



OHIO DEFERRED COMPENSATION

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2017 PAFR

2017 Popular Annual Financial Report
Ohio Public Employees Deferred Compensation Program

Keith Overly
Executive Director

Ohio457.org

Dear Ohio Deferred Compensation Participants,

It is with great pleasure that the Ohio Deferred Compensation (Ohio DC) Board of Trustees, and staff, present this 2017 Popular Annual Financial Report (PAFR). The PAFR is an easy-to-read summary of the Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2017. Ohio DC is one of the largest 457 plans in the U.S., with more than 228,000 participant accounts from 1,909 State and local government employers. This PAFR has been prepared to assist you in understanding Ohio DC's program and how we help participants in supplementing their retirement income.

This PAFR will provide you with a variety of examples as to how we are fulfilling our mission of guiding our participants along the path to retirement income security. Members of Ohio's retirement systems can contribute to Ohio DC on a voluntary basis to supplement their retirement income. As a self-directed plan, participants are responsible for their own savings and investment decisions, but much of their investment success depends on the amount of contributions and the overall direction of the financial markets.

The U.S. stock markets have achieved nine consecutive years of positive performance as evidenced by the S&P 500 index. Most recently, this index gained 21.8 percent in 2017.

Ohio DC achieved these all-time highs in 2017:

- \$13.6 billion in year-end assets
- 1,909 contributing employers
- 228,380 participant accounts
- \$59,480 average account balance

Ohio DC also faces several challenges. The number of public employees eligible to participate in Ohio DC has generally declined over the past ten years, with distributions to participants rising 53 percent and transfers to other plans have risen 29 percent over the past ten years.

2017 Initiatives and Beyond

Ohio DC's daily recordkeeping system continues to function adequately, but a project to improve and modernize the system's software and hardware has been ongoing for several years. In 2015, DXC Technology (formerly Hewlett-Packard Enterprise Services) began the modernization project, which is expected to take several years to complete and cost approximately \$9.5 million. The project is nearing completion, is under budget, and is projected to be implemented in the third quarter of 2018.

The second phase of the recordkeeping modernization project has begun, and it will include the addition of new functionality to the system including:

- After-tax (Roth) accounts
- A new participant website
- A mobile app
- Automatic account rebalancing

Changes were made to the Ohio DC investment line-up during 2017 to improve portfolio management and net returns to participants. Line-up changes included:

- Ohio DC closed the FPA Capital fund and transferred participant accounts into the Ohio DC Small-Cap Value fund. The Ohio DC Small-Cap Value fund has a target allocation of 92.5 percent actively managed by Westwood Management Corp. and 7.5 percent passively managed by State Street Global Advisors.
- Ohio DC closed the Hartford Small Company fund and transferred participant accounts into the Ohio DC Small-Cap Growth fund. The Ohio DC Small-Cap Growth fund has a target allocation of 65.0 percent actively managed by Westfield Capital Management Co., 27.5 percent actively managed by Fiera Capital, and 7.5 percent passively managed by State Street Global Advisors.
- Ohio DC moved investors in the Fidelity Contrafund and Growth Company collective investment trusts from class 1 shares to class 2 shares. The class 2 shares have the same investment strategy, but lower fees, and participants invested in the Fidelity options will save over \$1.1 million annually in investment fees.
- Ohio DC moved investors from the advisor shares of the Templeton Foreign fund to the R6 shares of the same fund. The R6 share class has the same investment strategy, but lower fees than the advisor shares, and no recordkeeping reimbursements. Participants invested in the Templeton Foreign fund will save over \$80,000 annually in investment fees



As we move forward, the Ohio DC Board and staff will continue our commitment to low participant fees and fee transparency while enhancing our services and products to help participants save for a better retirement. Thank you for your engagement and continued partnership with us in helping participants to save for a secure retirement.

Kindest regards,

A handwritten signature in black ink, appearing to read "K. Overly".

Keith Overly
Executive Director

OUR OBJECTIVES

HELPING YOU SAVE FOR RETIREMENT

IT'S WHAT WE ARE HERE FOR

Ohio Deferred Compensation is dedicated to making sure our participants are well informed about what it means to save for retirement. As a self-directed plan, our participants are responsible for making their own savings and investment decisions, but for them to succeed, they need to be educated about the need to invest early and regularly and to be informed about the basics of investing.



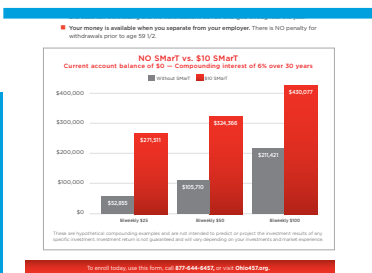
WE MAKE THINGS SIMPLE



NEVER COMPROMISE
ON QUALITY



PREPARE FOR RETIREMENT



EZ Enrollment Form



Dedicated Staff



Retirement Planning Specialists



OUR MISSION

Guiding our participants along the path to retirement income security.

We are driven to provide our participants with the tools and resources they need, to be able to take control of their own retirement outcomes.



OUR VALUES

INTEGRITY AND ETHICS

FIDUCIARY ACCOUNTABILITY

PROFESSIONALISM

INNOVATION

EFFICIENCY

OUR GOALS

1. Provide quality participant services and promote financial literacy through effective education and clear communication.
2. Establish plan features and tools that encourage supplemental savings to provide income through retirement.
3. Provide suitable, diverse, cost effective investment options.
4. Accurately and fairly apply laws; when appropriate, advocate regulatory and legislative changes.
5. Develop and implement prudent practices to effectively govern and administer the Plan.



ASSETS AND LIABILITIES

We can help you save more!

This statement shows the assets and liabilities for the years ended December 31, 2017 and 2016. The plan net position represents the funds accumulated thus far to pay retirement income benefits to participants. Ohio

Deferred Compensation is a non-profit organization and all assets are held in trust on behalf of the employers for the exclusive benefit of participants and their beneficiaries with the goal of providing them with retirement income security.

| ASSETS: | 2017 | 2016 | \$ CHANGE | % CHANGE |
|---|-------------------------|-------------------------|------------------------|-----------------|
| INVESTMENTS | \$13,559,995,372 | \$11,827,862,696 | 1,732,132,676 | 14.6% |
| CASH AND CASH EQUIVALENTS | 14,273,965 | 13,773,657 | 500,308 | 3.6% |
| CONTRIBUTIONS RECEIVABLE AND CASH HELD FOR INVESTMENT | 7,316,040 | 6,025,254 | 1,290,786 | 21.4% |
| OTHER ASSETS | 8,497,829 | 5,589,362 | 2,908,467 | 52.0% |
| TOTAL ASSETS | <u>\$13,590,083,206</u> | <u>\$11,853,250,969</u> | <u>\$1,736,832,237</u> | <u>14.7%</u> |
| LIABILITIES: | | | | |
| ACCOUNTS PAYABLE AND ACCRUED EXPENSES | 3,409,363 | 2,685,929 | 723,434 | 26.9% |
| NET PENSION LIABILITY | <u>2,540,312</u> | <u>1,945,860</u> | <u>594,452</u> | <u>30.5%</u> |
| TOTAL LIABILITIES | <u>5,949,675</u> | <u>4,631,789</u> | <u>1,317,866</u> | <u>28.5%</u> |
| PLAN NET POSITION AVAILABLE FOR BENEFITS | \$13,584,133,531 | \$11,848,619,180 | \$1,735,514,351 | 14.6% |



| ADDITIONS: | 2017 | 2016 | \$ CHANGE | % CHANGE |
|----------------------------|----------------------|----------------------|----------------------|-----------------|
| NET INVESTMENT INCOME | \$1,798,830,803 | \$684,494,068 | \$1,114,336,735 | 162.8% |
| PARTICIPANT CONTRIBUTIONS | 475,928,694 | 447,140,841 | 28,787,853 | 6.4% |
| TRANSFERS FROM OTHER PLANS | 116,925,187 | 101,975,571 | 14,949,616 | 14.7% |
| OTHER ADDITIONS | 1,394,036 | 5,137,820 | -3,743,784 | -72.9% |
| TOTAL ADDITIONS | 2,393,078,720 | 1,238,748,300 | 1,154,330,420 | 93.2% |

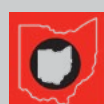
DEDUCTIONS:

| | | | | |
|---|-------------------------|-------------------------|------------------------|---------------|
| BENEFIT DISTRIBUTIONS | 351,506,917 | 317,951,713 | 33,555,204 | 10.6% |
| TRANSFERS TO OTHER PLANS | 295,491,754 | 219,798,499 | 75,693,255 | 34.4% |
| ADMINISTRATIVE EXPENSES | 10,565,698 | 10,484,578 | 81,120 | 0.8% |
| TOTAL DEDUCTIONS | 657,564,369 | 548,234,790 | 109,329,579 | 19.9% |
| NET INCREASE | 1,735,514,351 | 690,513,510 | 1,045,000,841 | 151.3% |
| PLAN NET POSITION, BEGINNING OF YEAR | 11,848,619,180 | 11,158,105,670 | 690,513,510 | 6.2% |
| PLAN NET POSITION, END OF YEAR | \$13,584,133,531 | \$11,848,619,180 | \$1,735,514,351 | 14.6% |

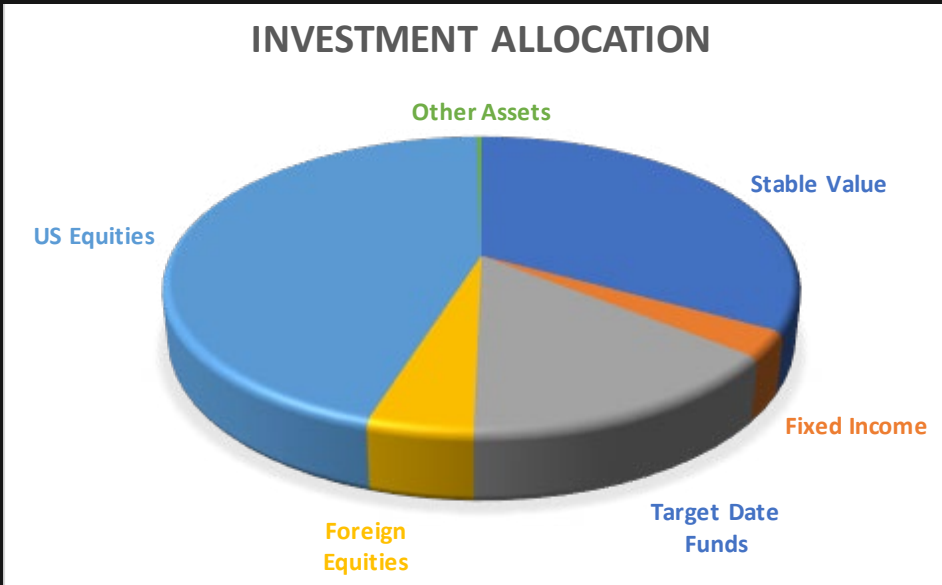
INCOME AND EXPENSES

The above statement shows the annual additions (income) and deductions (expenses) for Ohio DC. Additions come from participant contributions, transfers from other plans, investment income earned on participant accounts, and recordkeeping rebates/income.

The primary deductions are benefit payments, transfers out to other plans and administrative expenses, which are required to manage the program. A net increase represents more assets were accumulated in the current year to pay more retirement income benefits.



INVESTMENTS - SUMMARY



| ASSET CLASS | ALLOCATIONS |
|---------------------|-------------------------|
| STABLE VALUE | \$4,491,469,982 |
| FIXED INCOME | 376,140,493 |
| TARGET DATE FUNDS | 1,968,520,908 |
| FOREIGN EQUITIES | 619,854,064 |
| US EQUITIES | 6,088,129,404 |
| OTHER ASSETS | 40,018,680 |
| TOTAL ASSETS | \$13,584,133,531 |

ALLOCATION SUMMARY

Investment markets are extremely complex and market volatility is impossible to predict. For these reasons, Ohio Deferred Compensation, as well as all responsible retirement plans, stress the need for

investors to take advantage of their ability to diversify their investments. Diversification reduces portfolio risk. In the above chart, you can see the various asset classes that Ohio DC participants invest in.

PARTICIPANT INVESTMENTS

Ohio Deferred Compensation is a self-directed plan, so participants choose the investment options for their current deferrals and balances. The Board

has adopted an investment policy to ensure that a suitable number of diverse investment options are offered and regularly monitored.

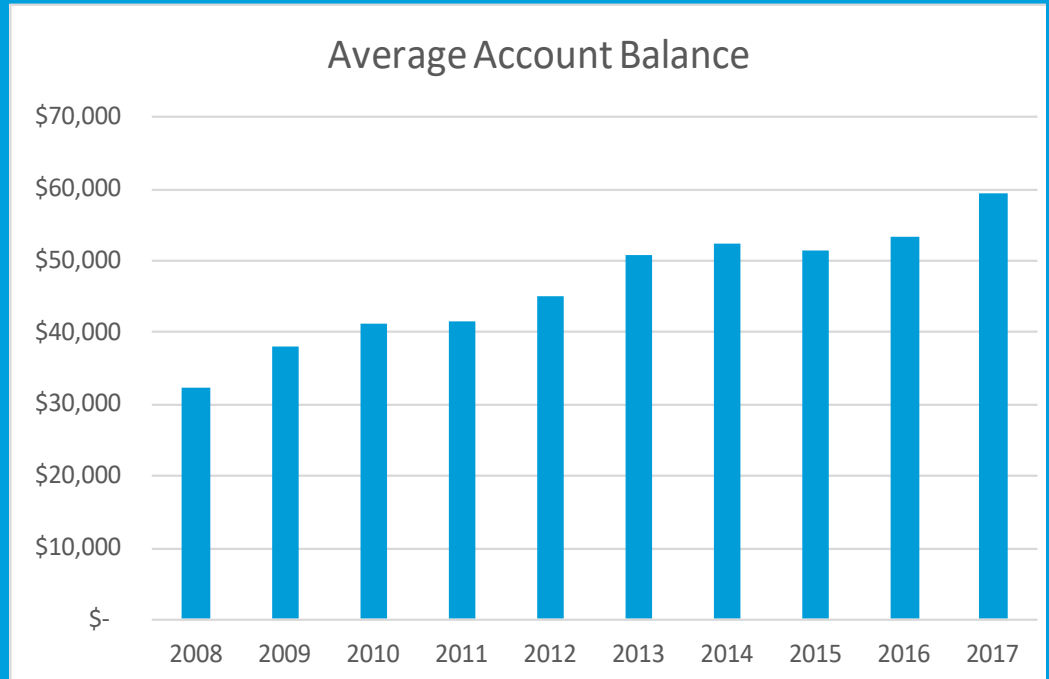


OHIO DEFERRED COMPENSATION

In facts and numbers

AVERAGE PARTICIPANT ACCOUNT

| | |
|------|----------|
| 2008 | \$32,280 |
| 2009 | \$38,185 |
| 2010 | \$41,282 |
| 2011 | \$41,695 |
| 2012 | \$45,197 |
| 2013 | \$50,962 |
| 2014 | \$52,382 |
| 2015 | \$51,445 |
| 2016 | \$53,362 |
| 2017 | \$59,480 |



ACCOUNT BALANCES

Higher account balances will result in higher retirement incomes for our participants. While this seems like common sense, people often do not realize that they need to set a goal for what they

would like to accumulate for retirement. For some, this might be a total amount of savings. For others, it's easier to look at how much income they will earn per month in retirement, based on their savings.

ALL-TIME HIGHS IN 2017

\$13.6 BILLION



YEAR-END ASSETS

1,909



CONTRIBUTING EMPLOYERS

228,380



PARTICIPANT ACCOUNTS

\$59,480



AVERAGE ACCOUNT BALANCE

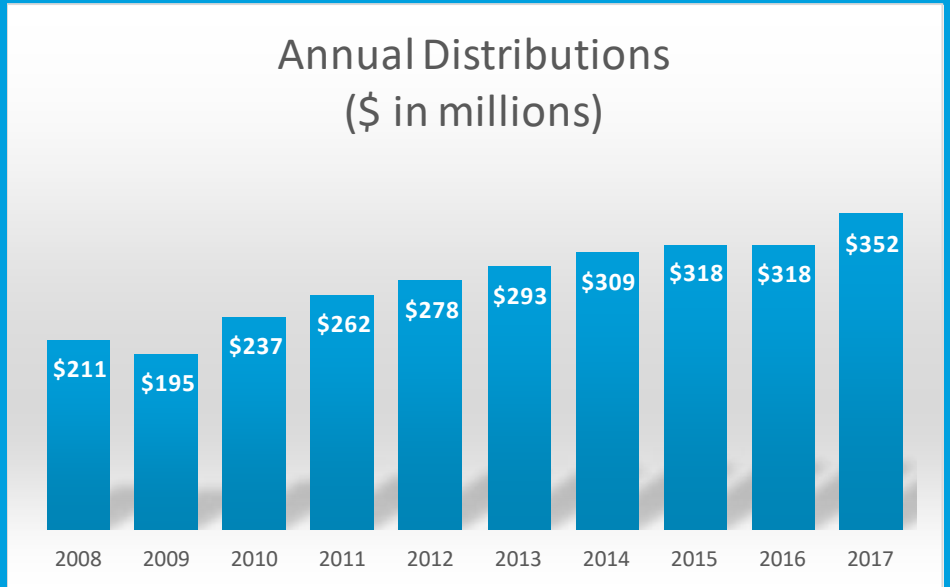


OHIO DEFERRED COMPENSATION

In facts and numbers

TOTAL DISTRIBUTIONS

| | |
|------|---------------|
| 2008 | \$211 MILLION |
| 2009 | \$195 MILLION |
| 2010 | \$237 MILLION |
| 2011 | \$262 MILLION |
| 2012 | \$278 MILLION |
| 2013 | \$293 MILLION |
| 2014 | \$309 MILLION |
| 2015 | \$318 MILLION |
| 2016 | \$318 MILLION |
| 2017 | \$352 MILLION |



OVERALL PARTICIPANT DISTRIBUTIONS

Ohio Deferred Compensation provided 40,421 participants with distributions in 2017, up from 36,111 in 2016. The average annual distribution in 2017 equaled \$8,696, a significant increase in the total retirement

income received by most participants. Ohio DC is now delivering over \$350 million in benefit distributions annually to provide additional retirement income and a more secure retirement to our participants.

ANALYSIS OF INCOME AND CONTRIBUTIONS

\$1.79 BILLION



NET INVESTMENT
INCOME

\$476 MILLION



PARTICIPANT
CONTRIBUTIONS

14.7%



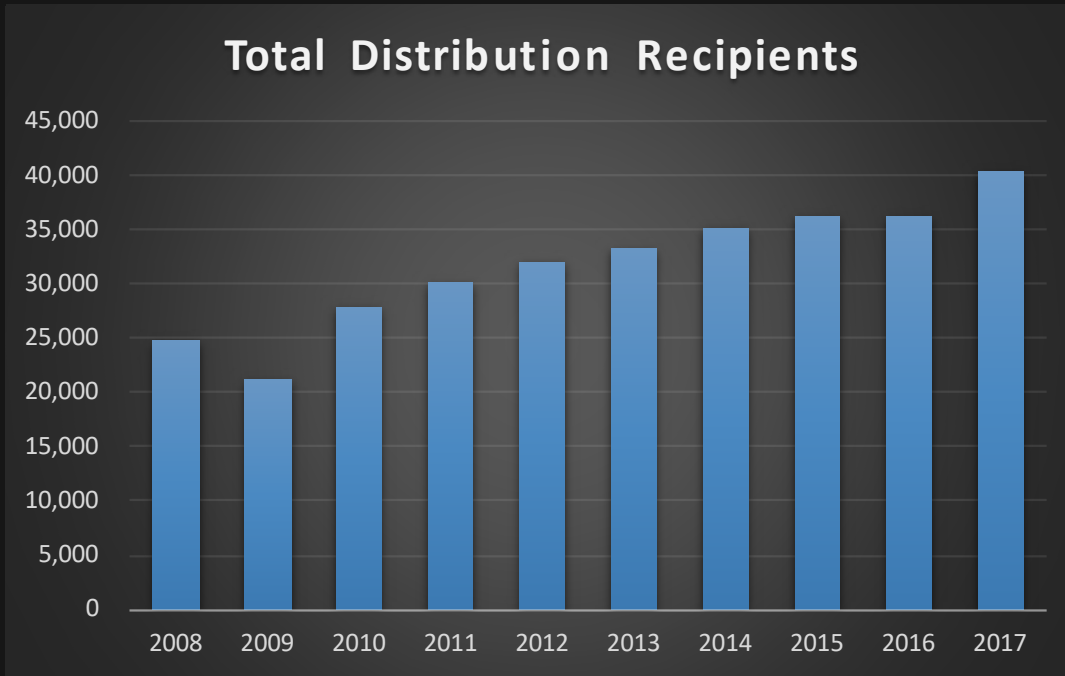
INCREASED
TRANSFERS IN

2.8%



INCREASE IN ACTIVELY
DEFERRING PARTICIPANTS
OVER 2016





DISTRIBUTION RECIPIENTS PER YEAR

| | |
|------|--------|
| 2008 | 24,787 |
| 2009 | 21,212 |
| 2010 | 27,884 |
| 2011 | 30,249 |
| 2012 | 32,106 |
| 2013 | 33,359 |
| 2014 | 35,132 |
| 2015 | 36,101 |
| 2016 | 36,111 |
| 2017 | 40,421 |

OVERALL TOTAL DISTRIBUTIONS

The graph above shows the 10-year history of the total number of distributions, not just participants, but beneficiaries as well. The general trend over this period has been a steady increase in distributions. This overall

trend was generated by more people taking distributions (larger numbers of baby boomers retiring). Deductions seemed to level off for several years beginning in 2013, but increased in 2017.

RECOGNITION



CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING FOR FISCAL YEAR 2016 FROM THE GOVERNMENT FINANCE OFFICERS ASSOCIATION (GFOA)



| ABOUT THIS PAFR

This Popular Annual Financial Report is derived from information contained in the Ohio Deferred Compensation (Ohio DC) Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2017, but does not contain detailed financial information by plan, nor is it presented in a manner to conform to Generally Accepted Accounting Principles (GAAP). For a complete set of financial definitions included in this summary report please refer to the Ohio DC CAFR, which is prepared in conformity with GAAP and may be obtained by visiting our website at www.Ohio457.org or by contacting Ohio DC to request a copy.



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