$34,733	$41,607	$46,883
	Number of Active Recipients	579	1,295	1,069	1,079	1,393	3,489
2003	Average Monthly Benefit*	$736	$658	$1,040	$1,386	$1,944	$2,885
	Average Final Average Salary	$25,541	$29,196	$35,115	$37,183	$42,518	$49,747
	Number of Active Recipients	642	1,254	1,037	944	1,230	3,131
2004	Average Monthly Benefit*	$784	$618	$985	$1,377	$1,889	$2,788
	Average Final Average Salary	$29,654	$27,902	$34,872	$38,429	$43,826	$50,600
	Number of Active Recipients	520	1,215	1,016	932	1,282	3,072
2005	Average Monthly Benefit*	$766	$723	$1,013	$1,407	$1,987	$2,891
	Average Final Average Salary	$28,702	$32,126	$36,360	$39,854	$46,151	$52,805
	Number of Active Recipients	645	1,317	987	954	1,319	3,442

*"Average Monthly Benefit" includes post retirement and yearly 3% cost-of-living increases.
** All years begin January 1 and end December 31.

Member Count

All Plans

Year end	Total Active	Inactive	Total
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	313,248	688,324
2005	381,413	327,864	709,277

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

Traditional Plan

Year end	Total Active	Inactive	Total
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*	361,704	302,221	663,925
2004	366,470	312,480	678,950
2005	371,148	326,528	697,676

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

Combined Plan

Year end	Total Active	Inactive	Total
2003	3,590	92	3,682
2004	4,223	232	4,455
2005	5,026	414	5,440

Member Directed Plan

Year end	Total Active	Inactive	Total
2003	3,702	233	3,935
2004	4,383	536	4,919
2005	5,239	922	6,161

Number of New Benefit Recipients and Refund Payments

All Plans

Year	Annuities	Disabilities	Survivors	Refunds
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
2005	7,257	1,734	729	28,846

Number of Employer Units

All Plans*

Year	State	County	Law Enforcement	Municipalities	Villages	Miscellaneous	Libraries	Townships	Totals
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
2005	277	239	247	255	671	454	257	1,312	3,712

* 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, 2005 was 3259.

Principal Participating Employers

	2005		
Participating Government	Covered Employees	Rank	Percentage of Total System
The Ohio State University	23,696	1	6.58%
Cuyahoga County	10,062	2	2.80
City of Cleveland	6,569	3	1.83
Franklin County	6,551	4	1.82
Ohio Department of Transportation	6,297	5	1.75
Metrohealth Medical Center	5,988	6	1.66
Hamilton County	5,951	7	1.65
City of Columbus	5,864	8	1.63
University of Cincinnati	5,083	9	1.42
Montgomery County	4,896	10	1.36
All Other (See table below)	300,456		77.50
Total	381,413		100.00%

All Other Catagories

Type	Number	Employees
State	274	84,251
County	235	72,861
Law Enforcement/ Public safety	247	7,923
Municipalities	253	55,711
Villages	671	15,222
Miscellaneous	453	33,975
Libraries	257	15,405
Townships	1312	15,108
Total	3702	300,456

PLAN STATEMENT

Plan Statement

The Ohio Public Employees Retirement System (OPERS or System) was created by the Ohio General Assembly to provide retirement, disability, and survivor benefit programs for the public employees of Ohio. This summary outlines the Ohio law 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 are exempted or excluded.

The law provides for optional membership for elected public officials. Students, not already members, working for the public school, college, or university 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 must have a Peace Officer's Training School Certificate; they are covered if they were hired on or after the dates of the enabling legislation. If they were employed before the legislation was enacted, coverage was optional. If they did not elect law enforcement coverage, they remained under the regular OPERS schedule of benefits.

Plan Types

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

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

The Traditional Pension Plan

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

The Member-Directed Plan

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

The Combined Plan

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

Contributions

Employers are required to make contributions to the System on the basis of a percentage of reportable payroll and at a rate based upon the recommendations of OPERS' actuary. Penalties and interest are assessed for late payments. For 2005, the state contribution rate was 13.31% and local employers contributed 13.55%. Employers pay 16.7% on law enforcement and public safety emplyees.

The 2005 employee contribution rate for state and local members was 8.5% of earnable salary. Members in public safety contributed 9.0% and law enforcement division members paid 10.1% of earnable salary. Individual accounts for each member of OPERS are maintained and funds contributed by members of the Traditional Plan are fully refundable at service termination or death. The refund value of contributions made by members of the Combined and Member Directed Plans are subject to changes in investment market values. 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 included 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. Members with 30 years of total service credit may retire at any age with no reduction in benefit. Service credit allowed under Chapter 145 of the ORC includes:

1) Service for the state of Ohio or an Ohio political subdivision for which contributions have been paid;
2) Certain military service which interrupted contributing public service;
3) Any out-of-public service period of three years or less during which the member was receiving an award under Workers' Compensation;
4) Previously unreported service in Ohio;
5) Service purchased by the member for:
    a) Other military service that is not being used for other retirement programs, except Social Security;
    b) Prisoner-of-war service;
    c) An authorized leave of absence, which did not exceed one year;
    d) Comparable public service that is not being used for other retirement programs, except Social Security, performed outside Ohio or with the federal government or for which contributions were made to an Ohio municipal retirement system;
    e) Restoration of previously refunded service;
    f) Service in an Ohio police or fire department and covered by the Ohio Police & Fire Pension Fund, service in the State Highway Patrol and covered by the Ohio 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 purchased by an employer under a retirement incentive plan.

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

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

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

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

Disability Benefits

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

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

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

Under the original plan, the amount of the disability allowance is based on the member's final average salary (FAS) and total service credit, plus the length of time between the effective date of disability and age 60. The disability benefit can neither exceed 75% nor be less than 30% of the member's FAS. The disability benefit continues for the member's lifetime as long as the qualifying disability persists. The benefit is funded by the employee's accumulated contributions and reserves accumulated from employer contributions. The benefit is fully taxable until age 60, and then a specified dollar amount each month, representing the return of previously taxed contributions, is tax-free. For a law enforcement member disabled due to an on-duty injury or illness, 30% of the benefit payment is excludable from taxable income.

Under the revised plan, the benefit is based on the member's FAS and years of service with

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

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

Survivor Benefits

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

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

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

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

At the member's death, if none of these requirements were met, a refund of contributions paid into the member's OPERS 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 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.

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

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

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

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

Additional Benefits

Health Care Coverage–OPERS-provided health care is not a statutorily required benefit. Currently, members applying for age-and-service retirement who have 10 or more years of Ohio service credit have 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 an early 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, even if they are covered by health care through their current employer. Proof of enrollment and confirmation that the retiree is not receiving reimbursement from another source 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—When a benefit recipient has received benefits for 12 months, an annual 3% cost-of-living adjustment (COLA) is provided.

Death Benefit—Upon the death of an age-and-service or disability benefit recipient, a lump-sum death benefit is paid to the qualified beneficiary. The benefit ranges from $500 to $2,500 based on the recipient's years of service credit.

Qualified Excess Benefit Arrangement (QEBA)—Total benefit payments to an individual are subject to the limitations identified in Section 415 (b) of the Internal Revenue Code. In 2003, OPERS implemented a Qualified Excess Benefit Arrangement that allows OPERS recipients to receive the amount of their calculated benefit that exceeds the IRS limits.

Refunds

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

Under the Traditional Plan, full recovery of all employee contributions to OPERS is guaranteed. If the member is also a member of the State Teachers Retirement System of Ohio or the School Employees Retirement System of Ohio, an application for refund from the other system(s) must have been filed in order to receive the money from OPERS.

Refunded service credit may be restored if the member returns to OPERS covered employment for at least 18 months. The amount refunded, plus interest, must be repaid for service credit to be 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 distribution options for payment of the vested portion of their individual OPERS accounts. Options include the purchase of a monthly annuity from OPERS (which includes joint and survivor options), partial lump-sum payments (subject to limitations), payments for a fixed period, payments of a specific monthly amount, or a combination of these options. Members also may defer payment of their individual OPERS account.

Disability and Survivor Benefits

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

Additional Benefits

Health Care Coverage—For members participating in the Member-Directed Plan, a portion of the employer contribution is credited to a Voluntary Employees' Beneficiary Association (VEBA) account in the member's name. This account vests on a 10-year schedule based on the member's years of service in the plan. Upon refund or retirement, vested contributions in the VEBA may be used for the payment of qualified health, dental, and vision care expenses.

Refunds

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

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

Coverage and Benefits for Re-employed Retirees

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

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

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

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

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