

# Highway Patrol Retirement System

## Comprehensive Annual Financial Report



A Component Unit of the State of Ohio  
Year ended December 31, 2017

Mark R. Atkeson, Executive Director  
1900 Polaris Parkway, Suite 201  
Columbus, Ohio 43240-4037





# Dave Yost • Auditor of State

Board of Trustees  
Ohio State Highway Patrol Retirement System  
1900 Polaris Parkway, Suite 201  
Columbus, Ohio 43240

We have reviewed the *Independent Auditors' Report* of the Ohio State Highway Patrol Retirement System, Franklin County, prepared by Schneider Downs & Co., Inc., for the audit period January 1, 2017 through December 31, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio State Highway Patrol Retirement System is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

August 21, 2018

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## Disclaimer

**This audit report is subject to review and acceptance by the Auditor of State's office, and the requirements of Ohio Revised Code § 117.25 are not met until the Auditor of State certifies this report. This process takes approximately two weeks and reports are subject to change if the Auditor of State determines that modification of a report is necessary to comply with required accounting or auditing standards or OMB Circular A-133.**



# **Introductory Section**



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Highway Patrol Retirement System**  
**Ohio**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**December 31, 2016**

*Christopher P. Morrill*

Executive Director/CEO



## Introductory Section

### Board of Trustees and Senior Staff



S/Lt. Heidi A. Marshall  
*Employee Trustee / Chair*



Maj. (ret.) Darryl L. Anderson  
*Retiree Trustee / Vice-Chair*



Capt. Cory D. Davies  
*Employee Trustee*



Sgt. Jeremy B. Mendenhall  
*Employee Trustee*



Lt. Andre T. Swinerton  
*Employee Trustee*



S/Lt. Matthew L. Them  
*Employee Trustee*



Col. Paul A. Pride  
*Statutory Member*



Capt. (ret.) Lester R. Reel  
*Retiree Trustee*



Maj. (ret.) JP Allen  
*Governor's Investment Expert Appointee*



Kenneth C. Boyer  
*Treasurer of State's Investment Designee*



Joseph H. Thomas  
*General Assembly's Investment Expert Appointee*



Maj. (ret.) Mark R. Atkeson  
*Executive Director*

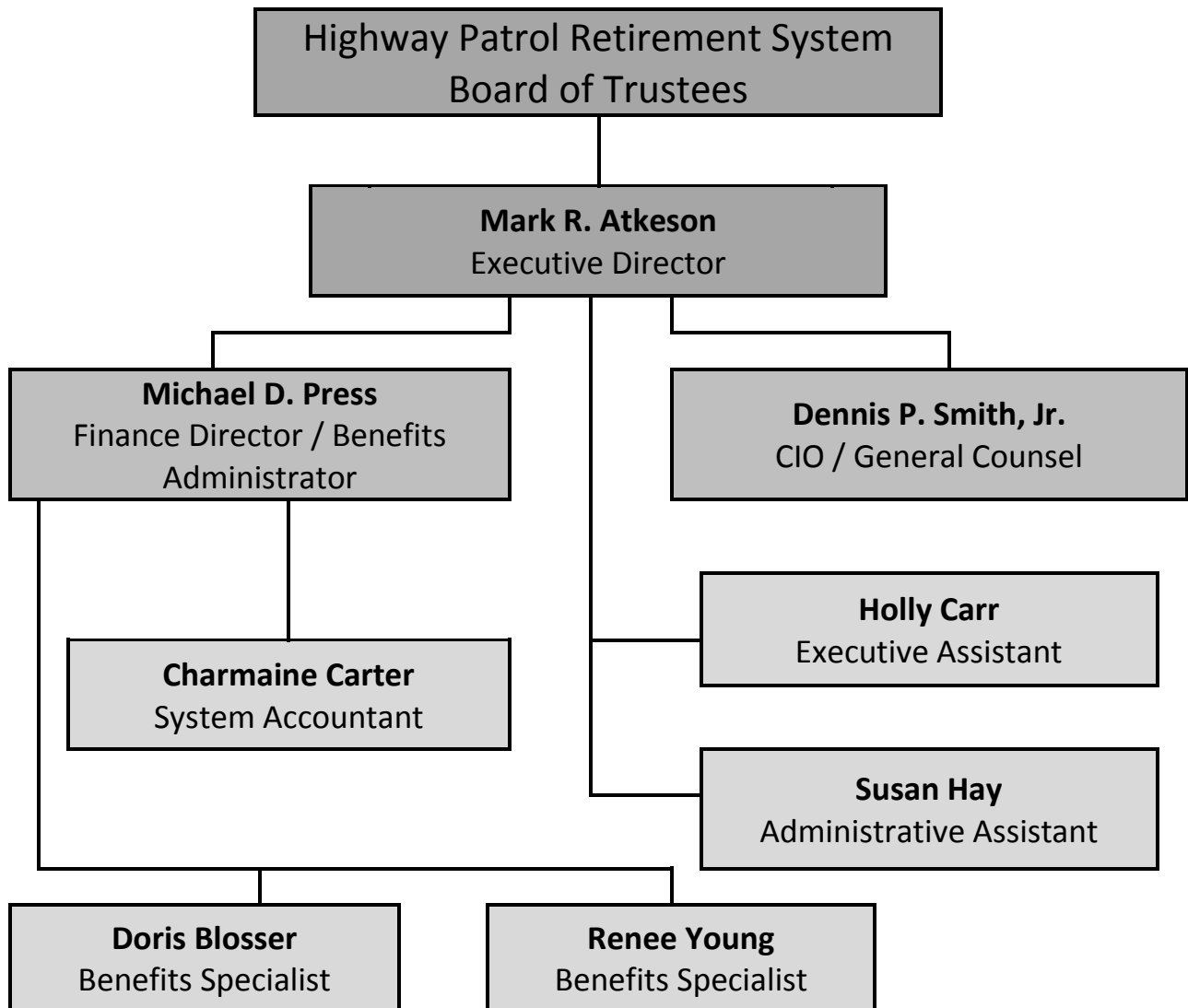


Dennis P. Smith  
*Chief Investment Officer / General Counsel*



Michael D. Press  
*Finance Director / Benefits Administrator*

# Highway Patrol Retirement System Organizational Chart



See Page 9 for a list of consultants and investment managers.

## Introductory Section

### Consultants and Investment Managers

#### Consultants

**Medical Advisor**  
David A. Tanner, DO  
Columbus, Ohio

**Actuary**  
Gabriel, Roeder, Smith & Co.  
Southfield, Michigan

**Investment Consultant**  
Hartland  
Cleveland, Ohio

#### Investment Managers

Ancora Advisors  
Cleveland, Ohio  
*Micro Cap Equity*

HarbourVest Partners  
Boston, Massachusetts  
*Private Equity*

Pantheon Ventures  
San Francisco, California  
*Private Equity*

AQR Capital Management  
Greenwich, Connecticut  
*Domestic Equity*

H.I.G. Whitehorse Direct Lending Adv.  
Miami, Florida  
*Fixed Income & Private Equity*

Partners Group (USA)  
New York, New York  
*Direct Infrastructure*

Blue Point Capital Partners  
Cleveland, Ohio  
*Private Equity*

Johnson Institutional Management  
Cincinnati, Ohio  
*Core Fixed Income*

Silver Point Specialty Credit Fund  
Greenwich, Connecticut  
*Fixed Income*

Credit Suisse Asset Management  
New York, New York  
*High Yield Fixed Income*

J.P. Morgan Asset Management  
New York, New York  
*Intermediate-Term Fixed Income*

Standard Life Investments  
Boston, Massachusetts  
*Tactical Asset Allocation*

DePrince, Race & Zollo  
Winter Park, Florida  
*Large Cap Value Equity*

Kayne Anderson Capital Advisors  
Los Angeles, California  
*Energy/Mezzanine & Private Equity*

The Carlyle Group  
Washington, D.C.  
*Private Equity*

Diamond Hill Funds  
Columbus, Ohio  
*Domestic Equity*

Lazard Asset Management  
New York, New York  
*International Equity*

The Vanguard Group  
Wayne, Pennsylvania  
*Domestic Large Cap Blend, Mid Cap & International Equity*

Dimensional Fund Advisors  
Austin, Texas  
*Small Cap Blend / International Equity*

Long Wharf Real Estate Partners  
Boston, Massachusetts  
*High Yield Fixed Income*

Thompson, Siegel & Walmsley LLC  
Richmond, Virginia  
*International Equity*

Driehaus Capital Management  
Chicago, Illinois  
*International Small Cap Growth Equity*

LSV Asset Management  
Chicago, Illinois  
*Large Cap Value Equity*

Wellington Management Co.  
Boston, Massachusetts  
*Fixed Income & Large Cap Growth Equity*

Evanston Capital Management  
Evanston, Illinois  
*Fund of Hedge Funds*

Marathon Asset Management  
New York, New York  
*Real Estate*

Westfield Capital Management  
Boston, Massachusetts  
*Small Cap Growth Equity*

Fidelity Investments  
Boston, Massachusetts  
*Real Estate*

Oaktree Capital Management  
New York, New York  
*Real Estate*

William Blair & Company  
Chicago, Illinois  
*International Equity*

Forest Investment Associates  
Atlanta, Georgia  
*Timber*

OFI Trust Company  
New York, New York  
*Emerging Markets*

GCM Grosvenor  
Chicago, Illinois  
*Private Equity*

Pacific Investment Management Co.  
Newport Beach, California  
*Real Estate*

See the Investment Section, Pages 67-68 for payments to investment managers and brokers.

## Introductory Section

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### Legislative Summary

The Ohio Legislature passed House Bill 49 in 2017 with an effective date of September 29, 2017. This bill, as it pertains to HPRS, removed the requirement that a member must still be in the active service of the State Highway Patrol in order to retire.

The Ohio Legislature also passed House Bill 362 in early 2018 with an effective date of May 11, 2018. This bill made the following changes:

- Restore the minimum retirement age to 52 (as it was prior to 1989) for new hires after January 1, 2020;
- Calculate pension benefits for off-duty disabilities based on a minimum 12-year service benefit instead of a minimum 20-year service benefit;
- Survivor benefits were also amended. These changes do not affect those already retired or in DROP before May 11, 2018:
  - Eliminate the automatic 50% unfunded survivor benefit for survivors and establish a set amount for survivor benefits while increasing that amount annually as the board determines; and
  - Provide no survivor benefits for those who marry after retirement.



June 21, 2018

## Letter of Transmittal

Members of the Board of Trustees:

We are pleased to present to you the *Comprehensive Annual Financial Report* for the Highway Patrol Retirement System (HPRS) for the period ended December 31, 2017. This report is intended to provide financial, investment, actuarial, and statistical information in a single publication. Working with each HPRS staff member and various consultants employed by HPRS, HPRS management takes full responsibility for the accuracy and completeness of this report. The data presented in this report demonstrates the careful stewardship of the system's assets to enable the Board to provide excellent pension and health care benefits to our members.

The HPRS was created by the Ohio Legislature in 1941 to provide pension benefits to the sworn officers and communications personnel of the Ohio State Highway Patrol (OSHP). Prior to this action of the Legislature, active duty members of the OSHP contributed to the Ohio Public Employees Retirement System. Currently, only sworn officers, cadets in training to become sworn officers, and communications personnel hired prior to November 2, 1989 are permitted to be contributing members of the HPRS. In 1974, the Legislature authorized the HPRS to offer health care benefits to retired members, if excess funds are available.

In addition to pension benefits, the HPRS provides disability benefits to active duty members, disabled both on- and off-duty. Survivor and death benefits and health care coverage are provided for benefit recipients and eligible dependents. A full description of benefits provided by the HPRS can be found in the *Summary of Plan Provisions* portion of the Actuarial Section.

### **Major Plan Initiatives and Changes in 2017**

In 2017, as in prior years, the Board made modifications to the HPRS health care plan. The Board continued to implement recommendations made by its health care consultant that was hired in 2016. The Board also implemented a cost-sharing health care premium policy as a result of recommendations from the consultant. Health care is the greatest challenge facing HPRS, and the Board is continuously monitoring the status of the health care fund.

The Board approved rule changes and pursued legislation to modify benefits and eligibility for benefits. Additionally, the Board hired the Summit County Internal Audit Department to perform a health care eligibility audit for dependents currently covered by HPRS insurance.

For 2017, the employee contribution rate remained at 12.5% of payroll. COLA for eligible beneficiaries was set at 1.25%.

## **Investments**

The primary objective of the State Highway Patrol Retirement System is to provide eligible members and beneficiaries with scheduled pension benefits. It is very important the Board develops and implements an investment strategy that provides the funds necessary to maintain the security and safety of the plan. With benefit recipients living longer, health care costs rising at a rate of many times the actual rate of inflation and financial downturns, such as the recession of 2008, the investment strategy must be monitored and adjusted constantly.

Consistent with prudent standards for preservation of capital and maintenance of liquidity, the goal of the fund is to earn the highest possible rate of return consistent with HPRS's tolerance for risk as determined periodically by the Board in its role as a fiduciary. This objective should ensure adequate funds to meet scheduled benefits. Diversification of assets will ensure that adverse or unexpected results from a security class will not have a detrimental impact on the entire portfolio.

Economic news in 2017 was very good. Global growth has synchronized and strengthened. Eurozone business surveys are at their highest levels. The U.S. economic expansion gathered momentum as reflected by 2.9% Q4 GDP growth. There were only 3 days of more than 1% gain or loss in the markets in 2017. Meanwhile, inflation indicators point to weak price pressures in most economies.

The tide may be turning toward slightly less accommodative monetary policy. The Fed hiked its funds rate by 0.25% in December, which was the third rate increase of the year and in-line with expectations. The Fed has begun to unwind its balance sheet and the pace of normalization should increase meaningfully in 2018. The European Central Bank and Bank of Japan currently lag the Fed but have signaled eventual rate hikes should be expected.

A more detailed report on investment operations and performance can be found in the *Management's Discussion and Analysis* section, beginning on page 19, and the Investment Section, beginning on page 61.

## **Internal Controls**

The management of HPRS has implemented and is responsible for a system of internal accounting controls, designed to provide reasonable assurance of the safeguarding of assets and the reliability of financial records. Once again in 2017, the Summit County Internal Audit Department was retained to perform internal auditing services, specifically by performing a health care eligibility audit of dependents. Although several minor recommendations for improvement were given, no material weaknesses were identified. In 2018, SCIAD will again provide internal audit services for HPRS.

Because the cost of a control should not exceed the benefits to be derived, the objective is to provide reasonable, rather than absolute assurance, that the financial statements are free of any material misstatements. The internal accounting controls in place are adequate to meet the purpose for which they were intended and are reviewed annually by an external auditor. Please see the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in

Accordance With Government Auditing Standards on Page 58. The financial statements, supporting schedules, and statistical tables are presented fairly in all material respects.

### **Funding**

The funding of pension and health care benefits of the HPRS comes from a combination of employer and employee contributions and investment returns. Ohio law requires public pension plans to be able to amortize pension obligations within a 30-year period. A national standard of funding status is benchmarked at 80%. At the close of 2009, the HPRS was not able to amortize pension liabilities in 30 years or less. The funding status percentage dropped from 80.9% at the end of 2007 to 59.5% at the end of 2011. Due to changes that were enacted by the Board in 2013 and 2014, the amortization period no longer exceeds the 30-year limit. The funding status for the period ended December 31, 2016 was 67.7%, and the amortization period was 29 years.

### **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Highway Patrol Retirement System for its comprehensive annual financial report for the fiscal year ended December 31, 2016. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

### **Professional Services**

To aid in efficient and effective management, professional services are provided to the HPRS by consultants appointed by the Board. Gabriel, Roeder, Smith & Company of Southfield, Michigan, provides actuarial services. The investment advisor to the Board is Hartland of Cleveland, Ohio. Under contract with the Auditor of State of Ohio, Schneider Downs & Co., Inc., of Columbus, Ohio, audited the financial records of the system. The Summit County Internal Audit Department of Akron, Ohio, was retained to perform internal auditing services.

### **Acknowledgements**

The preparation of this report reflects the combined efforts of the system's staff under the direction of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, a means for determining compliance with legal provisions and a means for determining responsible stewardship over the assets contributed by the members and their employer, the State of Ohio.

Upon publication of this report at [www.ohprs.org](http://www.ohprs.org), HPRS will notify interested parties of its availability, including all State Highway Patrol facilities, professional consultants, investment

managers, ranking members of the appropriate Ohio House and Senate committees, the Ohio Retirement Study Council, and the Office of Budget Management.

Submitted for your review,



Mark R. Atkeson  
Executive Director



Michael D. Press  
Finance Director





# **Financial Section**

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Big Thinking. Personal Focus.

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Ohio State Highway Patrol Retirement System  
Columbus, Ohio

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of The Ohio State Highway Patrol Retirement System (HPRS), a component unit of the State of Ohio (State), which comprise the statement of fiduciary net position as of December 31, 2017, and the related statement of changes in fiduciary net position for the year ended December 31, 2017, and related notes to the financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Ohio State Highway Patrol Retirement System as of December 31, 2017, and the change in fiduciary net position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require this presentation to include management's discussion and analysis and required supplementary schedules, as listed in the table of contents, to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

#### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information, including the schedules of administrative expenses, investment expenses, and payments to consultants, as listed in the table of contents, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory, investments, actuarial and statistical sections, as listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2018, on our consideration of the HPRS's 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the HPRS's internal control over financial reporting and compliance.

*Schneider Downs & Co., Inc.*

Columbus, Ohio  
June 28, 2018

#### Financial Highlights

- At December 31, 2017, HPRS had net assets of \$898,155,413. All of the assets are held in trust for pension and health care benefits and are available to meet HPRS's ongoing obligations to plan participants and their beneficiaries.
- During 2017, HPRS's fiduciary net position increased by \$74,140,350, or 9.0%.
- HPRS's funding objective is to meet long-term benefit obligations through contributions and investment income. At December 31, 2016, the date of the most recent actuarial valuation, HPRS assets equaled 67.7% of the present value of pension obligations.
- Additions to fiduciary net position for the year were 167,849,795, which includes member and employer contributions of \$45,254,932 and an investment gain of \$115,952,511.
- Deductions from fiduciary net position increased 9.3% over the prior year. Of this amount, pension benefits increased by 13.4%, health care expenses increased by 5.9% and administrative expenses increased by 6.1%.

#### Overview of the Financial Statements

The financial statements consist of the following components:

1. Statement of Fiduciary Net Position
2. Statement of Changes in Fiduciary Net Position
3. Notes to the Financial Statements

This report also contains other supplementary information in addition to the basic financial statements themselves.

The Statement of Fiduciary Net Position provides a snapshot of account balances at year-end, indicating the assets available for future payments to benefit recipients, less any current liabilities of the system. The Statement of Changes in Fiduciary Net Position provides a summary of current-year additions and deductions to the plan.

The Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position report information about HPRS's activities and financial position. These statements reflect the full accrual basis of accounting, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All investment gains and losses are shown at trade date rather than settlement date. Investments are shown at fair value, reflecting both realized and unrealized gains and losses. Each capital asset is depreciated over its expected useful life.

The difference between HPRS assets and liabilities is reported on these statements as the Net Position – Restricted for Pension and Post-Employment Health Care Benefits. Over time, increases and decreases in HPRS's net position are one indicator of whether the fund's financial health is improving or deteriorating. Other factors, such as market conditions, should be considered in measuring HPRS's overall health (see HPRS's financial statements on Pages 23-24 of this report).

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements (see the *Notes to the Financial Statements* on Pages 25-48 of this report).

**Other Information**

In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning HPRS's progress in funding its obligations to provide pension benefits to members (see the *Required Supplementary Schedules* on Pages 49-54 of this report).

The schedules of administrative expenses, investment expenses, and payments to consultants are presented immediately following the required supplementary information.

**HPRS Activities**

**Additions to Fiduciary Net Position**

Employer and member contributions, as well as income from investments, provide reserves needed to finance retirement benefits and health care. In 2017, total contributions and investment returns resulted in additions of \$167.8 million. Employer contributions increased by 2.9% and member contributions increased by 2.9%.

<b>Additions to Fiduciary Net Position</b>				
<b>(in thousands)</b>				
	<b>2017</b>	<b>2016</b>	<b>\$ Change</b>	<b>% Change</b>
Net appreciation in fair value of investments	\$105,056	\$46,445	\$58,611	126.2
Interest and dividend income	17,284	14,599	2,685	18.4
Real estate operating income (loss), net	1	(36)	37	-
Investment expenses	(6,389)	(6,031)	(358)	5.9
Employer contributions	30,750	29,895	855	2.9
Member contributions	14,505	14,101	404	2.9
Transfers from other Ohio systems	619	773	(154)	(19.9)
Health care premiums	3,886	2,919	967	33.1
Retiree drug subsidy	1,418	1,082	336	31.1
Prescription drug rebates	720	351	369	105.1
Total additions	<u>\$167,850</u>	<u>\$104,098</u>	<u>\$63,752</u>	<u>61.2</u>

The *Investment Section* of this report summarizes the result of investment activity for the year ended December 31, 2017.

**Deductions from Fiduciary Net Position**

HPRS was created to provide retirement, disability, and survivor benefits to qualified members and their beneficiaries. The costs of these programs include benefit payments by the plan, refunded contributions, and the administrative costs of the system. In 2017, total deductions from the fiduciary net position increased 9.3%, health care expenses increased by 5.9%, and administrative expenses increased by 6.1%. Refunds of member contributions decreased by (37.9%), and transfers of contributions to other Ohio retirement systems decreased by (66.3%).

<b>Deductions from Fiduciary Net Position</b>				
(in thousands)				
	<b>2017</b>	<b>2016</b>	<b>\$ Change</b>	<b>% Change</b>
Pension benefits	\$69,515	\$61,311	\$8,204	13.4
DROP benefits	5,881	6,129	(248)	(4.0)
Refunds of member contributions	1,075	1,731	(656)	(37.9)
Health care expenses	15,457	14,595	862	5.9
Administrative expenses	1,641	1,546	95	6.1
Transfers to other Ohio systems	141	417	(276)	(66.2)
Total deductions	<u>\$93,710</u>	<u>\$85,729</u>	<u>\$7,981</u>	<u>9.3</u>

**Changes in Fiduciary Net Position**

In 2017, the Net Position – Restricted for Pension and Post-Employment Health Care Benefits increased by \$74,140,350, or 9.0%. Investment income attributable to the increase in fair values of investments equaled \$105,055,628. All of the assets are available to meet HPRS’s ongoing obligations to plan participants and their beneficiaries.

<b>Changes in Fiduciary Net Position</b>		
(in thousands)		
	<b>2017</b>	<b>2016</b>
Beginning balance	\$824,015	\$805,645
Ending balance	898,155	824,015
Total change	<u>\$74,140</u>	<u>\$18,370</u>
% change	9.0%	2.3%

**Capital Assets**

As of December 31, 2017, HPRS’s investment in capital assets totaled \$62,547 (net of accumulated depreciation), a decrease of \$3,661, or 5.5% from December 31, 2016. This investment in capital assets includes office equipment, software, and furniture for administrative use.



**Total Assets**

In 2017, total assets increased by \$75,185,490, or 9.1%. The change in total assets was largely attributable to increases in the fair value of investments.

<b>Assets</b> (in thousands)				
	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Cash and short-term investments	\$14,498	\$17,557	\$(3,059)	(17.4)
Receivables	10,042	9,312	730	7.8
Investments, at fair value	880,462	802,933	77,529	9.7
Prepaid expenses	-	11	(11)	-
Other assets	69	71	(2)	(2.8)
Total assets	<u>\$905,071</u>	<u>\$829,884</u>	<u>\$75,187</u>	<u>9.1</u>

**Total Liabilities**

Total liabilities increased by \$1,163,699, or 18.9%.

<b>Liabilities</b> (in thousands)				
	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Total liabilities	<u>\$7,308</u>	<u>\$6,145</u>	<u>\$1,163</u>	<u>18.9</u>

**Requests for Information**

This financial report is designed to provide retirees, members, trustees, investment managers, and the public with a general overview of HPRS’s finances and to show accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information can be requested from:

Michael Press, Finance Director  
 State Highway Patrol Retirement System  
 1900 Polaris Parkway, Suite 201, Columbus, OH 43240-4037  
 P: 614-431-0781  
 E: mpress@ohprs.org

**Statement of Fiduciary Net Position**

December 31, 2017

	Pension	Post-Employment Health Care	Total
<b>Assets</b>			
Cash and short-term investments	\$ 12,694,411	\$ 1,803,546	\$ 14,497,957
Receivables			
Employer contributions receivable	1,578,115	280,459	1,858,574
Member contributions receivable	1,446,333	-	1,446,333
Accrued investment income	5,898,630	838,042	6,736,672
Total receivables	8,923,078	1,118,501	10,041,579
Investments, at fair value			
Domestic equity	255,267,242	36,442,682	291,709,924
International equity	173,373,640	24,631,888	198,005,528
Fixed income	140,182,062	19,916,227	160,098,289
Real estate	30,036,573	4,267,416	34,303,989
Private equity	95,223,949	13,528,848	108,752,797
Hedge funds	56,006,475	7,957,064	63,963,539
Tactical Asset Allocation	18,060,009	2,565,858	20,625,867
Direct Infrastructure	2,628,583	373,453	3,002,036
Total investments	770,778,533	109,683,436	880,461,969
<b>Other Assets</b>			
Prepaid expenses	-	-	-
Property and equipment, net	54,766	7,781	62,547
Net Pension Asset	6,216	-	6,216
Total other assets	60,982	7,781	68,763
Total assets	792,457,004	112,613,264	905,070,268
Deferred Outflows of Resources	419,899	-	419,899
Deferred Outflows – Pension			
<b>Liabilities</b>			
Accounts payable	677,883	96,310	774,193
Accrued payroll liabilities	243,877	34,649	278,526
Accrued pension liabilities	4,498,624	-	4,498,624
Accrued health care liabilities	-	683,429	683,429
Net Pension Liability	1,073,648	-	1,073,648
Total liabilities	6,494,032	814,388	7,308,420
Deferred Inflows of Resources			
Deferred Inflows – Pension	26,334	-	26,334
<b>Net position – restricted for pension and post-employment health care benefits</b>	<b>\$ 786,356,537</b>	<b>\$ 111,798,876</b>	<b>\$ 898,155,413</b>

See the accompanying Notes to the Financial Statements, Pages 25-48.

<b>Statement of Changes in Fiduciary Net Position</b>			
Year ended December 31, 2017			
	Pension	Post-Employment Health Care	Total
<b>Additions</b>			
Contributions			
Employer	\$ 26,109,836	\$4,640,177	\$30,750,013
Member	14,504,919	-	14,504,919
Transfers from other systems	619,110	-	619,110
Other income			
Health care premiums	-	3,885,594	3,885,594
Retiree drug subsidy	-	1,418,110	1,418,110
Prescription drug rebates	-	719,538	719,538
Total contributions	<u>41,233,865</u>	<u>10,663,419</u>	<u>51,897,284</u>
Investment activity			
Net appreciation (depreciation) in fair value			
of investments	91,986,711	13,068,917	105,055,628
Interest and dividend income	15,134,278	2,150,188	17,284,466
Real estate operating income (loss), net	804	114	918
	<u>107,121,793</u>	<u>15,219,219</u>	<u>122,341,012</u>
Less: investment expenses	(5,593,771)	(794,730)	(6,388,501)
Net income from investment activity	<u>101,528,022</u>	<u>14,424,489</u>	<u>115,952,511</u>
Total additions	<u>142,761,887</u>	<u>25,087,908</u>	<u>167,849,795</u>
<b>Deductions</b>			
Pension benefits	69,514,995	-	69,514,995
DROP benefits	5,880,906	-	5,880,906
Refunds of member contributions	1,074,973	-	1,074,973
Health care expenses	-	15,456,987	15,456,987
Administrative expenses	1,436,879	204,143	1,641,022
Transfers to other systems	140,562	-	140,562
Total deductions	<u>78,048,315</u>	<u>15,661,130</u>	<u>93,709,445</u>
Change in fiduciary net position	64,713,572	9,426,778	74,140,350
<b>Net position – restricted for pension and post-employment health care benefits</b>			
Balance, December 31, 2016	<u>721,642,965</u>	<u>102,372,098</u>	<u>824,015,063</u>
Balance, December 31, 2017	\$786,356,537	\$111,798,876	\$ 898,155,413

See the accompanying Notes to the Financial Statements, Pages 25-48.

**Note 1 Summary of Significant Accounting Policies**

**Basis of Accounting**

HPRS financial statements are prepared using the accrual basis of accounting, under which expenses are recorded when incurred and revenues are recorded when earned and measurable. Member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded at the trade date. Administrative expenses are financed by investment income.

The accounting and reporting policies of HPRS conform to generally accepted accounting principles in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported assets and liabilities, disclosure of contingent assets and liabilities, and the reported revenues and expenses during the accounting period. Actual results could differ from these estimates.

The Governmental Accounting Standards Board (GASB) requires that plan assets be split between pension benefits and health care. To meet this requirement, plan assets and liabilities not specifically identifiable to a plan were proportionately allocated to the pension and post-employment health care plans. Additionally, a portion of the investment activity and administrative expenses are allocated to the health care fund. The amounts are derived from the health care projected allocation rate calculation. This calculation is the proportion of projected post-employment health care net assets compared to the projected total net assets.

**Investment Accounting**

Income on all investments is recognized on the accrual basis. Gains and losses on sales and exchanges, recognized at the trade date, are determined using the average cost of equity securities sold, and for all other investments, the specific cost of securities sold.

All investments are reported at fair value, which is the amount that the plan could reasonably expect to receive in a current sale between a willing buyer and a willing seller, other than in a forced or liquidation sale.

Securities traded on a national exchange are valued at the last reported sales price at the current exchange rate. Fair values of real estate and private equity investments are based on information provided by the fund's managers or by independent appraisals.

Net appreciation (or depreciation) in fair value of investments is determined by calculating the change in the fair value between the beginning of the year and the end of the year, less purchases at cost, plus sales at fair value. Investment expenses consist of expenses directly related to HPRS investment operations, as well as an allocation of certain administrative expenses.

**Use of Estimates**

In preparing financial statements in conformity with GAAP, the management of HPRS makes estimates and assumptions that affect (1) the reported amounts of assets and liabilities, (2) disclosures of contingent assets and liabilities, and (3) the amount of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions. Certain investment assets, including private equity and real estate, use estimates in reporting fair value in the financial statements. These estimates are subject to uncertainty in the near term, which could result in changes in the values reported for those assets in the Statement of Fiduciary Net Position.

**Capital Assets**

When acquired, an item of property or equipment in excess of \$5,000 is capitalized at cost. An improvement in excess of \$5,000 that extends the useful life of an asset is capitalized. An expenditure for maintenance or repair of an asset is expensed as incurred. Depreciation is computed using the straight-line method over the useful life of each asset (typically, between three and ten years).

**Accrued Health Care Liabilities**

Accrued health care liabilities are based upon estimates furnished by the claims administrators. These estimates have been developed from prior claims experience.

In general, costs of member health care benefits are recognized as claims are incurred and premiums are paid. Health care expenses of \$15,456,987 for 2017 are shown on the accompanying Statement of Changes in Fiduciary Net Position.

**Contributions and Benefits**

Based on statutory requirements, employer and employee contributions are recognized when due. In accordance with the terms of the plan, benefits and refunds are recognized when due and payable.

**Federal Income Tax Status**

HPRS is a qualified entity under Section 501(a) of the Internal Revenue Code and is, therefore, exempt from federal income taxes.

**Changes in Accounting Principles**

GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which provides guidance on reporting OPEB plans similar to how pension plans are reported under Statement 67. This statement has been implemented for the year ending December 31, 2017.

GASB issued statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which provides guidance on reporting OPEB liabilities similar to how pension liabilities are now reported under Statement 68. This statement is effective for reporting periods beginning after June 15, 2017, and will therefore be implemented for the year ending December 31, 2018.

GASB issued statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses certain issues regarding (1) the presentation of payroll-related measures in Required Supplementary Information (RSI), (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contributions requirements. This statement is effective for reporting periods beginning after June 15, 2016. Upon review, HPRS has determined that it is in compliance with GASB 82.

GASB issues statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). This statement is effective for reporting periods beginning after June 15, 2017. Management is currently evaluating this statement and its impact to HPRS's financial statements.

## Note 2 Plan Description

### Organization

HPRS is a single-employer retirement system for employees of the Ohio State Highway Patrol, including officers with arrest authority, cadets in training at the Highway Patrol Training Academy, and members of the radio division who were hired prior to November 2, 1989. HPRS was created by Ohio Revised Code Chapter 5505 and is administered by a Board of Trustees consisting of five active members, two retired members, three appointed members, and one ex-officio member. The Board appoints an executive director, chief investment officer, actuary, investment consultant, medical advisor, and internal auditor.

HPRS administers both a defined benefit pension plan and a post-employment health care plan, which is considered to be an "other post-employment benefit," or OPEB. Financial information for pensions and OPEB are presented separately in the financial statements. HPRS, a separate financial reporting entity in accordance with criteria established by GASB Statement No. 39 (an amendment to No. 14), is a component unit of the State of Ohio. HPRS does not have financial accountability over any other entities.

**Membership**

HPRS membership consisted of the following at the end of 2016 and 2017:

<b>Membership Data</b>		
Year ended December 31		
	<u>2017</u>	<u>2016</u>
<b>Pension &amp; OPEB Benefits</b>		
Retirees & other benefit recipients	1,637	1,580
Deferred retirees	11	10
<b>Active members</b>		
15 or more years of service	773	788
Less than 15 years of service	877	882

**Benefits**

Members are eligible for pension and health care benefits upon reaching both an age and a service requirement with the Ohio State Highway Patrol. The pension benefit is a percentage of the member's final average salary, which is defined as the average of the member's five highest salaried years. For 20 or more years of service, the percentage is determined by multiplying 2.5% times the first 20 years of service, plus 2.25% for the next 5 years of service, plus 2.0% for each year in excess of 25 years of service. A member's pension may not exceed 79.25% of the final average salary. Retirement with reduced benefits is available upon reaching age 48 with 20 years of service credit. Retirement with full benefits is available upon reaching age 48 with 25 years of service credit, or age 52 with 20 years of service credit. Beginning in 2020, new hires of the Highway Patrol will be eligible for retirement with full benefits upon reaching age 52 with 20 years of service credit. Ohio law permits, but does not require, HPRS to offer health care to its membership. HPRS currently offers medical, hospitalization and prescription drug coverage for its members and their dependents. In addition to pension and health care benefits, HPRS also provides for disability and survivor benefits.

In 2006, HPRS implemented the Deferred Retirement Option Plan (DROP). In general, a member who is eligible to retire with an unreduced pension benefit may enter the DROP. The member will continue to work for the Ohio State Highway Patrol. A DROP member does not accumulate additional pension service credit; however, instead of receiving a monthly pension benefit, the member accrues that benefit in a tax-deferred account until employment with the Ohio State Highway Patrol is terminated. The 2017 DROP activity is discussed in Note 11.

Former members with at least 15 years of service but less than 20 years of service are eligible for a pension upon reaching age 55. The percentage of final average salary is determined by multiplying 1.5% by the number of years of service credit. These members, though eligible to receive a pension, are not eligible for health care benefits.

**Contributions**

The Ohio Revised Code requires contributions by both active members and the Ohio State Highway Patrol. The employer contribution rate is established by the Ohio General Assembly. The HPRS Board sets the employee contribution rate between 10.0%-14.0% of payroll.

In 2017, the member contribution rate was 12.5% of payroll, and the employer contribution rate was 26.5%.

Based on the December 31, 2015 actuarial valuation, the Board allocated the employer contribution rate to pension benefits effective January 1, 2016 and OPEB as follows:

<b>Pension</b>	<b>OPEB</b>	<b>Total</b>
22.50%	4.00%	26.50%

Based on the December 31, 2016 actuarial valuation, the Board allocated the employer contribution rate to pension benefits effective January 1, 2017 and OPEB as follows:

<b>Pension</b>	<b>OPEB</b>	<b>Total</b>
22.50%	4.00%	26.50%

Upon request of a member who terminates employment with the Ohio State Highway Patrol, member contributions are refunded. If a member dies while active in the service of the Ohio State Highway Patrol, member contributions are refunded to the member's beneficiary, provided that no survivor benefits are payable.

A member with credited service in OPERS, School Employees Retirement System (SERS), State Teachers Retirement System (STRS), Ohio Police & Fire Pension Fund (OP&F), or Cincinnati Retirement System (CRS) may transfer that service credit to HPRS. Similarly, a member with credited service in HPRS may transfer that service to OPERS, SERS, STRS, OP&F, or CRS.

**Note 3 Net Position**

Chapter 5505 of the Revised Code requires that various funds be established to account for contributions, reserves, income, and expenses.

The Employees' Savings Fund was created to accumulate the contributions deducted from the salaries of members, less any refunds of member contributions. Upon retirement, a member's contributions are transferred to the Pension Reserve Fund.



Notes to the Financial Statements

The Employer’s Accumulation Fund is the fund in which the state’s contributions to HPRS are accumulated. Included in this fund are the reserves allocated to the payment of OPEB.

The Pension Reserve Fund is the fund from which all pensions are paid to members who retire on or after January 1, 1966.

The Survivors’ Benefit Fund is the fund from which survivor benefits are paid to qualifying beneficiaries.

The Income Fund is used to accumulate all interest, dividends, distributions, and other income from deposits and investments. Gifts, bequests to the system, transfers, and any other income are also credited to the Income Fund.

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

At December 31, 2017, the fiduciary net position was allocated to the various funds as follows:

<b>Fiduciary Net Position</b>	
December 31, 2017	
Employees’ Savings Fund	\$119,953,993
Employer’s Accumulation Fund	111,798,876
Pension Reserve fund	666,402,544
Survivors’ Benefit Fund	-
Income Fund	-
Expense Fund	-
Total	<u>\$898,155,413</u>

**Note 4 Property and Equipment**

The following is a summary of equipment, at cost, less accumulated depreciation, at December 31, 2017:

<b>Capital Assets - Equipment</b>	
December 31, 2017	
Cost, 12/31/2016	\$125,039
(+) Additions	22,000
(-) Retirements	
Cost, 12/31/2017	\$147,039
Accumulated depreciation, 12/31/2016	\$105,716
(+) Additions	10,129
(-) Retirements	
Accumulated depreciation, 12/31/2017	\$115,845
Book value, 12/31/2017	\$31,194

The following is a summary of furniture, at cost, less accumulated depreciation, at December 31, 2017:

<b>Capital Assets - Furniture</b>	
December 31, 2017	
Cost, 12/31/2016	\$82,710
(+) Additions	
(-) Retirements	-
Cost, 12/31/2017	\$82,710
Accumulated depreciation, 12/31/2016	\$35,825
(+) Additions	15,532
(-) Retirements	-
Accumulated depreciation, 12/31/2017	\$51,357
Book value, 12/31/2017	\$31,353

**Note 5 Fair Value Measurement**

HPRS’s investments measured and reported at fair value are classified according to the following hierarchy:

Level 1 – Investments reflect prices quoted in active markets.

Level 2 – Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.

Level 3 – Investments reflect prices based upon unobservable sources.

### Notes to the Financial Statements

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Debt and equities classified in Level 1 of the fair value hierarchy are valued by an external pricing vendor. Assets classified in Level 2 are subject to pricing by an alternative pricing source, due to lack of information available by the primary vendor.

## Financial Section

### Notes to the Financial Statements

#### Investments and Short-Term Holdings Measured at Fair Value

<u>Investments by Fair Value Level</u>	<u>12/31/2017</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b><i>Debt Securities</i></b>				
Bond Mutual Funds	\$35,989,635	\$35,989,635	-	-
Municipal Bonds	2,741,675	-	2,741,675	-
U.S. Agency Bonds	8,587,229	-	8,587,229	-
U.S. Corporate Bonds	17,107,122	-	17,107,122	-
U.S. Government	6,188,404	6,188,404	-	-
Total Debt Securities	<u>70,614,065</u>	<u>42,178,039</u>	<u>28,436,026</u>	-
<b><i>Equity Securities</i></b>				
Domestic Equity Mutual Funds	168,984,243	168,984,243	-	-
Foreign Equity Mutual Funds	24,092,421	24,092,421	-	-
Foreign Stocks	5,380,898	5,380,898	-	-
U.S. Common and Preferred Stock	77,085,778	77,085,778	-	-
Total Equity Securities	<u>275,543,340</u>	<u>275,543,340</u>	-	-
Total Investments by Fair Value Level	<u>\$346,157,406</u>	<u>\$317,721,379</u>	<u>\$28,436,026</u>	-
<b><u>Investments Measured at the Net Asset Value (NAV)</u></b>				
Commingled Bond Funds	\$72,022,646			
Commingled Domestic Equity Funds	45,932,433			
Commingled International Equity Funds	168,532,209			
Direct Infrastructure	3,002,036			
Direct Lending	17,461,578			
Hedge Funds	63,963,539			
Private Equity	108,752,797			
Private Real Estate Funds	34,011,459			
Tactical Asset Allocation	20,625,867			
Total Investments Measured at the NAV	<u>534,304,563</u>			
Total Investments	<u>\$880,461,969</u>			

The valuation method for investments measured at the net asset value (NAV) per share, or equivalent, is presented in the table below.

Investments Measured at the Net Asset Value				
	12/31/2017	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Commingled Bond Funds <sup>(1)</sup>	\$72,022,646		Daily, Monthly	1-20 Days
Commingled Domestic Equity Funds <sup>(1)</sup>	45,932,433		Monthly	10 Days
Commingled International Equity Funds <sup>(1)</sup>	168,532,209		Daily	1-3 Days
Direct Infrastructure <sup>(2)</sup>	3,002,036	21,939,667		
Direct Lending <sup>(3)</sup>	17,461,578	21,907,902		
Hedge Funds <sup>(4)</sup>	63,963,539		Quarterly, Annually	65 days
Private Equity <sup>(5)</sup>	108,752,797	83,165,644		
Private Real Estate Funds <sup>(5)</sup>	34,011,459	32,166,063	Monthly	30 days
Tactical Asset Allocation <sup>(6)</sup>	20,625,867		Monthly	5 Days
Total Investments Measured at the NAV	<u>\$534,304,563</u>			

<sup>(1)</sup> **Commingled Bond Funds and Equity Funds:** Two bond funds and five equity funds are considered to be commingled in nature. Each are valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

<sup>(2)</sup> **Direct Infrastructure:** HPRS has committed to two global infrastructure limited partnerships. Only one of the two managers had called capital at year-end. Infrastructure offers strong return potential, consistent cash flow yield and defensive characteristics. The fair values of these funds are determined using net assets valued one quarter in arrears plus current quarter cash flows. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5 to 10 years.

<sup>(3)</sup> **Direct Lending:** HPRS has committed to two direct lending limited partnerships. Direct lending funds generate strong cash flow, have variable interest rates and well protected through debt covenants. The fair values of these funds have been determined using net assets valued one quarter in arrears plus current quarter cash flows. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5 to 10 years.

<sup>(4)</sup> **Hedge Fund:** One multi-manager, multi-strategy “fund-of funds” investing predominantly in limited partnerships and similar pooled investment vehicles managed by independent portfolio managers that employ diverse alternative investment strategies across a variety of asset classes. HPRS also has two small positions with managers that are liquidating

<sup>(5)</sup> **Private Equity and Real Estate Funds:** HPRS currently has seven private real estate investments and sixteen private equity investments in its portfolio. These strategies have exposure to several categories of investments, including real estate equity and debt, buyout, mezzanine debt, co-investment, and energy related private investments. The fair values of these funds have been determined using net assets valued one quarter in arrears plus current quarter cash flows. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of 5 to 10 years.

<sup>(6)</sup> **Tactical Asset Allocation:** Tactical asset allocation (TAA) strategies are intended to reduce portfolio volatility and improve risk-adjusted returns by having low equity market beta and low correlations to traditional long equity and fixed income strategies. HPRS currently has one TAA strategy that has monthly liquidity and is valued at net asset value (NAV) per share on a monthly basis.

**Note 6 Deposits and Investment Risk**

**Investments**

Ohio Revised Code Section 5505.06 grants “full power” to the Retirement Board to invest the system’s assets pursuant to a prudent person standard. This standard provides that “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 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.”

All investments, both domestic and international, are registered in the name of HPRS.

**Deposits**

HPRS cash balances consist of an operating cash account held at PNC Bank, cash on deposit with the State Highway Patrol Federal Credit Union, and excess investment cash held by the custodian, PNC Bank. Cash balances are either interest-bearing or invested in highly liquid debt instruments with an original maturity of three months or less. At December 31, 2017, the carrying value of all deposits was \$14,497,957 (including money market funds of \$11,631,499), as compared to bank balances of \$2,879,061. The difference in the carrying amount and the bank balances is caused by outstanding warrants and deposits in transit.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party.

Investment managers are expected to maintain diversified portfolios by sector and issuer. Pursuant to its investment policy, and excluding U.S. government securities, HPRS has no more than 10% of the fixed income portfolio invested in the securities of any one issuer, and no more than 5% in any one issue, with the exception of U.S. government securities.

**Credit Risk**

Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. HPRS does not have a policy to limit credit risk.

Notes to the Financial Statements

HPRS exposure to credit risk on fixed income securities, based on S&P Quality Ratings, is as follows:

<b>S&amp;P Quality Ratings</b>	
December 31, 2017	
AAA	\$26,807,980
AA	13,876,308
A	21,042,478
BBB	18,441,166
BB	14,753,850
B	25,642,805
CCC	6,348,664
Unrated	15,723,460
Total Investments	\$142,636,711

**Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates between the U.S. dollar and foreign currencies could adversely affect an investment’s fair value. HPRS does not have a policy to limit foreign currency risk. HPRS’s exposure to foreign currency risk derives from its positions in foreign currency-denominated investments. At December 31, 2017, HPRS had zero exposure to foreign currency risk.

**Interest Rate Risk**

Interest rate risk is the risk that an interest rate change could adversely affect an investment’s fair value. HPRS does not have a policy to limit interest rate risk.

The reporting of effective duration in the table below quantifies, to the fullest extent possible, the interest rate risk of the system’s fixed income assets.

<b>Investment Maturities</b>	
December 31, 2017	
Less than 1 year	\$33,193,390
1 - 5 years	39,800,789
Greater than 5, up to 10 years	46,371,061
Greater than 10 years	23,271,471
Total	\$142,636,711

**Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of a failure of a depository institution or counterparty to a transaction, HPRS will be unable to recover the value of deposits, investments, or collateral securities in the possession of an outside party.

At December 31, 2017, the carrying amounts of HPRS’s operating and investment cash deposits totaled \$14,497,957, and the corresponding bank balances totaled

Notes to the Financial Statements

\$2,866,458. Of the bank balances, the Federal Deposit Insurance Corporation insured \$250,000. In accordance with state law, bank balances of \$2,653,232 were collateralized at 108% with securities held in the name of HPRS's pledging financial institution.

**Investment Concentrations**

The following is a list of investments in any one organization that represents 5% or more of the pension plan's net assets held in trust for pension benefits:

Vanguard Mutual Funds  
Evanston Capital Management, LLC  
LSV Asset Management  
Wellington Management Company, LLP  
Lazard Asset Management, LLC

**Money-Weighted Rate of Return**

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the fiscal year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of investment expense was 14.15%.

**Commitments**

As of December 31, 2017, unfunded commitments related to the real estate, private equity, direct infrastructure and direct lending investment portfolios totaled \$159,179,276.

**Note 7 Derivatives**

A derivative is an investment vehicle that derives its value from another instrument or index. Derivatives are primarily used to maximize yields and offset volatility caused by interest rate and currency fluctuations. These instruments leave investors exposed to various credit, market, and legal risks.

At December 31, 2017, HPRS did not have any direct investments in derivatives; however, it held shares in commingled funds that had incidental exposure to derivatives.



**Note 8 Net Pension Liability and Actuarial Information**

The components of the net pension liability as of December 31, 2017:

<b>Schedule of Net Pension Liability</b>						
Year ended December 31						
<b>Year</b>	<b>Total Pension Liability</b>	<b>Fiduciary Net Position</b>	<b>Net Pension Liability</b>	<b>Plan Net Position as a % of Total Pension Liability</b>	<b>Covered Payroll<sup>1</sup></b>	<b>Net Pension Liability as a % of Covered Payroll</b>
2014	\$1,044,345,838	\$740,661,880	\$303,683,958	70.92%	\$99,211,756	306.10%
2015	1,111,064,399	704,225,034	406,839,365	63.38%	99,983,224	406.91%
2016	1,137,269,498	721,685,656	415,583,842	63.46%	108,788,871	382.01%
2017	1,178,545,088	786,354,140	392,188,948	66.72%	112,705,188	347.98%

*Source: GRS*

<sup>1</sup>Includes members of DROP

The total pension liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total pension liability to December 31, 2017. The following actuarial assumptions were used, applied to all periods included in the measurement:

<b>Actuarial Assumptions</b>	
Valuation Date	December 31, 2016
Inflation	3.5% wage inflation; 2.75% price inflation
Salary Increases	3.8% to 13.5% including inflation
Investment Rate of Return	7.75%

**Long-Term Expected Return on Plan Assets**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocations as of December 31, 2016 were provided by the system’s investment consultant. Best estimates of arithmetic real rates of return were approximated using expected returns from eight investment consultants. For each major asset class that is included in the system’s target asset allocation as of

December 31, 2016, best estimates of the geometric rates of return are summarized in the following table:

<b>Asset Allocation</b>		
December 31, 2016		
<b>Asset Class</b>	<b>Target Allocations</b>	<b>Long-Term Expected Real Rate of Return</b>
Cash	1.00%	(0.21)%
Domestic Equity - Large Cap	25.00	5.62
Domestic Equity - Small Cap	5.00	5.78
International Equity	15.00	6.00
Emerging Markets	8.00	8.78
Domestic Corporate Fixed Income	10.00	1.11
Domestic Government Fixed Income	3.00	0.43
Treasury Inflation Protected Securities	0.00	0.77
High-Yield Bonds	3.00	2.92
Real Estate	0.00	4.32
Private Equity	10.00	8.21
Hedge Funds	10.00	4.22
Other Alternatives	10.00	4.18
<b>Total</b>	<b>100.00%</b>	

*Source: GRS*

**Single Discount Rate**

A single discount rate of 7.75% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.75%. The projection of cash flows used to determine this single discount rate assumed that:

- (1) plan member contributions will be 12.5% of payroll each calendar year, and
- (2) the employer contribution rate allocated to the pension program will be 26.50% of payroll (22.50% for the December 31, 2017 valuation).

Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members and beneficiaries. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan’s net pension liability, calculated using a single discount rate of 7.75%, as well as what the plan’s net pension liability would be if it were calculated using a single discount rate that is 1% lower or 1% higher:

<b>NPL Sensitivity</b>			
	<b>1% Decrease 6.75%</b>	<b>Current Single Discount Rate Assumption 7.75%</b>	<b>1% Increase 8.75%</b>
Net Pension Liability	\$ 523,821,505	\$ 392,188,948	\$ 282,395,090
			<i>Source: GRS</i>

**Mortality Rates for Pension**

The pre-retirement mortality tables, for post-retirement mortality, used in evaluating allowances to be paid were the RP-2014 employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for females was then established to be 2012. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The healthy retiree mortality tables, for post-retirement mortality, used in evaluating allowances to be paid were the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for females was then established to be 2012. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The disabled retiree mortality tables, for post-retirement mortality, used in evaluating allowances to be paid were the RP-2014 disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for females was then established to be 2012. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to the above described tables.

**Experience Study**

The actuarial assumptions used in this report were last reviewed and updated as part of the five-year experience study for the period January 1, 2010 through December 31, 2014.

**Note 9 Net Other Postemployment Benefits (OPEB) Liability and Actuarial Information**

The components of the net OPEB liability as of December 31, 2017:

<b>Schedule of Net OPEB Liability</b>						
Year ended December 31						
<b>Year</b>	<b>Total OPEB Liability</b>	<b>Fiduciary Net Position</b>	<b>Net OPEB Liability</b>	<b>Plan Net Position as a % of Total OPEB Liability</b>	<b>Covered Payroll<sup>1</sup></b>	<b>Net OPEB Liability as a % of Covered Payroll</b>
2017	\$566,130,019	\$111,798,820	\$454,331,199	19.75%	\$112,705,188	403.11%

*Source: GRS*

The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB liability to December 31, 2017. The following actuarial assumptions were used, applied to all periods included in the measurement:

<b>Actuarial Assumptions</b>	
Valuation Date	December 31, 2015 and December 31, 2016
Inflation	3.5% wage inflation; 2.75% price inflation
Salary Increases	3.8% to 13.5% including inflation
Investment Rate of Return	7.75%
Health Care Cost Trend	4.5% to 9.0%, with ultimate rate of 4.0%

**Long-Term Expected Return on Plan Assets**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocations as of December 31, 2016 were provided by the system’s investment consultant. Best estimates of arithmetic real rates of return were approximated using expected returns from eight investment consultants. For each major asset class that is included in the system’s target asset allocation as of December 31, 2016, best estimates of the geometric rates of return are summarized in the following table:

<b>Asset Allocation</b>		
December 31, 2016		
<b>Asset Class</b>	<b>Target Allocations</b>	<b>Long-Term Expected Real Rate of Return</b>
Cash	1.00%	(0.21)%
Domestic Equity - Large Cap	25.00	5.62
Domestic Equity - Small Cap	5.00	5.78
International Equity	15.00	6.00
Emerging Markets	8.00	8.78
Domestic Corporate Fixed Income	10.00	1.11
Domestic Government Fixed Income	3.00	0.43
Treasury Inflation Protected Securities	0.00	0.77
High-Yield Bonds	3.00	2.92
Real Estate	0.00	4.32
Private Equity	10.00	8.21
Hedge Funds	10.00	4.22
Other Alternatives	10.00	4.18
<b>Total</b>	<b>100.00%</b>	

*Source: GRS*

**Single Discount Rate**

A single discount rate of 3.42% was used to measure the total OPEB liability. This Single Discount Rate was based on an expected rate of return on OPEB plan investments of 7.75% and a municipal bond rate of 3.31%. The projection of cash flows used to determine this Single Discount Rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the OPEB plan’s fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2027. As a result, the long-term expected rate of return on OPEB plan investments was applied to projected benefit payments through the year 2027, and the municipal bond rate was applied to all benefit payments after that date.

Regarding the sensitivity of the net OPEB liability to changes in the single discount rate, the following presents the plan’s net OPEB liability, calculated using a single discount rate of 3.42%, as well as what the plan’s net OPEB liability would be if it were calculated using a single discount rate that is 1% lower or 1% higher:

<b>Net OPEB Liability Sensitivity</b>			
	<b>1% Decrease 6.75%</b>	<b>Current Single Discount Rate Assumption 3.42%</b>	<b>1% Increase 4.42%</b>
Net OPEB Liability	\$ 573,757,476	\$ 454,331,199	\$ 362,440,593

*Source: GRS*

**Mortality Rates for Pension**

The pre-retirement mortality tables, for post-retirement mortality, used in evaluating allowances to be paid were the RP-2014 employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for females was then established to be 2012. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The healthy retiree mortality tables, for post-retirement mortality, used in evaluating allowances to be paid were the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for females was then established to be 2012. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The disabled retiree mortality tables, for post-retirement mortality, used in evaluating allowances to be paid were the RP-2014 disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for females was then established to be 2012. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to the above described tables.

**Experience Study**

The actuarial assumptions used in this report were last reviewed and updated as part of the five-year experience study for the period January 1, 2010 through December 31, 2014.

**Note 10 Pension and OPEB Benefits for Employees**

**Plan Description – Ohio Public Employees Retirement System (OPERS)**

The employees of HPRS are members of OPERS. OPERS administers three separate pension plans: The Traditional Pension Plan – a cost-sharing, multiple employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost-sharing, multiple employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. This trust is also used to fund health care for Member-Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member-Directed Plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2016 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the OPERS Board of Trustees (OPERS Board) in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml#CAFR>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

#### **Funding Policy**

The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, State and Local employers contributed at a rate of 14.0% of earnable salary and Public Safety and Law Enforcement employers contributed at 18.1%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

HPRS employer contributions to OPERS for the years ended December 31, 2017, 2016, and 2015, were \$95,054, \$91,371, and \$87,916, respectively, which were equal to the required contributions for each year.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0% during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited for Member-Directed Plan for 2017 was 4.0%.

The total employer contribution rates stated above are the statutorily required contribution rates for OPERS. HPRS employer contributions to OPERS for OPEB benefits for the year ended December 31, 2017 were \$6,790, which were equal to the

required contributions for the year, and included in the employer contribution amount listed earlier in this Note.

**Pension Assets, Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At December 31, 2017, HPRS reported a liability of \$1,073,648 for its proportionate share of the Traditional Plan’s net pension liability and \$6,216 for its proportionate share of the Combined Plan’s net pension asset. The net pension liability and asset were measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability and asset was determined by an actuarial valuation as of that date. HPRS’s proportion of the net pension liability was based on a projection of the system’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2016, HPRS’s proportions were as follows:

	<u>HPRS</u>
Traditional Plan	0.004728%
Combined Plan	0.011169%

For the year ended December 31, 2017, HPRS recognized pension expense of \$220,301.

At December 31, 2017, HPRS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>Deferred Outflows and Inflows of Resources</b>		
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$1,456	\$9,570
Net difference between projected and actual earnings on pension plan investments	161,407	-
Assumption changes	171,809	-
Changes in proportion	3,619	16,764
Contributions subsequent to the measurement date	81,608*	
Total	\$419,899	\$26,334

\*\$81,608 reported as deferred outflows of resources related to pensions resulting from HPRS’ contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ending December 31, 2018



Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2018	\$122,327
2019	138,238
2020	57,366
2021	(5,228)
2022	(274)
2023	(274)
2024	(182)
2025	(23)
2026	6

**Actuarial Assumptions - OPERS**

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Assumption - OPERS December 31, 2016 Valuation Date		
	Traditional Pension Plan	Combined Plan
Investment Rate of Return	7.50%	7.50%
Wage Inflation	3.25%	3.25%
	3.25% - 10.75%	3.25% - 8.25%
Projected Salary Increases	(includes wage inflation at 3.25%)	(includes wage inflation at 3.25%)
Cost-of-Living Adjustments	Pre 1/7/2013 Retirees: 3.00% Simple; Post 1/7/2013 Retirees: 3.00% Simple through 2018, then 2.15% Simple.	Pre 1/7/2013 Retirees: 3.00% Simple; Post 1/7/2013 Retirees: 3.00% Simple through 2018, then 2.15% Simple.

Mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Health Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

Notes to the Financial Statements

The discount rate used to measure the total pension liability was 7.5%, post-experience study results, for the Traditional Pension Plan, Combined Plan and Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan, Combined Plan and Member-Directed Plan was applied to all period of projected benefit payments to determine the total pension liability.

The following table presents HPRS’s proportionate share of the net pension liability or asset calculated using the discount rate of 7.5%, as well as what HPRS’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

<b>Share of the Net Pension Liability (Asset)</b>			
	<b>1% Decrease – 6.5%</b>	<b>Current Rate – 7.5%</b>	<b>1% Increase – 8.5%</b>
Traditional Plan HPRS	\$1,640,238	\$1,073,648	\$601,496
Combined Plan HPRS	447	(\$6,216)	(\$11,392)

The allocation of investment assets within the Defined Benefit portfolio is approved by the Board as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The following table displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return.

<b>OPERS Asset Allocation</b>		
<b>December 31, 2016</b>		
<b>Asset Class</b>	<b>Target Allocation</b>	<b>Weighted Average Long-Term Expected Real Rate of Return</b>
Fixed Income	23.00%	2.75%
Domestic Equities	20.70%	6.34%
Real Estate	10.00%	4.75%
Private Equity	10.00%	8.97%
International Equities	18.30%	7.95%
Other Investments	18.00%	4.92%
<b>Total</b>	<b>100%</b>	<b>5.66%</b>

The long-term expected rate of return on defined benefit investment assets was determined using a building-block method in which best estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

**Note 11 DROP Activity**

<b>DROP Activity</b>	
Year ended December 31, 2017	
Beginning Balance	\$25,196,087
Contributions	5,880,906
Distributions	(10,948,064)
Net Adjustments	1,434,680
Ending Balance	<u>\$21,563,609</u>

**Note 12 Risk Management**

HPRS purchases insurance coverage for general liability, property damage, cyber, and employee and public official liability with varying policy limits. In the past three years, no settlements have exceeded insurance coverage, and coverage has not been significantly reduced.

**Note 13 Contingent Liabilities**

At any given time, HPRS is a party to various litigation actions. While the final outcome of any action cannot be determined, management does not expect that the liability, if any, for these legal actions will have a material adverse effect on the financial position of HPRS.

## Financial Section

### Required Supplementary Schedules

<b>Schedule of Changes in Net Pension Liability and Related Ratios<sup>1</sup></b>				
<b>Year ended December 31, 2017</b>				
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Total Pension Liability</b>				
Service Cost	\$19,634,876	\$18,094,205	\$17,805,023	\$17,656,943
Interest on the Total Pension Liability	85,936,111	84,194,909	81,577,033	79,175,488
Benefit Changes	(5,681,779)	-	-	-
Difference between Expected and Actual Experience	17,854,158	(8,632,852)	(6,365,985)	-
Assumption Changes	-	-	40,773,369	-
Benefit Payments	(75,392,803)	(65,720,438)	(66,213,253)	(64,525,978)
Refunds	(1,074,973)	(1,730,725)	(857,626)	(2,177,476)
<b>Net Change in Total Pension Liability</b>	<b>41,275,590</b>	<b>26,205,099</b>	<b>66,718,561</b>	<b>30,128,977</b>
<b>Total Pension Liability – Beginning</b>	<b>1,137,269,498</b>	<b>1,111,064,399</b>	<b>1,044,345,838</b>	<b>1,014,216,861</b>
<b>Total Pension Liability – Ending (a)</b>	<b>1,178,545,088</b>	<b>1,137,269,498</b>	<b>1,111,064,399</b>	<b>1,044,345,383</b>
<b>Plan Fiduciary Net Position</b>				
Employer Contributions	26,109,836	25,383,684	22,895,242	22,325,421
Employee Contributions	14,504,919	14,101,171	13,686,292	11,577,268
Pension Plan Net Investment Income	101,482,224	46,423,125	(5,701,922)	45,104,959
Benefit Payments	(75,392,803)	(65,720,438)	(66,213,253)	(64,525,978)
Refunds	(1,074,973)	(1,730,725)	(857,626)	(2,177,476)
Pension Plan Administrative Expense	(1,437,267)	(1,352,722)	(1,084,161)	(1,031,473)
Other	478,548	356,527	838,582	420,984
<b>Net Change in Plan Fiduciary Net Position</b>	<b>64,670,484</b>	<b>17,460,622</b>	<b>(36,436,846)</b>	<b>11,693,705</b>
<b>Plan Fiduciary Net Position – Beginning</b>	<b>721,685,656</b>	<b>704,225,034</b>	<b>740,661,880</b>	<b>728,968,175</b>
<b>Plan Fiduciary Net Position – Ending (b)</b>	<b>786,356,140</b>	<b>721,685,656</b>	<b>704,225,034</b>	<b>740,661,880</b>
<b>Net Pension Liability – Ending (a) – (b)</b>	<b>392,188,948</b>	<b>415,583,842</b>	<b>406,839,365</b>	<b>303,683,958</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	66.72%	63.46%	63.38%	70.92%
<b>Covered Employee Payroll<sup>2</sup></b>	112,705,188	108,788,871	99,983,221	99,211,756
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	347.98%	382.01%	406.91%	306.10%
<b>Notes to Schedule:</b>	N/A	N/A	N/A	N/A

Source: GRS

<sup>1</sup>The effort and cost to recreate financial statement information for the previous six years was not practical. Additional years will be displayed as they become available.

<sup>2</sup>Includes members of the DROP

## Financial Section

### Required Supplementary Schedules

#### Schedule of Employer Contributions - Pension Years ended December 31, 2008 - 2017

Year	Actuarially Calculated Employer Contribution	Actual Contributions	Annual Contribution Deficiency	Covered Payroll	Annual Contributions as a % of Covered Payroll	% Contributed
2008	21,221,089	20,302,216	(918,873)	94,301,538	21.53	96
2009	19,978,427	20,453,914	475,487	94,824,789	21.57	102
2010	22,872,487	21,211,944	(1,660,543)	94,767,852	22.38	93
2011	26,956,449	22,966,338	(3,990,111)	93,126,449	24.66	85
2012	30,488,160	23,766,361	(6,721,799)	98,117,403	24.22	78
2013	35,429,985	22,908,182	(12,521,803)	98,519,844	23.25	65
2014	29,767,228	22,325,421	(7,441,807)	99,211,756	22.50	75
2015	22,446,316	22,895,242	448,926	99,983,224	22.90	102
2016	24,407,389	25,383,684	976,295	108,788,871	23.33	104
2017	25,349,355	26,109,836	760,481	112,705,188	23.17	103

Source: GRS

#### Schedule of Investment Returns<sup>1</sup> Year ended December 31, 2017

	Annual Return <sup>2</sup>
2017	14.15%
2016	6.60%
2015	-0.61%
2014	5.99%

Source: Hartland

<sup>1</sup>The effort and cost to recreate financial statement information for the previous seven years was not practical. Additional years will be displayed as they become available.

<sup>2</sup>Annual money-weighted rate of return, net of investment expenses

**Notes to the Trend Data - Pension**

Valuation Date	December 31, 2016
Actuarial Cost Method	Entry Age
Amortization Method	Level-Percentage Closed
Remaining Amortization Period	29 years
Asset Valuation Method	Four-year smoothed market
Inflation	3.5% wage inflation; 2.75% price inflation
Salary Increases	3.8% to 13.5% including inflation
Investment Rate of Return	7.75%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	RP-2014 Mortality Tables for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for females was then established to be 2012. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to the above described tables.
Notes	There were no assumption changes during the year. There were benefit changes beginning with the December 31, 2017 annual actuarial valuation, which include changes to age and service pension eligibility, off-duty disability, and survivor benefits.

<b>Schedule of Changes in Net OPEB Liability and Related Ratios<sup>1</sup></b>	
<b>Year ended December 31, 2017</b>	
	<b>2017</b>
<b>Total OPEB Liability</b>	
Service Cost	\$23,656,819
Interest on the Total OPEB liability	19,242,920
Changes of benefit terms	709,187
Difference between Expected and Actual Experience	(1,203,916)
Assumption Changes	46,862,079
Benefit payments, including refunds of employee contributions	(9,433,745)
<b>Net Change in Total OPEB Liability</b>	<b>79,833,344</b>
<b>Total OPEB Liability - Beginning</b>	<b>486,296,675</b>
<b>Total Pension Liability - Ending (a)</b>	<b>566,130,019</b>
<b>Plan Fiduciary Net Position</b>	
Employer Contributions	4,640,177
Contributions – employer	11,577,268
Contributions – nonemployer contributing entities	-
Contributions - employee	-
Net investment income	14,467,179
Benefit payments, including refunds of employee contributions	(9,433,745)
OPEB plan administrative expense	(204,198)
Other	-
<b>Net Change in Plan Fiduciary Net Position</b>	<b>9,469,413</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>102,329,407</b>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>111,798,820</b>
<b>Net OPEB Liability - Ending (a) - (b)</b>	<b>454,331,199</b>
<b>Plan Fiduciary Net Position as a Percentage of Total OPEB Liability</b>	19.75%
<b>Covered Employee Payroll<sup>2</sup></b>	112,705,188
<b>Net OPEB Liability as a Percentage of Covered Employee Payroll</b>	403.11%
<b>Notes to Schedule:</b>	N/A
	<i>Source: GRS</i>

<sup>1</sup>The effort and cost to recreate financial statement information for the previous nine years was not practical. Additional years will be displayed as they become available.

<sup>2</sup>Includes members of the DROP

<b>Schedule of Employer Contributions - OPEB</b>						
Years ended December 31, 2017 <sup>1</sup>						
<b>Year</b>	<b>Actuarially Calculated Employer Contribution</b>	<b>Actual Contributions</b>	<b>Annual Contribution Deficiency (Excess)</b>	<b>Covered Payroll</b>	<b>Annual Contributions as a % of Covered Payroll</b>	<b>% Contributed</b>
2017	30,774,152	4,640,177	26,133,975	112,705,188	4.12%	15.08%

Source: GRS

<sup>1</sup> Additional years will be added as they become available

<b>Schedule of Investment Returns<sup>1</sup></b>	
Year ended December 31	
	<b>Annual Return<sup>2</sup></b>
2017	14.15%
2016	6.60%
2015	-0.61%
2014	5.99%

Source: Hartland

<sup>1</sup>The effort and cost to recreate financial statement information for the previous seven years was not practical. Additional years will be displayed as they become available.

<sup>2</sup>Annual money-weighted rate of return, net of investment expenses

<b>Notes to the Trend Data - OPEB</b>	
Valuation Date	December 31, 2015 and December 31, 2016
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level percent of pay - open
Equivalent Single Amortization Period	30 years
Asset Valuation Method	Four-year smoothed market
Inflation	3.5% wage inflation; 2.75% price inflation
Salary Increases	3.8% to 13.5% including inflation
Single Discount Rate	3.42%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.



<b>Schedule of HPRS' Proportionate Share of the Net Pension Liability – Last 10 Years*</b>			
<b><u>Ohio Public Employees Retirement System – Traditional Pension Plan</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
HPRS' proportion of the net pension liability (asset)	0.004728%	0.004710%	0.005055%
HPRS' proportionate share of the net pension liability (asset)	1,073,648	815,831	609,690
HPRS' covered-employee payroll	611,150	586,187	619,711
HPRS' proportionate share of the net pension liability (asset) as a % of its covered-employee payroll	176%	139%	98%
Plan fiduciary net position as a % of the total pension liability	77.25%	81.08%	86.45%
<b><u>Ohio Public Employees Retirement System – Combined Pension Plan</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
HPRS' proportion of the net pension liability (asset)	0.011169%	0.010530%	0.010396%
HPRS' proportionate share of the net pension liability (asset)	(6,216)	(5,124)	(4,003)
HPRS' covered-employee payroll	43,475	38,320	36,600
HPRS' proportionate share of the net pension liability (asset) as a % of its covered-employee payroll	14%	13%	11%
Plan fiduciary net position as a % of the total pension liability	116.55%	116.90%	114.83%

<b>Schedule of Contributions – Last 10 Years*</b>			
<b><u>Ohio Public Employees Retirement System – Traditional Pension Plan</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Contractually required contribution	73,338	70,343	74,365
Contributions in relation to the contractually required contribution	73,338	70,343	74,365
Contribution deficiency (excess)	-	-	-
HPRS' covered employee payroll	611,150	586,187	619,711
Contributions as a % of covered-employee payroll	12%	12%	12%
<b><u>Schedule of Contributions</u></b>			
<b><u>Ohio Public Employees Retirement System – Combined Pension Plan</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Contractually required contribution	5,217	4,598	4,560
Contributions in relation to the contractually required contribution	5,217	4,598	4,560
Contribution deficiency (excess)	-	-	-
HPRS' covered employee payroll	43,475	38,320	36,600
Contributions as a % of covered-employee payroll	12%	12%	12%

\*Additional years will be added as they become available

**Notes to Required Supplementary Schedules**

**Schedule of Changes in Net Pension Liability and Net OPEB Liability**

The total pension liability and total OPEB liability contained in these schedules were provided by HPRS's actuary, Gabriel, Roeder, Smith & Company. The net pension liability is measured as the total pension liability, less the amount of the fiduciary net position of the Retirement System related to Pension. The net OPEB liability is measured as the, less the amount of the fiduciary net position of the Retirement System related to OPEB.

<b>Schedule of Administrative Expenses</b>	
Year ended December 31, 2017	
<b>Personnel</b>	<u>\$1,106,216</u>
<b>Professional and technical services</b>	
Computer services	59,000
Actuary	71,112
Education	17,697
Medical consulting	1,800
Audit	44,600
Legal	53,326
Miscellaneous services	9,019
Medical services	6,565
Total professional and technical services	<u>263,119</u>
<b>Communications</b>	
Printing	1,486
Postage	9,246
Telephone	4,334
Internet	7,854
Total communications	<u>22,920</u>
<b>Other expenses</b>	
Office rent	116,295
Depreciation	25,660
Insurance	39,718
Supplies	4,530
Miscellaneous	7,464
Loss on disposal of equipment	-
Ohio Retirement Study Council	3,455
Travel	20,445
Memberships and subscriptions	8,197
New equipment	6,808
Computer Service – Offsite server	3,600
Cable	1,405
Retiree Healthcare Consultant	11,190
Total other expenses	<u>248,767</u>
<b>Total administrative expenses</b>	<b>\$ 1,641,022</b>

Above amounts do not include investment-related administrative expenses.

<b>Schedule of Investment Expenses</b>	
Year ended December 31, 2017	
<b>Personnel</b>	\$25,846
<b>Professional services</b>	
Investment services	6,079,399
Monitoring services	272,517
Total professional services	<u>6,351,916</u>
<b>Other expenses</b>	
Due diligence	1,799
Computer services	6,556
Memberships and subscriptions	2,219
Printing and supplies	165
Total other expenses	<u>10,739</u>
<b>Total investment expenses</b>	<u>\$ 6,388,501</u>

<b>Payments to Consultants</b>		
Year ended December 31, 2017		
Consultant	Fee	Service
Attorney General's Office	\$11,868	Legal
County Of Summit Ohio	19,848	Auditing
David Tanner, D.O.	1,800	Medical
Gabriel, Roeder, Smith & Company	71,112	Actuarial
Hartland	272,517	Investment
Ice Miller LLC	40,150	Legal
Ohio Auditor of State	1,224	Auditing
Schneider Downs	24,000	Auditing
Tucker Ellis LLP	837	Legal
Total	<u>\$443,356</u>	

See the Investment Section, Pages 69-70 for payments to investment managers and brokers.



Big Thinking. Personal Focus.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees  
Ohio State Highway Patrol Retirement System  
Columbus, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Ohio State Highway Patrol Retirement System (HPRS), which comprise the statement of fiduciary net position as of December 31, 2017, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 28, 2018.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the HPRS's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the HPRS's internal control. Accordingly, we do not express an opinion on the effectiveness of the HPRS's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the HPRS's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the HPRS's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the HPRS's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Schneider Downs & Co., Inc.*

Columbus, Ohio  
June 28, 2018



# Investment Section

### Investment Overview

#### Introduction

Chapter 5505 of the Ohio Revised Code and the Board-adopted *Investment Policy* govern investment activity at HPRS. In accordance with Ohio Revised Code 5505.06, “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 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.”

HPRS’s total investment portfolio, as reflected in the *Statement of Fiduciary Net Position*, (Page 23) is comprised of the Pension (Defined Benefit) and Post-Employment Health Care portfolios’ assets. Defined Benefit portfolio assets originate from member and employer contributions to the system. The management of these assets is the responsibility of the HPRS Investment Committee, under the direction of the Board of Trustees, and HPRS’s Investment Consultant, Hartland. Hartland assists the Board with the construction and diversification of HPRS’s investment portfolio and manager selection. Additionally, Hartland assists with matters of investment policy and asset allocation recommendations, and provides monthly and quarterly performance reviews.

#### Investment Policy

The Board-adopted *Investment Policy* (Pages 71-81) provides information on HPRS’s investment policies and performance objectives. The policy establishes asset allocation targets, risk tolerances, return objectives, and other guidelines, such as defining the responsibilities of the fiduciaries who implement the strategies and manage HPRS’s investment portfolio.

#### Investment Summary

HPRS’s *Investment Summary* (Page 63) includes the total fund assets of the Pension and Post-Employment Health Care portfolios. All investments are reported at fair value, which is the amount that the plan could reasonably expect to receive in a current sale between a willing buyer and a willing seller, other than in a forced or liquidation sale.

A complete listing of assets held at December 31, 2017 is available from HPRS upon request.

#### Investment Performance

As shown in the *Schedule of Investment Results* (Page 65), performance information is reported gross-of-fees (net-of-fees for alternative investments) versus benchmark for the total fund and each asset class over selected periods. All returns are calculated in U.S. Dollars using a time-weighted rate of return. Net-of-fees returns are available from HPRS upon request.

*Source: HPRS Investment Staff*



**Investment Summary**

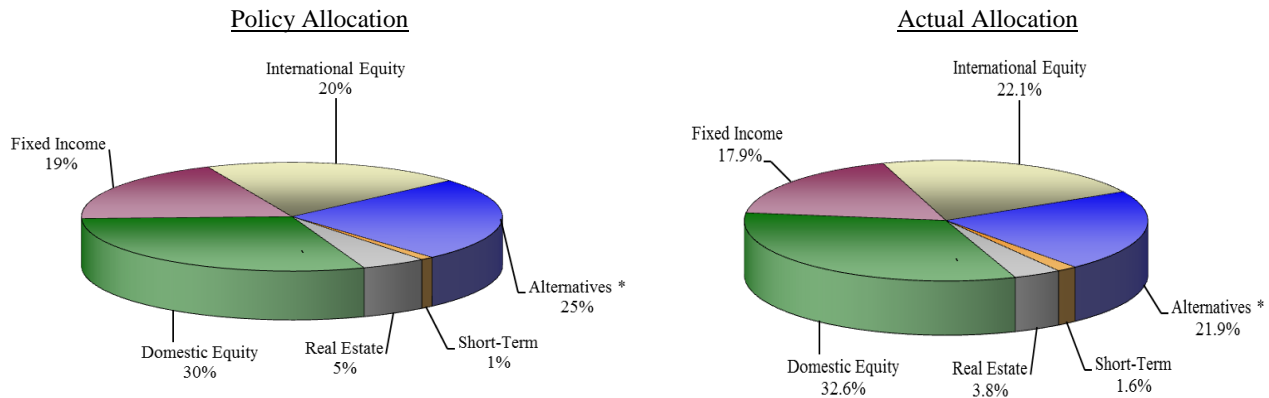
December 31, 2017

	Fair Value	Actual	Target	Range
Domestic equity	\$291,709,924	32.6%	30.0%	20-40%
Fixed income	160,098,289	17.9	19.0	10-30
Alternatives *	196,344,239	21.9	25.0	15-35
International equity	198,005,528	22.1	20.0	10-30
Short-term	14,497,957	1.6	1.0	0 – 6
Real estate	34,303,989	3.9	5.0	0 – 10
Net portfolio value	<u>\$894,959,926</u>	<u>100.0%</u>	<u>100.0%</u>	

\* Alternatives include private equity, fund of hedge funds, direct infrastructure and global tactical asset allocation investments.

**Asset Allocation – Total Fund**

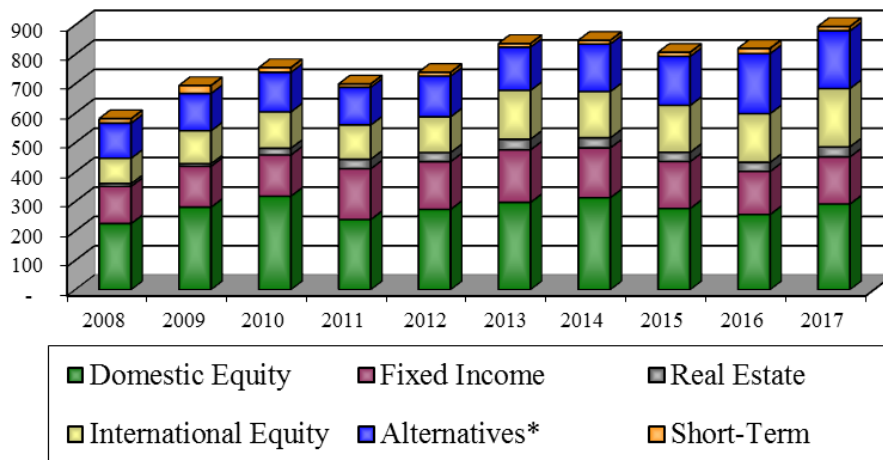
December 31, 2017



\* Alternatives include private equity, fund of hedge funds, direct infrastructure and global tactical asset allocation investments.

**Ten-Year Investment Comparison**

(in millions)



\* Alternatives include private equity, fund of hedge funds, direct infrastructure and global tactical asset allocation investments.

### Economic & Market Review – 2017

Strong growth, low inflation and rising prices in major markets made 2017 one of the most successful years in recent memory. Risk assets were up sharply, led by Emerging and Developed Market Equities (37.3% and 25.0%)<sup>i</sup>. U.S. equities extended their relentless march upward in 2017 and one of the longest bull markets in history. U.S. Large Cap Equities, as measured by the S&P 500 Index, returned 21.8% for the year. Strong returns came with exceptionally low volatility and positive returns in every month. There were only 3 days of more than 1% gain or loss in the markets in 2017.

Economic news in 2017 could hardly have been better. Global growth has synchronized and strengthened. Eurozone business surveys are at their highest levels. The U.S. economic expansion gathered momentum as reflected by 2.9% Q4 GDP growth. ISM surveys reflect strength, which along with consumer confidence, continue to support expansion. Meanwhile, inflation indicators point to weak price pressures in most economies.

The tide may be turning toward slightly less accommodative monetary policy. The Fed hiked their funds rate by 0.25% in December, which was the third rate increase of the year and in-line with expectations. The Fed has begun to unwind its balance sheet and the pace of normalization should increase meaningfully in 2018. The ECB and BOJ currently lag the Fed but have signaled eventual rate hikes should be expected.

U.S. equity valuations were above long-term averages at year-end with a one year forward P/E on MSCI US Equity Index of 18.8x. Emerging Market and European equities carry more reasonable valuations and actually experienced a contraction of P/E multiples despite strong returns in 2017. Supporting equity valuations that are above historical averages are strong earnings from companies in the U.S. 2017 earnings estimates reflect a 10.8% year-over-year increase for the S&P 500. The 2018 earnings growth estimate stands at +18.3%<sup>ii</sup>, which is up from a 12.2% estimate in December as tax reform is being factored in to a greater extent. The tax bill is also supportive U.S. economic growth and valuations and has an estimated impact on GDP of 0.2 - 0.7% and a meaningful impact on earnings as previously mentioned.

Within fixed income, the U.S. Treasury yield curve flattened and credit spreads tightened in 2017. The 10 year treasury yield finished 2017 at 2.4%, similar to 2016, while the 2 year note increased from 1.2% to 1.9%. Fixed income returns were broadly positive, led by emerging markets (+10.3%) and high yield bonds (+7.5%)<sup>iii</sup>. U.S. investment grade bonds, as measured by the Bloomberg Barclays Aggregate Index, were up 3.5% in 2017.

Looking towards 2018, as we expected, volatility has picked up, interest rates have moved higher and corporations appear to be performing well. We expect three rate hikes from the Federal Reserve and steady economic growth globally. Risks to be wary of include unexpected moves by the Fed, higher than expected inflation and geopolitical events that could endanger the bull market.

*Source: Hartland*

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<sup>i</sup> MSCI Emerging Markets and MSCI EAFE Indices

<sup>ii</sup> Source: FactSet

<sup>iii</sup> JP Morgan EMBI Index and Bloomberg Barclays U.S. Corporate High Yield Index

**Schedule of Investment Results**

Year ended December 31, 2017

	2017	2016	3-Year	5-Year
<b>Domestic Equity</b>	<b>21.53%</b>	<b>13.73%</b>	<b>11.46%</b>	<b>16.02%</b>
Russell 3000	21.13	12.73	11.12	15.58
<b>International Equity</b>	<b>28.72</b>	<b>1.69</b>	<b>8.33</b>	<b>7.62</b>
MSCI ACWI ex US IMI	27.81	4.41	8.13	7.17
<b>Fixed Income</b>	<b>5.23</b>	<b>6.37</b>	<b>4.02</b>	<b>3.04</b>
Barclays Capital Aggregate/Opp. Blend	3.43	3.27	2.41	2.20
<b>Real Estate</b>	<b>10.3</b>	<b>7.75</b>	<b>8.20</b>	<b>12.00</b>
NCREIF	6.9	9.22	9.83	10.35
<b>Alternatives ▲</b>	<b>4.86</b>	<b>4.53</b>	<b>3.39</b>	<b>6.37</b>
HFRI Fund of Funds Composite Blend	6.56	5.84	5.22	7.52
<b>Total Fund</b>	<b>14.83</b>	<b>7.42</b>	<b>7.3</b>	<b>9.57</b>
Absolute Objective	7.75	7.75	7.75	7.75
Relative/Composite Benchmark ►	14.41	7.4	7.16	8.99

▲ Includes private equity, GTAA, direct infrastructure and fund of hedge funds. Performance results for private equity classes are typically reported on a quarter lag basis, adjusted for cash flow activity during the fourth quarter.

► Relative Composite Benchmark: Russell 3000, 31%; MSCI ACWI ex USA IMI, 20%; BBgBarc US Aggregate TR, 10%; HPRS Opportunistic Benchmark, 9%; BofA Merrill Lynch 91-Day T-Bill, 1%; HFRI Fund of Funds Composite Index, 12%; NCREIF Timberland, 3%; Alerian MLP, 2%; HPRS Private Equity Benchmark, 7%; NCREIF Property Index, 5%.

The HPRS Total Fund performance returns consist of all assets of the fund. All returns are calculated in U.S. Dollars using a time-weighted rate of return based on market values.

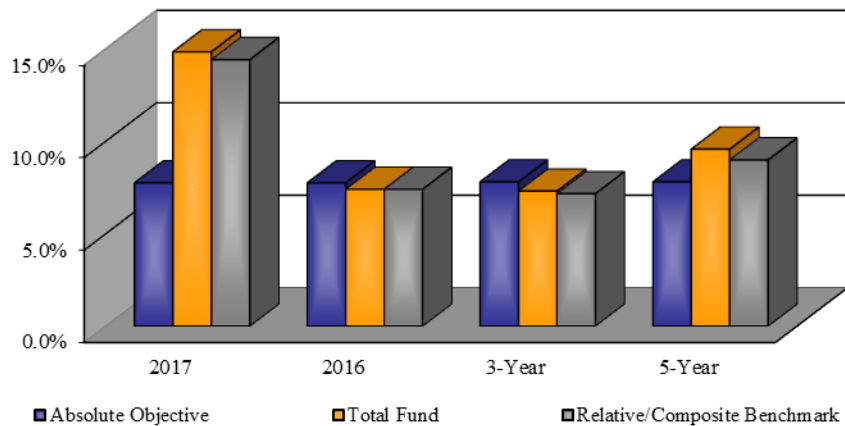
Performance is net of fees for alternative investments and gross of fees on all other investments. Net of fees returns are available upon request, and investment management fees vary among asset classes.

Market value adjustments made as of December 31 will be reflected in the investment returns in the next financial statement.

Source: Hartland

**Total Fund Rates of Return vs Policy Benchmark**

(Gross of fees)



<b>Domestic Equity Holdings</b>			
December 31, 2017			
<b>Security</b>	<b>Shares</b>	<b>Market Price</b>	<b>Fair Value</b>
Bank of America Corp	57,400	\$29.52	\$1,694,448
JP Morgan Chase & Co	15,600	106.94	1,668,264
Citigroup Inc	19,400	74.41	1,443,554
Intel Corp	28,600	46.16	1,320,176
Cisco Systems Inc	33,000	38.30	1,263,900
Pfizer Inc	32,200	36.22	1,166,284
Johnson & Johnson	8,200	139.72	1,145,704
Valero Energy Corp	10,500	91.91	965,055
Exelon Corporation	23,700	39.41	934,017
Chevron Corporation	7,100	125.19	888,849
Other	3,490,518		64,619,797
Total domestic equity securities	3,726,218		\$77,110,048
<b>Domestic Equity Commingled Funds</b>			
AQR Long Short Equity Fund			\$14,535,582
DFA Small Cap Subtrust			12,966,238
Diamond Hill Long Short Equity Fund			9,987,331
Vanguard Institutional Index Fund			112,509,573
Vanguard Mid Cap Index Fund			18,668,718
Wellington Mgmt Diversified Growth			45,932,433
Total domestic equity commingled funds			\$214,599,875
<b>Total domestic equity</b>			<b>\$291,709,923</b>

<b>International Equity Holdings</b>			
December 31, 2017			
<b>Security</b>	<b>Shares</b>	<b>Market Price</b>	<b>Fair Value</b>
Lyondellbasell Industries N.V.	4,500	\$110.32	\$496,440
Seagate Technology	8,500	41.84	355,640
Icon PLC	3,150	112.15	353,273
MC Dermott International Inc	51,800	6.58	340,844
Everest RE Group LTD	1,500	221.26	331,890
Lions Gate Entertainment-B	8,272	31.74	262,553
Interxion Holding NV	4,190	58.93	246,917
Trinseo S A	3,330	72.60	241,758
Axalta Coating Systems LTD	7,180	32.36	232,345
Orbotech LTD	4,230	50.24	212,515
Other	352,208		2,306,724
Total international equity securities	448,860		\$5,380,898
<b>International Equity Commingled Funds</b>			
DFA International Small Cap Value			\$14,170,457
Driehaus International Small Cap Growth			9,921,964
Lazard International			45,433,263
OFI Emerging Markets			42,159,215
TS&W International			40,418,209
William Blair International			40,521,522
Total international equity commingled funds			\$192,624,630
<b>Total international equity</b>			<b>\$198,005,528</b>

## Investment Section

All values are stated in U.S. dollars. A complete list of holdings is available upon request.

<b>Fixed Income Holdings</b>		
December 31, 2017		
<b>Security</b>	<b>Par Value</b>	<b>Fair Value</b>
USA Treasury Notes 2.500% Due 2/15/2045	\$1,800,000	\$1,715,976
USA Treasury Notes 2.750% Due 11/15/2042	1,375,000	1,383,704
Freddie Mac Struct Nts Call 01/12/18 @ 000 1.75% Due 07/12/2022	1,100,000	1,097,338
Freddie Mac Struct Nts Call 02/24/17 @ 100 1.05% Due 08/24/2021	1,100,000	1,089,902
General Elec Cap Corp Ser Notz Unsc Var% Due 03/15/2023	1,000,000	1,011,500
USA Treasury Notes Var% Due 04/30/2019	1,000,000	1,000,850
Freddie Mac Struct Nts Call 05/08/17 @ 100 1.1% Due 11/08/2021	1,000,000	994,410
Wells Fargo & Company Sub 5.606% Due 01/15/2044	700,000	863,030
Johnson Controls Intl Pl Sedol ISIN US478375AD00 5.0% Due 03/30/2020	800,000	843,776
BB&T Corp Ser Mtn Call 2/22/22 @100 3.950% Due 3/22/2022	800,000	835,800
Other	22,625,881	23,788,145
Total fixed income securities	\$33,300,881	\$34,624,430
<b>Fixed Income Commingled Funds</b>		
Credit Suisse Secured Loan Fund		\$36,535,511
HIG Whitehorse Direct Lending Adv Fund		5,525,503
JP Morgan Investment Management		35,487,135
JP Morgan Strategic Income Opp Fund		35,989,635
Silver Point Specialty Credit Fund		11,936,075
Total fixed income commingled funds		\$125,473,859
<b>Total fixed income</b>		<b>\$160,098,289</b>

<b>Real Estate Holdings</b>			
December 31, 2017			
<b>Asset</b>	<b>Shares</b>	<b>Market Price</b>	<b>Fair Value</b>
Hospitality Pptys Tr Sh Ben Int REIT	9,800	29.85	\$292,530
Total real estate assets	9,800		\$292,530
<b>Real Estate Commingled Funds</b>			
Long Wharf Real Estate Partners Fund IV			\$5,471,173
Long Wharf Real Estate Partners Fund V			9,918,170
Marathon European Credit Opportunity Fund III			6,628,207
Oaktree Real Estate Opportunities Fund IV			1,457,139
Oaktree Real Estate Opportunities Fund V			1,870,344
Oaktree Real Estate Opportunities Fund VI			7,303,033
Oaktree Real Estate Opportunities Fund VII			1,363,393
Total real estate commingled funds			\$34,011,459
<b>Total real estate</b>			<b>\$34,303,989</b>

All values are stated in U.S. dollars. A complete list of holdings is available upon request.

<b>Private Equity Holdings</b>	
December 31, 2017	
<b>Asset</b>	<b>Fair Value</b>
Blue Point Capital Partners Fund III	\$5,002,296
Carlyle Global Infrastructure Opportunity Fund, LP	(205,137)
Core Value, LLC	27,234,719
GCM Grosvenor Private Equity Opportunities Fund, LP <sup>1</sup>	5,502,727
HarbourVest Partners Co-Investment Fund IV LP	8,177,615
HarbourVest Partners 2013 Direct Fund LP	11,025,787
HIG Advantage Buyout Fund, LP	8,401
Kayne Anderson Energy Fund IV	246,583
Kayne Anderson Energy Fund V	3,404,806
Kayne Anderson Energy Fund VI	1,977,268
Kayne Anderson Mezzanine Partners	406,260
Kayne Anderson MLP Fund	13,396,004
Kayne Anderson Private Energy Income Fund	7,064,563
Pantheon Multi-Strategy Program 2014	10,357,639
Pantheon USA Fund VII, LP	11,578,919
PIMCO Corporate Opportunities Fund II	3,574,347
<b>Total private equity</b>	<b>\$108,752,797</b>

<b>Fund of Hedge Funds Holdings</b>	
December 31, 2017	
<b>Asset</b>	<b>Fair Value</b>
Evanston Capital Weatherlow Offshore Fund II	\$63,772,509
GAM Fund Management Ltd.	182,905
Sankaty / Prospect Harbor Credit Partners	8,125
<b>Total fund of hedge funds</b>	<b>\$63,963,539</b>

<b>Global Tactical Asset Allocation Holdings</b>	
December 31, 2017	
<b>Asset</b>	<b>Fair Value</b>
Standard Life Investments Global Absolute Return Strategy	\$20,625,867
<b>Total fund of Global Tactical Asset Allocation Holdings</b>	<b>\$20,625,867</b>

All values are stated in U.S. dollars. A complete list of holdings is available upon request.

**Summary Schedule of Investment Manager Fees**

Year ended December 31, 2017

<b>Manager</b>	<b>Strategy</b>	<b>Assets Managed</b>	<b>Fees</b>	<b>Performance Fees</b>
<b>Domestic equity</b>				
Ancora Investment Advisors	Micro Cap	\$13,647,401	\$88,109	\$-
AQR Capital Management		14,535,582	113,796	-
DePrince, Race & Zollo, Inc.	Large Cap Value	-	31,755	-
Diamond Hill Capital Management		9,987,331	50,536	-
Dimensional Fund Advisors	Small Cap Blend	12,966,238	63,372	-
LSV Asset Management	Large Cap Value	54,547,216	268,673	-
Vanguard Institutional Index Fund	Large Cap Blend	112,509,573	43,095	-
Vanguard Mid Cap Index Fund	Mid-Cap	18,668,718	9,837	-
WA Account	Miscellaneous	2,055	-	-
Wellington Mgmt Co., LLP	Large Cap Growth	45,932,433	178,151	-
Westfield Capital Management	Small Cap Growth	14,586,804	133,389	-
<b>International Equity</b>				
Dimensional Fund Advisors	Small Cap Value	14,170,457	31,979	-
Driehaus Capital Management	Small Cap Growth	9,921,964	168,883	-
Lazard Asset Management	Large Cap Value	45,433,263	330,621	-
OFI Trust Company	Emerging Markets	42,159,215	317,690	-
Thompson, Siegel & Walmsley	Large Cap Value	40,418,209	189,194	-
William Blair International	Large Cap Growth	40,521,522	281,229	-
<b>Fixed Income</b>				
Credit Suisse	High Yield	36,535,511	169,757	-
WhiteHorse Capital		5,525,503	-	130,254
Johnson Institutional Management	Intermediate-Term	34,624,430	68,868	-
JP Morgan Asset Management	Intermediate-Term	71,476,770	320,213	-
Silver Point Capital LP	Specialty Credit	11,936,075	81,119	208,218
Wellington Mgmt Co., LLP	Global Bond	-	7,884	-
<b>Real Estate</b>				
Long Wharf Real Estate Partners	Speciality Real Estate	15,389,343	386,370	87,384
Marathon Asset Management, LP	Credit Opportunity	6,628,207	82,052	82,052
Oaktree Capital Management, LP	Specialty Real Estate	11,993,909	317,804	1,795,060
Pyramis Global Advisors	Specialty Real Estate	-	2,716	-
<b>Private Equity</b>				
Blue Point Capital Partners	Mid-Market Buyout	5,002,296	86,347	573,418
The Carlyle Group		(205,137)	94,521	-
Core Value, LLC	Timber	27,234,719	194,076	-
GCM Grosvenor	Fund of Funds	5,502,727	54,812	27,848
HarbourVest Partners	Co-Investment	19,203,402	166,135	326,827
HIG Capital		8,401	68,370	-
Kayne Anderson Capital Advisors, LP	Energy, MLP, and Mezzanine	26,495,484	367,819	997,996
Pantheon Ventures LP	Fund of Funds	21,936,558	168,501	-
Pacific Investment Management Co. LLC	Corporate Opportunities	3,574,347	41,354	97,531
<b>Hedge Funds</b>				
Evanston Capital Management, LLC	Fund of Funds	63,772,509	577,809	-
GAM Fund Mgmt Ltd	Fund of Funds	182,905	-	-
Sankaty Advisors, LLC	Distressed Securities	8,125	315	-
<b>Global Tactical Asset Allocation</b>				
Standard Life Investments	Tactical Asset	20,625,867	263,246	-
<b>Direct Infrastructure</b>				
Partners Group		3,002,036	48,069	-
<b>Total</b>		<b>\$880,461,968</b>	<b>\$5,868,466</b>	<b>\$4,326,588</b>

<b>Summary Schedule of Broker Fees</b>			
Year ended December 31, 2017			
<b>Broker</b>	<b>Fees</b>	<b>Shares</b>	<b>Average Cost</b>
First Tennessee	\$ -	5,450,000	\$0.000
Wells Fargo Secs	-	2,650,000	0.000
Morgan Stanley	89.88	2,512,840	0.000
Mutual Fund Agent	-	2,496,341	0.000
Suntrust Capital	-	2,018,755	0.000
BNY/Suntrust Capital	-	1,835,590	0.000
Citigroup Global	-	1,125,090	0.000
Ivy Securities	9,699	950,025	0.010
Abel Noser Corp	8,589	858,905	0.010
Robert Baird	2,232	848,794	0.003
Goldman Sachs	-	750,170	0.000
Mizuho Securities	-	725,000	0.000
RBC Capital Markets	-	557,009	0.000
Mizuho Sec	-	525,000	0.000
Merrill Lynch Pierce Fenner & Smith	2,216	444,413	0.005
Keybank Capital	-	350,000	0.000
Cap Institutional Services	2,217	147,794	0.015
Jones Trading Institutional Services	1,292	124,821	0.010
KCG Americas LLC	918	121,982	0.008
Direct Trading	752	100,248	0.008
UBS Securities LLC	323	46,100	0.007
Credit Suisse Fixed Income	494	40,880	0.012
Liquidnet Inc	615	39,697	0.015
BTIG LLC	684	34,206	0.020
Weeden & Co.	295	29,494	0.010
Investment Technology Group Inc	202	26,900	0.008
Jeffries & Co	104	13,931	0.008
Needham and Co	386	12,852	0.030
Fox River Execution	74	10,640	0.007
Sanford C. Bernstein	45	6,025	0.008
CL King and Associates	92	4,622	0.020
Sandler O'Neill	77	3,483	0.022
Dougherty & Company	101	3,358	0.030
Barclays Capital	31	3,064	0.010
B. Riley & Co.	90	3,000	0.030
JP Morgan Securities	-	840	0.000
William Blair	-	340	0.000
ISI Group Inc	9	230	0.040
Keefe, Bruyette & Woods	7	170	0.040
Northern Trust	4	110	0.040
<b>Total</b>	<b>\$31,637</b>	<b>24,872,719</b>	<b>\$0.424</b>

The brokerage commissions do not include commissions paid by external investment managers utilizing commingled fund structures. HPRS maintains a commission recapture program with Abel / Noser Corporation.



## **HPRS Investment Policy**

### **Introduction**

The State Highway Patrol Retirement System (“System”) was established by section 5505.02 of the Ohio Revised Code (ORC) for State Highway Patrol employees, as defined in division (A) of ORC section 5505.01.

Pursuant to ORC section 5505.04, the administration and management of the Highway Patrol Retirement System are vested in the State Highway Patrol Retirement Board (“Board”). Members of the State Highway Patrol Retirement Board are the trustees of the funds created by ORC section 5505.03. The Board has full power to create and adopt, in regular meetings, an investment committee, policies, objectives, or criteria for the operation of the investment program that include asset allocation targets and ranges, risk factors, asset class benchmarks, time horizons, total return objectives, and performance evaluation guidelines.

### **System Objective**

The primary objective of the State Highway Patrol Retirement System is to provide eligible members and beneficiaries with scheduled pension benefits. To reach this objective, the Board and other system fiduciaries will comply with the duty detailed in ORC section 5505.06; to exercise care, skill, prudence, and diligence -- under the circumstances then prevailing -- that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims. A secondary objective of the fund is to maintain a sufficient degree of liquidity in order to meet unanticipated demands and changing environments. Members of the Retirement Board and other fiduciaries of the Retirement System fully accept the duty to incur only reasonable expenses in the operation of the State Highway Patrol Retirement System.

### **Investment Policy Purpose**

This Investment Policy Statement (“Statement”) details the policies, procedures, asset allocation and guidelines for investment of the System, as established by the Board. It defines and assigns the responsibilities of all involved parties. The policy is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

The investment policies and restrictions presented in this Statement serve as a framework to achieve the investment objectives at a level of risk deemed acceptable. These policies and restrictions are designed to minimize interference with efforts to attain overall objectives and to minimize the potential of excluding any appropriate investment opportunities.

### **Investment Objectives**

The overall long-term investment objective is for the System is to earn 7.75% over a market cycle. Meeting this return objective among other factors will help the System achieve full funded status in the future. This investment objective should be achieved with the least required level of portfolio volatility.

#### **Duties and Responsibilities**

##### ***Board***

The role of the Board is supervisory, and discretion is delegated to investment managers who must adhere to the general guidelines established by the Board. The primary role of the Board is to:

- Establish performance goals
- Identify and review appropriate investment policy and guidelines
- Retain outside investment and actuarial counsel
- Review the results of the fund on a regular basis and implement necessary changes in the investment policies, objectives, asset allocation, and investment managers as needed

##### ***Investment Committee***

As delegated by the Board, the Investment Committee is responsible for ensuring that the investment process is managed in a prudent manner, seeking to meet the System's return objectives.

The Investment Committee will, at least quarterly, review the performance of the overall portfolio and selected components against their investment goals and policies.

The Investment Committee will, in accordance with the Manager Review Policy, consider whether the manager continues to operate in the manner represented when retained and outlined in the agreement between the Investment Committee and the investment manager. The Committee will have the discretion to accept, reject or modify, in accordance with the Manager Review Policy, any recommendation to terminate an investment manager. The elected Chair, or Vice-Chair, will report to the Board at regularly scheduled meetings.

Other roles of the Investment Committee include the following:

- Approve the initiation of a search in accordance with the Selection of Investment Managers and Agents Policy as well as the Manager Search and Termination Policy
- Validate that the search process was carried out appropriately
- Attend manager presentations at HPRS' offices when necessary
- Request additional information, if warranted.

##### ***Chief Investment Officer and Staff***

The Chief Investment Officer (CIO), who is responsible for the day-to-day management of the investment program, is employed by, and is directly responsible to, the Retirement Board. A complete job description is available from HPRS upon request.

Other roles of the staff include the following:

- Rebalance the investment portfolio within the asset allocation guidelines of the Statement

### Investment Objectives, Policies, and Guidelines

- Implement tactical asset allocation positioning within the asset allocation guidelines of the Statement
- Raise cash for the payment of pension benefits
- Post the RFP to HPRS' website
- Oversee the work of the Investment Consultant
- Ensure the process is completed in an appropriate manner
- Ensure the Investment Committee and Board receive appropriate information
- Coordinate the development and execution of manager contracts and guidelines
- Conduct on-site due diligence with selected finalist firm if deemed appropriate

#### ***Investment Consultant***

An Investment Consultant is employed by, and is directly responsible to, the Retirement Board. The consultant is a fiduciary to the System, attends Investment Committee and Board meetings, provides quarterly investment monitoring reports, and works with the CIO to implement the Investment Policy of the Retirement Board.

Other roles of the investment consultant include the following:

- Reviewing asset allocation and investment strategy to determine if the current strategy meets the investment objective of the System
- Monitoring the performance of the total portfolio to determine if the collective investment strategy is outperforming the established benchmarks over rolling time periods
- Recommending strategic and tactical changes to asset allocation from time to time
- Communicating with investment managers to determine portfolio composition and ascertain information concerning organizational change
- Performing an annual fee assessment of the investment portfolio
- Identify the need for new managers
- Develop any request for proposals (RFP) for new managers
- Conduct on-site due diligence with candidate firms when necessary
- Conduct on-site due diligence with existing managers when necessary
- Attend the ORSC or other legislative meetings with the Executive director as needed

#### ***Custodian***

As provided in ORC section 5505.11, the Treasurer of State is the custodian of HPRS funds. The Treasurer appoints a banking institution as a sub-custodian, which acts as the custodian of HPRS funds. All disbursements are processed under the direction of the Treasurer after authorization by the Board. The custodian will physically maintain possession of securities owned by the System, collect dividend and interest payments, redeem maturing securities, and

affect receipt and delivery following purchases and sales. The custodian shall also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the System accounts. The custodian is also responsible for providing monthly statements to the System and investment consultant.

#### ***Investment Managers***

Each investment manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the System's investment objectives. Each investment manager will be held responsible and accountable to achieve the objectives herein stated. While it is not believed that the limitations will hamper any investment manager, the investment manager should request modifications that it deems appropriate.

Managers are expected to:

- Act as a fiduciary to the System
- Meet with the Board or Investment Committee when requested, to review investment activity and results
- Hold and maintain errors and omissions insurance and provide proof of this insurance
- Provide frequent communication with HPRS and the Investment Consultant on all significant matters pertaining to the investment of assets
- Promptly notify HPRS and the Investment Consultant of any significant changes in the manager's investment strategy, organizational structure, financial condition, or personnel assigned to manage HPRS assets

#### **Additional Providers**

Additional specialists such as attorneys, auditors, and others may be employed by the Investment Committee to assist in meeting its responsibilities and obligations to administer the System prudently. All expenses for such experts must be customary and reasonable, and will be borne by the System as deemed appropriate and necessary.

### Asset Allocation Guidelines

The asset allocation targets for the System are as follows:

	9/30/2017	Estimated (Evaluated)				Targets		
		2016	2017	2018	2019	Asset Class	Sub Asset Class	Range
<b>Domestic Equity</b>	<b>31.1%</b>	<b>32.0%</b>	<b>31.0%</b>	<b>30.0%</b>	<b>30.0%</b>	<b>30.0%</b>		<b>20% - 40%</b>
Large/Mid Cap	26.4%	27.0%	26.0%	25.0%	25.0%		25.0%	20% - 30%
Small/Micro Cap	4.7%	5.0%	5.0%	5.0%	5.0%		5.0%	0% - 10%
<b>International Equity</b>	<b>21.5%</b>	<b>20.0%</b>	<b>20.0%</b>	<b>20.0%</b>	<b>20.0%</b>	<b>20.0%</b>		<b>10% - 30%</b>
Developed Markets	14.3%	15.0%	15.0%	15.0%	15.0%		15.0%	10% - 20%
Emerging Markets	4.5%	2.5%	2.5%	2.5%	2.5%		2.5%	0% - 7.5%
Small Cap	2.7%	2.5%	2.5%	2.5%	2.5%		2.5%	0% - 7.5%
<b>Alternative Investments</b>	<b>24.0%</b>	<b>23.0%</b>	<b>24.0%</b>	<b>25.0%</b>	<b>25.0%</b>	<b>25.0%</b>		<b>15% - 35%</b>
Absolute Return	11.7%	12.0%	12.0%	11.0%	10.0%		10.0%	0% - 15%
Private Equity	7.6%	6.0%	7.0%	9.0%	10.0%		10.0%	0% - 15%
Real Assets	4.7%	5.0%	5.0%	5.0%	5.0%		5.0%	0% - 10%
<b>Real Estate</b>	<b>3.5%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>0% - 10%</b>
<b>Fixed Income</b>	<b>19.9%</b>	<b>20.0%</b>	<b>20.0%</b>	<b>20.0%</b>	<b>20.0%</b>	<b>20.0%</b>		<b>10% - 30%</b>
Core Fixed Income	8.0%	10.0%	10.0%	10.0%	10.0%		10.0%	5% - 15%
Opportunistic	10.6%	9.0%	9.0%	9.0%	9.0%		9.0%	4% - 14%
Cash	1.3%	1.0%	1.0%	1.0%	1.0%		1.0%	0% - 6%
<b>Total Pension</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>		

The Board adopted a new asset allocation in December 2015; therefore, the above detailed transition plan, subject to annual review, will be implemented by the CIO and Investment Consultant.

### Asset Class Purpose

- The purpose of the equity allocation is to provide a total return that will simultaneously provide for growth in principal and current income sufficient to support the System, while at the same time preserve the purchasing power of the System's assets. It is recognized that the equity allocation entails the assumption of greater market variability and risk.
- The purpose of the real estate component is to provide for growth of principal while at the same time preserving the purchasing power of the portfolio's assets. In addition, the real estate component seeks to enhance the overall portfolio by providing income, a hedge on inflation and modest diversification.
- The purpose of the alternative investment allocation is to provide diversification, risk reduction, hedge inflation, as well as enhance the performance of the System. These purposes will vary by investment.
- Absolute Return: The purpose of this allocation is to provide diversification, risk reduction and moderate growth.
- Private Equity: The purpose of this allocation is to provide diversification and growth above public equity.
- Real Assets: The purpose of this allocation is to provide diversification, income, and to hedge inflation.

### Investment Objectives, Policies, and Guidelines

- The purpose of the fixed income allocation is to provide a deflation hedge, to reduce the overall volatility of the System, and to produce income.
- The purpose of the cash allocation is to provide liquidity for short-term obligations. All cash and equivalent investments should be made with concern for quality. High return is desirable, but the highest possible investment return should be sacrificed where quality is considered questionable.

#### **Permissible Investments**

System assets may invest in the following types of investments:

##### **Equity Securities**

- Common stocks
- Convertible preferred stocks
- American depository receipts (ADRs) of non-U.S. companies
- Stocks of non-U.S. companies (Ordinary shares)
- Equity collective pools, mutual funds and exchange traded funds

##### **Alternative Investments**

- Tactical asset allocation strategies
- Absolute return strategies
- Long-short strategies
- Hedge funds or hedge fund-of-fund strategies
- Private equity and debt strategies
- Timber investments
- Energy master limited partnerships
- Infrastructure strategies
- Alternative collective pools, mutual funds and exchange traded funds

##### **Real Estate**

- U.S. and non U.S. public real estate (REITS)
- U.S. and non U.S. private real estate
- Real estate collective pools, mutual funds and exchange traded funds

##### **Fixed Income Securities**

- U.S. government and agency securities
- Municipal bonds
- Corporate notes and bonds
- Convertible notes and bonds

## Investment Section

### Investment Objectives, Policies, and Guidelines

- Mortgage backed bonds
- Preferred stock
- Fixed income securities of foreign governments and corporations
- Below investment grade corporate bonds
- Tactical fixed income strategies
- Private lending strategies
- Fixed income collective pools, mutual funds and exchange traded funds

#### Cash Equivalents

- Treasury bills
- Commercial paper
- Banker's acceptances
- Repurchase agreements
- Certificates of deposit
- Money market collective pools, mutual funds and exchange traded funds

#### Performance Benchmarks

Performance results will be measured in three ways over a full business cycle:

1. The investment objective of the System: 7.75% (actuarial rate of return)
2. A blended benchmark of market indices based on the targeted asset allocation for the System portfolio:

Asset Class	Benchmark	2018 Interim Target
U.S. Equity	Russell 3000 Index	30%
International Equity	MSCI ACWI ex USA IMI	20%
Core Fixed Income	Barclays U.S. Aggregate	10%
Global Opportunistic Fixed Income	Opportunistic Composite: 2/3 Credit Suisse Leveraged Loans, 1/3 ML 91-Day T-Bill	9%
Cash	ML 91-Day T-Bill	1%
Absolute Return	HFRI Fund of Funds Composite	11%
Real Assets	40% NCREIF Timber / 40% Alerian MLP / 20% Infrastructure composite	5%
Private Equity	<b>Total Portfolio:</b> PE composite performance <b>PE Primary:</b> Wilshire 5000 + 3% lagged 1 quarter <b>PE Secondary:</b> Cambridge Private Equity Index	9%
Real Estate	<b>Total Portfolio:</b> Real estate composite performance <b>Real Estate Primary:</b> NCREIF Property Index	5%

The Board adopted a new asset allocation in December 2015 and implemented a transition plan. To accurately and efficiently monitor that transition and the new

### Investment Objectives, Policies, and Guidelines

allocation, the Board has also adopted a benchmark transition plan. This overall weighting will be adjusted annually.

3. The System will be compared to a peer universe of similar sized public pension funds

#### Separate Account Portfolio Guidelines

The following guidelines only apply to separately managed accounts. Mutual funds and collective vehicles are not expected to comply with these guidelines but rather are bound to their fund prospectus for mutual funds and ETFs or the governing documents for collective pools.

#### Equity

An equity manager may not:

- Hold more than 15% of the account value in a single issuer
- Where a sector is greater than 10% of the benchmark, allow that sector to exceed 60% of the portfolio
- Where a sector is 10% or less of the benchmark, allow that sector to exceed 40% of the portfolio
- Invest in international-domiciled securities exceeding 20% of portfolio value in a domestic mandate
- Allow one country to be more than 20 percentage points above the country weighting of the relative benchmark in an international mandate
- Invest in emerging markets exceeding 35% of portfolio value in a developed international mandate

Equity managers are prohibited from investing in the following:

- Private placements
- Unregistered or restricted stock
- Derivatives
- Margin Trading/Short Sales
- Commodities
- Real Estate Property (excluding REITs)
- Guaranteed Insurance Contracts
- Securities issued by Highway Patrol Retirement System or its affiliates.

#### Core Fixed Income

A core fixed income allocation will be diversified as to type of security, issuer, coupon, and maturity. Qualifying bonds, at the time of purchase, will be rated as investment-grade by at least



## Investment Section

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### Investment Objectives, Policies, and Guidelines

two nationally-recognized bond rating services. Generally, the average maturity of a fixed income allocation will be ten years or less, although individual securities may be longer.

No more than ten percent of a fixed income allocation will be invested in the securities of any one issuer and no more than five percent in any one issue, with the exception of U.S. government securities. Diversification of the bond portfolio will be accomplished by investing in a combination of U.S. government bonds, U.S. agency bonds, U.S. corporate bonds, high yield bonds, and non-U.S. bonds.

Managers are prohibited from using derivative instruments.

#### **Manager Selection**

Investment Managers shall be selected in accordance with the Selection of Investment Managers and Agents Policy as well as the Manager Search and Termination Policy.

The Board will give consideration to investments that enhance the welfare of the State of Ohio, and Ohio citizens, where such investments offer safety and quality of return comparable to other investments currently available. Equal consideration will be given to investments otherwise qualifying under this section that involve minority-owned and controlled firms, or firms owned and controlled by women, either alone or in joint venture with other firms.

The Board will, at least annually, establish a policy with the goal to increase utilization of Ohio-qualified investment managers, when an Ohio-qualified investment manager offers quality, services, and safety comparable to other investment managers otherwise available.

The Board will, at least annually, establish a policy with the goal to increase utilization of Ohio-qualified agents for the execution of domestic equity and fixed income trades on behalf of the retirement system, when an Ohio-qualified agent offers quality, services, and safety comparable to other agents otherwise available.

#### **Voting of Proxies**

Investment managers are responsible for voting proxies and should be made in the best interest of investors.

#### **Execution of Security Trades**

The Investment Committee expects the purchase and sale of its securities to be made in a manner designed to receive the combination of best price and execution.

#### **Directed Brokerage**

In separately-managed equity accounts, HPRS investment managers are expected to use brokers that are under contract with HPRS to provide execution-only brokerage. Every five years, these brokers will be reviewed; the Board may consider issuing a Request for Proposal if it is deemed

### Investment Objectives, Policies, and Guidelines

necessary. An investment manager may be excused from the directed brokerage requirement if it can document favorable execution.

#### **Periodic Portfolio and Policy Reviews**

Asset allocation should be reviewed at least annually to ensure that the plan is on track to achieve the investment goals and that all the major assumptions used to establish the plan remain reasonable. A comprehensive review of asset allocation in the form of asset-liability modeling should be conducted every five years, or whenever a major structural change occurs in liabilities or investment assets.

An asset allocation plan may require reconsideration when it becomes apparent that the assets are not keeping pace with the liabilities of a plan. This may occur not only as a result of the assets not performing as expected but also because the liabilities may not be behaving as expected.

To assure the continued relevance of the guidelines and objectives, as established in this investment policy statement, the Board should review the investment policy annually, or as deemed necessary.

#### Investment Policy Revisions

Revised, December 14, 2017  
Revised December 15, 2016  
Revised, December 17, 2015  
Revised, December 18, 2014  
Approved, No Revisions, December 19, 2013  
Revised, February 21, 2013  
Revised, February 23, 2012  
Revised, October 27, 2011  
Revised, August 26, 2010  
Revised, April 22, 2010  
Revised, February 25, 2010  
Revised, April 23, 2009  
Revised, October 25, 2007  
Revised, June 16, 2005  
Revised, June 26, 2003  
Revised, November 15, 2001  
Revised, June 22, 1999  
Revised, March 13, 1997  
Adopted and approved, September 7, 1994  
Revised, June 29, 1994  
Revised, September 5, 1990  
Revised, June 1, 1988  
Adopted and approved, June 11, 1986

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<sup>i</sup> MSCI Emerging Markets and MSCI EAFE Indices

<sup>ii</sup> Source: FactSet

<sup>iii</sup> JP Morgan EMBI Index and Bloomberg Barclays U.S. Corporate High Yield Index

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# **Actuarial Section**

June 19, 2018

The Retirement Board  
Ohio State Highway Patrol Retirement System  
1900 Polaris Parkway, Suite 201  
Columbus, Ohio 43240-4037

Dear Board Members:

The basic financial objective of the Highway Patrol Retirement System (HPRS) 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 HPRS to present and future retirees and beneficiaries.

The financial objective is addressed within the annual actuarial funding valuations. The valuation process develops contribution rates for the pension benefits provided by HPRS (i.e., not retiree health benefits) 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 funding valuations were completed based upon population data, asset data, and plan provisions as of December 31, 2016 and an actuarial funding valuation report was issued as of that date.

In addition to the funding valuation report, separate reports are issued to provide financial reporting information for HPRS in accordance with Governmental Accounting Standards Board (GASB) Statement Nos. 67 and 74. Financial reporting information has been produced based upon a measurement date of December 31, 2017 for GASB Statement Nos. 67 and 74.

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 plan's external auditor audits the actuarial data annually.

The following schedules in the Actuarial Section of the CAFR were prepared based upon certain information presented in the previously mentioned funding and financial reporting valuation reports:

Actuarial Section

Summary of Assumptions

Funding Method, Asset Valuation Method, Interest Rate

Payroll Growth

Probabilities of Age & Service Retirement

Probabilities of Separation from Active Employment Before Age & Service Retirement

Health Care and Medicare

Short-Term Solvency Test

Recent Experience in the Health Care Fund

Membership Data

Analysis of Financial Experience

Supplementary Schedules

Schedule of Funding Progress

Schedule of Employer Contributions

Notes to Trend Data

For funding valuation purposes, 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, subject to an 80% to 120% corridor on market value. The actuarial value of assets is 106% of the market value of assets as of December 31, 2016. For GASB Statement Nos. 67 and 74 purposes, assets are valued on a market basis.

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. These assumptions are adopted by the Board after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the requirements of Statements No. 67 and No. 74 of the Governmental Accounting Standards Board and are in conformity with the Actuarial Standards of Practice issued by the Actuarial 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 assumptions used for the December 31, 2016 funding valuation, GASB Statement No. 74 and GASB Statement No. 67 accounting information were based upon a study of experience during the years 2010 through 2014.

Investment return on a market value basis during 2016 was less than the assumed return. Areas of particular concern include: (1) the pension unfunded actuarial accrued liability is 335% of the covered payroll, and (2) the funded ratio of the pension program is 68% based upon the actuarial value of assets and in particular the retiree and beneficiary portion is only 92% funded. The pension plan has an amortization period of 29 years. Based upon a 4.0% employer contribution rate allocation to the

retiree health plan in calendar year 2017 and 0.0% thereafter, the retiree health plan is expected to remain solvent until 2028. Available resources and projected benefit payouts need to be brought in line with each other in the near future if the retiree health plan is to continue to provide benefits similar to those currently provided.

**Based upon the results of the December 31, 2016 funding valuation, the Highway Patrol Retirement System of Ohio is meeting its basic financial objective with respect to pensions and continues to operate in accordance with actuarial principles of level percent of payroll financing. However, improvement in the funded ratio of the pension program will be important for its long-term financial security. Continued cost containment efforts can have a positive effect on the retiree health plan, but additional contribution income is needed or further benefit reductions will be the result.**

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law.

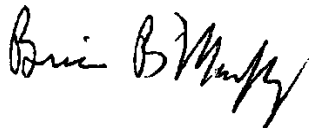
Readers desiring a more complete understanding of the actuarial condition of HPRS are encouraged to obtain and read the complete valuation reports. The material in the Actuarial Section and Financial Section of this CAFR contains some, but not all of, the information in the valuation reports.

Mita D. Drazilov and Brian B. Murphy are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. The signing actuaries are independent of the plan sponsor.

Respectfully submitted,



Mita D. Drazilov, ASA, FCA, MAAA



Brian B. Murphy, FSA, EA, FCA, MAAA

BBM/MDD:mdd





Statement of Actuarial Assumptions and Methods

After consulting with the actuary, these assumptions have been adopted by the Highway Patrol Retirement System Board of Trustees, effective for the year ended December 31, 2015. The assumptions used for funding purposes are the same as those that are used for financial reporting purposes.

**Funding Method**

An entry age normal actuarial cost method of valuation is used in determining benefit liabilities and normal cost. Differences between assumed experience and actual experience (“actuarial gains and losses”) become part of actuarially accrued liabilities. Unfunded actuarially accrued liabilities are amortized to produce payments (principal and interest) that are a level percent of payroll contributions.

**Asset Valuation Method**

The asset valuation method fully recognizes assumed investment income each year. Differences between actual and expected investment income are phased-in over a closed four-year period.

**Investment Return**

The investment return rates used in making valuations are 7.75% for pension assets and 5.0% for OPEB assets, compounded annually (net of investment expenses).

**Payroll Growth**

Base pay increases are assumed to be 3.5% annually, attributable to broad economic effects such as inflation and real wage growth. Additional merit and seniority increases are assumed as follows:

Payroll Growth			
Service Years	Merit & Seniority	Base (Economic)	Total
1 - 2	10.0%	3.5%	13.5%
3 - 5	3.0	3.5	6.5
6 - 10	1.0	3.5	4.5
11 +	0.3	3.5	3.8

**Other Assumptions**

85% of active participants are assumed to be married for purposes of death-in-service benefits and for purposes of retiring with the automatic joint and survivor benefit.

Health care costs are assumed to increase annually by 4.0%, plus an additional declining percentage ranging from 5.0% - 0.5% until 2027.

Each benefit recipient is assumed to be eligible for Medicare at age 65.

Post-employment mortality is based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for females was then established to be 2012. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to the above described tables.

## Actuarial Section

### Statement of Actuarial Assumptions and Methods

Rates of separation from active service before retirement are developed on the basis of actual plan experience.

<b>Probabilities of Separation from Active Employment before Age &amp; Service Retirement</b>					
<i>Percentage of Active Members Separating Within Next Year</i>					
<u>Sample Age</u>	<u>Disability</u>	<u>Death (Men)</u>	<u>Death (Women)</u>	<u>Service</u>	<u>Other</u>
20	0.08%	0.0340%	0.0174%	1	10.00%
25	0.08	0.0419	0.0168	2 - 5	4.00
30	0.23	0.0412	0.0208	6 - 15	1.00
35	0.42	0.0490	0.0305	16 - 20	0.75
40	0.70	0.0581	0.0451	21 & up	0.50
45	0.85	0.0889	0.0691		
50	1.13	0.1593	0.1084		
55	1.32	0.2720	0.1723		

<b>Probabilities of Age &amp; Service Retirement</b>		
<i>Percentage of Eligible Members Retiring Within Next Year</i>		
<u>Retirement Ages</u>	<u>Unreduced Benefit</u>	<u>Reduced Benefit</u>
48	30%	3.0%
49	15	2.0
50	15	2.0
51	15	2.0
52	15	--
53	15	--
54	10	--
55	30	--
56	25	--
57	30	--
58	30	--
59	40	--
60+	100	--

**Short-Term Solvency Test**

The HPRS financing objective is to pay for 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, which is the ultimate test of financial soundness.

A short-term solvency test is one means of checking a system’s progress under its funding program. In a short-term solvency test, the 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, and (3) the liabilities for service already rendered by active members. In a system that has been following the discipline of level percent financing, the liabilities for active member contributions on deposit (column 1 below) and the liabilities for future benefits to present retired lives (column 2 below) will be fully covered by present assets, except in rare circumstances. In addition, the liabilities for service already rendered by active members (column 3 below) will be partially covered by the remainder of the present assets. Generally, if the system has been using level cost financing, the funded portion of column 3 will increase over time.

<b>Short-Term Solvency Test</b>							
Accrued Liabilities and Assets Allocated to Retirement, Survivor, and Disability Allowances							
Year	(1)	(2)	(3)	Valuation Assets (\$)	% of Accrued Liabilities Covered by Reported Assets		
	Active Member Contributions (\$)	Retirees, Beneficiaries, & Deferrals (\$)	Active Members (Employer Financed Portion) (\$)		(1)	(2)	(3)
2011	104,701,161	618,984,073	324,014,452	623,360,121	100	84	-
2012▲	108,311,937	586,311,106	271,687,442	658,428,914	100	94	-
2013▶	113,334,067	601,342,081	274,425,322	690,605,582	100	96	-
2014	117,441,639	622,719,141	272,591,557	712,285,604	100	96	-
2015▶	122,286,821	662,562,480	294,135,296	739,848,920	100	93	-
2016	127,311,764	688,936,795	311,679,368	763,667,712	100	92	-

▲ Plan Amendment – COLA eligibility changed to age 60  
▶ Assumption or method change

<b>Active Member Valuation Data</b>				
Years Ended December 31				
Year	Active Members	Annual Payroll (\$)	Average Annual Salary (\$)	% Increase in Average Pay
2011	1,520	93,126,449	61,267	(0.6)
2012	1,645	98,117,403	59,646	(2.6)
2013	1,613	98,519,844	61,079	2.4
2014	1,622	99,211,756	61,166	0.1
2015	1,621	99,983,224	61,680	0.8
2016	1,670	108,788,871	65,143	5.6

**Retirees and Beneficiaries Added to and Removed from Rolls**

Years Ended December 31

Year	Added to Rolls		Removed from Rolls		Rolls at End of Year		% Increase in Annual Allowances	Average Annual Allowances (\$)
	Number	Annual Allowances (\$)	Number	Annual Allowances (\$)	Number	Annual Allowances (\$)		
2011	73	3,932,508	32	821,472	1,465	51,249,684	6.5	34,980
2012	79	3,380,304	47	983,484	1,497	53,646,504	4.7	35,832
2013	61	3,204,660	35	843,804	1,523	56,007,360	4.4	36,780
2014	66	3,008,568	31	723,492	1,558	58,292,436	4.1	37,416
2015	73	3,102,744	83*	1,671,876	1,548	59,723,304	2.5	38,580
2016	69	3,576,372	37	841,200	1,580	62,458,476	4.6	39,528

\*Includes Alternate Payee records, which were combined with Participant records beginning with December 31, 2015

**Analysis of Financial Experience**

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

Type of Activity	Gain (or Loss) for Year	
	2016	2015
<b>Age &amp; Service Retirements</b> If members retire at older ages or with lower final average pay than assumed, there is a gain -- if younger ages or higher average pays, a loss.	\$244,658	\$(365,491)
<b>Disability Retirements</b> If disability claims are less than assumed, there is a gain - if more claims, a loss.	76,712	419,882
<b>Death-in-Service Benefits</b> If survivor claims are less than assumed, there is a gain - if more claims, a loss.	402,882	(50,114)
<b>Withdrawal from Employment</b> If more liabilities are released by withdrawals than assumed, there is a gain -- if smaller releases, a loss.	1,912,187	1,272,449
<b>Pay Increases</b> If there are smaller pay increases than assumed, there is a gain - if greater increases, a loss.	(11,313,936)	6,155,599
<b>Investment Income</b> If there is greater investment return on pension assets than assumed, there is a gain - if less return, a loss.	(4,839,839)	1,471,554
<b>Other</b> Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, valuation methods, and other events.	(5,778,914)	5,683,114
<b>Gain (or Loss) During Year From Experience</b>	(\$19,296,250)	\$14,586,993
<b>Non-Recurring Items</b> Adjustments for benefit and assumption changes.	0	(48,811,895)
<b>Composite Gain (or Loss) During Year</b>	\$(19,296,250)	\$(34,224,902)

### Summary of Plan Provisions

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#### **Purpose**

In 1941, the Highway Patrol Retirement System (HPRS) was created by the Ohio General Assembly to provide for retirement and survivor benefits for members and dependents.

#### **Administration**

The general administration and management of HPRS are vested in the Highway Patrol Retirement System Board of Trustees under Ohio Revised Code Chapter 5505. The eleven-member Board consists of the Superintendent of the State Highway Patrol, three appointed members, five elected active members, and two elected retired members.

The appointed members are investment experts designated by the Governor, the Treasurer of State, and the General Assembly. The active members are elected to four-year terms by members of the plan. Any contributing member is eligible to become an active member candidate, and each contributing member is eligible to vote in the active member election process. Any retiree who is an Ohio resident and who has not served as a statutory or active member of the Board during the past three years is eligible to become a retired member candidate. Each retiree is eligible to vote in the retired member election.

The Superintendent of the State Highway Patrol serves by virtue of the office held. A chairperson and vice-chairperson are elected by the Board annually. All regular Board meetings are considered to be public meetings. While the Board members serve without compensation, they are not expected to suffer any loss because of absence from regular employment while engaged in official Board duties. In addition, the members of the Board are reimbursed for actual and necessary expenses.

#### **Employer Contributions**

Ohio law requires that the Board certify the employer contribution rate to the Office of Budget and Management in even-numbered years. The employer rate may not be lower than the member rate, nor may it exceed three times the member rate. The employer contribution rate was 26.5% in 2017.

#### **Member Contributions**

Each member of HPRS, through payroll deduction, must contribute the legally established contribution rate as a percentage of salary. Individual member accounts are maintained by HPRS and, upon termination of employment, the amount contributed is refundable in lieu of the payment of a pension benefit. The member contribution rate was 12.5% in 2017.

#### **Service Credit**

Prior to retirement, the following types of additional service credit may be purchased: (1) military service, (2) prior refunded full-time service as a contributing member of the State Highway Patrol Retirement System, the Ohio Police & Fire Pension Fund, the State Teachers Retirement System of Ohio, the School Employees Retirement System of Ohio, the Ohio Public Employees Retirement System, and the Cincinnati Retirement System. Military service and prior refunded full-time service in HPRS and the Ohio Police & Fire Pension Fund may be used to meet the minimum service requirement in order to qualify for unreduced pension benefits. In the case of prior service credit that was not refunded, service credit may be transferred directly from another Ohio retirement system to HPRS.

Summary of Plan Provisions

**Retirement**

**Age and Service Retirement**

Upon retirement from active service, a member is eligible to receive a pension by achieving a minimum age and service requirement, as follows:

Age	Service Credit
52	20 years
48*	25 years

\*Age 52 for troopers hired after January 1, 2020

A member may retire at age 52 to age 60, provided he has 20 or more years of service, or at age 48 with 25 or more years of contributing service. For members hired after January 1, 2020, 52 is the minimum retirement age. The member’s pension equals the sum of 2.5% of final average salary times years of service not in excess of 20, 2.25% of final average salary times years of service in excess of 20 but not in excess of 25, and 2% of final average salary times years of service in excess of 25. The maximum pension payable is 79.25% of the member’s final average salary. A member must retire upon attainment of age 60 or completion of 20 years of service, whichever occurs later.

The final average salary, which includes base pay, longevity pay, hazard duty pay, shift differential, and professional achievement pay, is the average of a member’s five highest years of salary.

Benefit payments become effective the day following the last day of employment and are payable monthly throughout the retiree’s lifetime.

**Deferred Retirement**

A member who has acquired 20 years of service and retires is eligible to receive a pension computed in the same manner as an age and service pension at the attainment of age 52. A reduced benefit is payable if the retirant elects to receive a benefit after age 48 and prior to age 52. The reduction is waived for members with 25 or more years of service.

**Reduced Retirement**

A member who has acquired at least 20 but less than 25 years of service and is between the ages of 48 and 52 is eligible to receive a pension computed in the same manner as an age and service pension but reduced as follows:

Age	Percent of Age & Service Pension
48	75 %
49	80 %
50	86 %
51	93 %
52	100%

### Summary of Plan Provisions

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The election to receive a reduced pension may not be changed once a retiree has received a benefit payment.

#### **Other Pension**

A member who has acquired 15 years of service and who voluntarily resigns or is discharged is eligible to receive a pension equal to 1.5% of final average salary multiplied by total service. The pension shall begin the first month after attainment of age 55, provided the member does not withdraw his accumulated contributions from the employees' savings fund.

#### **Resignation or Discharge**

With less than 20 years of service credit, a member may not collect a pension if "dishonesty, cowardice, intemperate habits, or conviction of a felony" was the basis for discharge or resignation from the Ohio State Highway Patrol.

#### **Disability Retirement**

A member who retires as the result of a disability that was incurred in the line of duty is eligible to receive a pension that is the larger of (1) 61.25% of average final salary, or (2) the age and service pension. A member who retires as the result of a disability that was not incurred in the line of duty is eligible to receive a pension that is the larger of (1) 50% of average annual salary or (2) the age and service pension.

#### **Deferred Retirement Option Plan (DROP)**

A member who is eligible to retire with an unreduced pension benefit may enter the DROP. The member will continue to work for the Ohio State Highway Patrol. For actuarial purposes, a DROP member is considered retired; however, instead of receiving a monthly pension benefit, the member begins to accrue funds in a tax-deferred account. The DROP account is funded by the member's continuing active contributions and a pension accrual, as well as interest that accrues on these amounts.

A member may participate in DROP until age 60, but for no more than eight years. The minimum participation period is two years for members who enter the DROP at age 52 or more and three years for members who enter the DROP before age 52. A member who terminates employment earlier than the minimum participation period will forfeit any accrued interest.

When a DROP member terminates employment with the Ohio State Highway Patrol, the member will begin to receive the monthly pension benefit that had previously been funding the DROP account. In addition, after the minimum participation period, the proceeds of the DROP account will be rolled over into a qualified plan or paid to the member in a lump sum, an annuity, or a combination of these distribution types.

#### **Payment Plans**

Each retirement applicant must select a benefit payment plan. Regardless of the plan selected, a survivor benefit is paid to an eligible survivor of a deceased active member or retiree. The plan options are as follows:

### Summary of Plan Provisions

#### **Plan 1 - Single Life Annuity**

This plan pays the highest monthly benefit, calculated as a percentage of final average salary, and is limited to the lifetime of the retiree. A member who receives a disability retirement may only receive a single life annuity.

#### **Plan 2 - Joint and Survivor Annuity**

This plan pays a reduced monthly benefit for a member's lifetime and provides for a monthly benefit to a surviving beneficiary.

#### **Plan 3 - Life Annuity Certain and Continuous**

This plan is an annuity, payable for a guaranteed minimum period. If a retiree dies before the end of the period, the pension benefit is paid to the designated beneficiary for the remainder of the period.

#### **Partial Lump-Sum (PLUS) Distribution**

In addition to selecting one of the three retirement payment plans, a retiree may elect to receive a lump-sum cash payment, either as a taxable distribution, or as a rollover to a tax-qualified plan. Following this payment, a retiree will receive a reduced monthly benefit for life. To be eligible for a PLUS distribution, a retiree must have attained age 51 with at least 25 years of total service, or age 52 with at least 20 years of total service. The lump-sum amount may not be less than six times the monthly single life pension and not more than 60 times the monthly single life pension.

#### **Survivor Benefits**

A surviving spouse of a deceased retiree, or of an active member who was eligible to receive a retirement pension at the time of death, receives a monthly benefit equal to one-half the deceased member's monthly pension benefit (minimum, \$900). A surviving spouse of an active member who was not eligible for a retirement benefit at the time of death receives a monthly survivor benefit of \$900.

Each surviving dependent child receives \$150 monthly until age 18. If the child is a full-time student, this benefit continues until age 23. A surviving qualified disabled child receives this benefit for life.

#### **Health Care**

A comprehensive medical health care plan is currently offered to all benefit recipients and dependents. Benefit recipients may elect to cover spouses and dependent children by authorizing the appropriate premium deduction.

Dental and vision coverage is also available to benefit recipients and dependents. The Board, which has the authority to implement changes, annually evaluates the premiums and plan design.

#### **Medicare**

A portion (annually set by the Board) of the Medicare Part B basic premium amount may be reimbursed to eligible benefit recipients upon proof of coverage. The reimbursement amount was \$0 monthly for 2017.



Summary of Plan Provisions

**Cost of Living (COLA)**

The Board has been vested with the responsibility to establish the COLA rate each year between 0.0 and 3.0%. In October 2016, the Board set a COLA rate of 1.25%, effective January 1, 2017. Various benefit recipients are eligible for a COLA according to the table below:

<b>Cost of Living Adjustment Eligibility</b>		
<b>Type of Benefit Recipient</b>	<b>Pension Effective Date Prior to January 7, 2013</b>	<b>Pension Effective Date On or After January 7, 2013</b>
Service Retirant / DROP Participant	The later of age 53 or the 13 <sup>th</sup> month after benefit commences	The later of age 60 or the 13 <sup>th</sup> month after benefit commences
Disability Retirant	The earlier of age 53 or the 61 <sup>st</sup> month after the benefit commences	
Beneficiary / Survivor	The 13 <sup>th</sup> month after the benefit commences	

**Death After Retirement**

Upon the death of a retiree, a lump-sum payment of \$5,000 is paid to the surviving spouse or to the retiree’s estate if there is no surviving spouse.

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# **Statistical Section**

### Introduction

The objectives of the statistical section are to provide financial statement users with additional historical perspective, context, and relevant details that will assist in using information in the financial statements, notes to the financial statements, and required supplementary information in order to better understand and assess HPRS's overall financial condition.

The schedules, beginning on Page 95, show financial trend information that will assist users in understanding and assessing how HPRS's financial condition has changed over the past ten years. The financial trend schedules presented are --

- Changes in Fiduciary Net Position
- Benefit Deductions from Fiduciary Net Position by Type

The schedules, beginning on Page 96, show demographic and economic information. This information is designed to assist in understanding the environment in which HPRS operates. The demographic and economic information and the operating information presented include --

- Principal Participating Employer
- Benefit Recipient by Type of Benefit
- Average Benefit Payments

<b>Changes in Fiduciary Net Position – Pension</b>										
Years Ended December 31										
<b>Additions</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Employer contributions	\$26,109,836	\$25,383,684	\$22,895,242	\$22,325,421	\$22,908,182	\$23,766,361	\$22,966,338	\$21,211,944	\$20,453,914	\$20,302,216
Member contributions	14,504,919	14,101,170	12,711,676	10,637,385	9,082,857	8,755,937	8,348,577	8,295,882	8,624,025	8,870,985
Transfers from other systems	619,110	773,206	947,265	586,929	1,353,520	557,316	608,366	329,335	1,009,422	632,894
Investment income, net	101,528,022	48,099,287	(4,465,153)	44,848,656	115,686,752	63,509,018	(16,385,745)	72,161,170	109,493,243	(207,583,959)
<b>Total additions</b>	<b>\$142,761,887</b>	<b>\$88,357,347</b>	<b>\$32,089,030</b>	<b>\$78,398,391</b>	<b>\$149,031,311</b>	<b>\$96,588,632</b>	<b>\$15,537,536</b>	<b>\$101,998,331</b>	<b>\$139,580,604</b>	<b>(\$177,777,864)</b>
<b>Deductions</b>										
Benefits paid to participants	75,395,901	67,439,444	65,828,374	63,329,792	60,955,916	58,297,304	55,638,322	52,498,558	49,884,126	47,939,139
Member contribution refunds	1,074,973	1,730,725	857,626	2,177,476	943,433	179,614	451,682	476,936	1,076,685	570,827
Administrative expenses	1,436,879	1,352,567	1,084,161	1,031,473	909,929	859,477	948,319	637,943	758,818	613,447
Transfers to other systems	140,562	416,679	160,888	165,945	467,462	377,994	1,797,986	566,615	406,147	282,987
<b>Total deductions</b>	<b>\$78,048,315</b>	<b>\$70,939,415</b>	<b>\$67,931,049</b>	<b>\$66,704,686</b>	<b>\$63,276,740</b>	<b>\$59,714,389</b>	<b>\$58,836,309</b>	<b>\$54,180,052</b>	<b>\$52,125,776</b>	<b>\$49,406,400</b>
<b>Change in pension net position</b>	<b>\$64,713,572</b>	<b>\$17,417,932</b>	<b>(\$35,842,019)</b>	<b>\$11,693,705</b>	<b>\$85,754,571</b>	<b>\$36,874,243</b>	<b>(\$43,298,773)</b>	<b>\$47,818,279</b>	<b>\$87,454,828</b>	<b>(\$227,184,264)</b>

<b>Changes in Fiduciary Net Position – OPEB</b>										
Years Ended December 31										
<b>Additions</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Employer contributions	\$4,640,177	\$4,511,127	\$4,068,887	\$4,325,434	\$3,658,189	\$1,679,422	\$1,622,889	\$3,227,905	\$4,281,052	\$4,350,474
Investment income, net	14,424,489	6,877,607	(647,230)	6,790,553	17,885,294	10,192,983	(2,752,009)	17,734,416	21,030,418	(30,809,552)
Health care premiums	3,885,594	2,918,533	2,397,253	1,756,117	1,570,692	1,283,866	1,274,337	911,076	902,310	784,499
Retiree Drug Subsidy	1,418,110	1,082,402	1,140,016	647,225	446,616	500,134	422,640	471,909	513,668	317,381
Prescription Drug Rebates	719,538	351,087	428,517	886,661	612,325	356,377	366,316	-	-	-
Medicare D Refunds	-	-	-	-	1,521	17,090	6,567	-	-	-
<b>Total additions</b>	<b>\$25,087,908</b>	<b>\$15,740,756</b>	<b>\$7,387,443</b>	<b>\$14,405,990</b>	<b>\$24,174,637</b>	<b>\$14,029,872</b>	<b>\$940,740</b>	<b>\$22,345,306</b>	<b>\$26,727,448</b>	<b>(\$25,357,198)</b>
<b>Deductions</b>										
Health care expenses	15,456,987	14,594,984	13,759,103	14,055,881	13,703,605	12,302,980	12,360,917	11,447,630	9,801,853	9,648,543
Administrative expenses	204,143	193,401	157,150	156,176	140,676	137,943	159,271	106,450	123,210	98,082
<b>Total deductions</b>	<b>\$15,661,130</b>	<b>\$14,788,385</b>	<b>\$13,916,253</b>	<b>\$14,212,057</b>	<b>\$13,844,281</b>	<b>\$12,440,923</b>	<b>\$12,520,188</b>	<b>\$11,554,080</b>	<b>\$9,925,063</b>	<b>\$9,746,625</b>
<b>Change in OPEB net position</b>	<b>\$9,426,778</b>	<b>\$952,371</b>	<b>(\$6,528,810)</b>	<b>\$193,933</b>	<b>\$10,330,356</b>	<b>\$1,588,949</b>	<b>(\$11,579,448)</b>	<b>\$10,791,226</b>	<b>\$16,802,385</b>	<b>(\$35,103,823)</b>

<b>Benefit Deductions from Net Position by Type - Pension</b>										
Years Ended December 31										
Type of Benefit*	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Age & Service	\$63,909,049	\$55,912,247	\$54,637,611	\$52,593,663	\$50,462,318	\$47,725,907	\$46,540,462	\$43,425,529	\$41,439,766	\$44,842,690
Reduced	1,987,800	2,180,522	2,192,201	2,186,653	2,224,182	2,777,829	1,829,190	1,865,761	1,828,296	1,833,554
Disability	4,710,650	4,496,025	4,381,011	4,270,957	4,068,926	3,840,068	3,537,849	3,305,364	3,044,325	2,927,862
Survivor	4,688,402	4,765,650	4,307,551	4,208,519	4,080,490	3,803,500	3,670,821	3,846,904	3,496,739	3,575,139
Death Benefits	100,000	85,000	110,000	70,000	120,000	150,000	60,000	55,000	75,000	80,000
<b>Total Pension Benefits</b>	<b>\$75,395,901</b>	<b>\$67,439,444</b>	<b>\$65,828,374</b>	<b>\$63,329,792</b>	<b>\$60,955,916</b>	<b>\$58,297,304</b>	<b>\$55,638,322</b>	<b>\$52,498,558</b>	<b>\$49,884,126</b>	<b>\$53,259,245</b>

\*Previous versions of this schedule included an “Early” category, which has now been combined with “Age & Service”, since the criterion for eligibility is the same.

<b>Benefit Deductions from Net Position by Type - OPEB</b>										
Years Ended December 31										
Type of Benefit	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Medical	\$8,091,247	\$7,331,598	\$7,087,732	\$7,623,999	\$7,872,163	\$6,393,584	\$6,755,757	\$6,380,295	\$4,983,739	\$5,087,073
Wellness	53,566	31,455	68,263	48,728	53,440	24,604	95,210	57,747	86,007	79,679
Prescription drugs	6,488,074	6,115,493	5,245,815	4,722,044	4,110,260	4,301,088	4,053,343	3,709,855	3,430,089	3,274,896
Medicare-B reimbursement	-	311,820	601,860	874,164	896,970	839,451	770,183	713,317	673,450	632,293
Dental	642,998	621,659	593,016	619,286	612,575	594,292	528,824	453,276	495,272	453,003
Vision	181,102	182,959	162,417	167,660	158,197	149,962	157,600	133,140	133,296	121,599
Total	\$15,456,987	\$14,594,984	\$13,759,103	\$14,055,881	\$13,703,605	\$12,302,981	\$12,360,917	\$11,447,630	9,801,853	\$9,648,543
Member premiums/adjustments	(6,023,241)	(4,352,023)	(3,965,786)	(3,290,003)	(2,631,154)	(2,157,466)	(2,069,859)	(1,382,985)	(1,415,978)	(1,101,880)
<b>Net paid by HPRS</b>	<b>\$9,433,746</b>	<b>\$10,242,961</b>	<b>\$9,793,317</b>	<b>\$10,765,878</b>	<b>\$11,072,451</b>	<b>\$10,145,515</b>	<b>\$10,291,058</b>	<b>\$10,064,645</b>	<b>\$8,385,875</b>	<b>\$8,546,663</b>

<b>Principal Participating Employer</b>					
2008-2017					
Year	Participating Government*	Covered Employees	Year	Participating Government*	Covered Employees
2017	Ohio State Highway Patrol	1,650	2012	Ohio State Highway Patrol	1,645
2016	Ohio State Highway Patrol	1,670	2011	Ohio State Highway Patrol	1,520
2015	Ohio State Highway Patrol	1,621	2010	Ohio State Highway Patrol	1,537
2014	Ohio State Highway Patrol	1,622	2009	Ohio State Highway Patrol	1,547
2013	Ohio State Highway Patrol	1,613	2008	Ohio State Highway Patrol	1,544

\*HPRS is a single-employer pension system; 100% of members are employed by the Ohio State Highway Patrol.

<b>Benefit Recipients by Type of Benefit</b>															
December 31, 2017															
<b>Monthly Benefit</b>	<b>Number of Benefit Recipients</b>	<b>Type of Benefit</b>					<b>Unmodified</b>	<b>Retirement Option</b>							
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	
Deferred	11	-	-	-	-	-	-	-	-	-	-	-	-	-	-
\$1 - 250	22	-	-	-	22	-	22	-	-	-	-	-	-	-	-
251-500	5	-	-	-	-	5	5	-	-	-	-	-	-	-	-
501 - 750	7	-	-	-	-	7	7	-	-	-	-	-	-	-	-
751 - 1000	24	-	-	-	17	7	24	-	-	-	-	-	-	-	-
1001 - 1250	55	2	-	1	45	7	55	-	-	-	-	-	-	-	-
1251 - 1500	101	-	6	1	84	10	100	1	-	-	-	-	-	-	-
1501 - 1750	78	4	16	1	53	4	77	-	1	-	-	-	-	-	-
1751 - 2000	73	20	15	10	22	6	72	-	1	-	-	-	-	-	-
2001 - 2250	47	20	10	2	12	3	46	1	-	-	-	-	-	-	-
2251 - 2500	60	14	12	23	10	1	59	-	1	-	-	-	-	-	-
2501 - 2750	60	33	8	13	6	-	59	1	-	-	-	-	-	-	-
2751 - 3000	94	64	4	25	1	-	88	-	6	-	-	-	-	-	-
3001 - 3250	197	169	1	26	1	-	187	1	9	-	-	-	-	-	-
3251 - 3500	177	165	2	9	1	-	168	-	7	-	-	-	-	-	2
Over 3,500	808	780	3	23	1	-	778	4	26	-	-	-	-	-	-
<b>Total</b>	<b>1,819</b>	<b>1,271</b>	<b>77</b>	<b>135</b>	<b>275</b>	<b>50</b>	<b>1,747</b>	<b>8</b>	<b>51</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>

**Type of Benefit Recipient (Includes current members in DROP)\***

- 1 – Age & Service
- 2 – Reduced
- 3 – Disability
- 4 – Survivor
- 5 – Alternate Payee (Division of Property Order)

\* Previous versions of this schedule included an “Early” category, which has now been combined with “Age & Service”, since the criterion for eligibility is the same.

**Retirement Option**

Under the unmodified plan, a surviving spouse receives a 50% continuance (minimum, \$900 monthly)

Under the following options, a surviving spouse qualifies for the above-noted 50% continuance; however, the member’s lifetime benefit is reduced:

- Option 1 – Beneficiary receives 0 to <25% of member’s reduced monthly benefit
- Option 2 – Beneficiary receives 25 to <50% of member’s reduced monthly benefit
- Option 3 – Beneficiary receives 50% or more of member’s reduced monthly benefit
- Option 4 – Beneficiary receives 100% of member’s remaining reduced monthly benefit for 5 years after benefit begins
- Option 5 – Beneficiary receives 100% of member’s remaining reduced monthly benefit for >5 to 10 years after benefit begins
- Option 6 – Beneficiary receives 100% of member’s remaining reduced monthly benefit for >10 to 15 years after benefit begins
- Option 7 – Beneficiary receives 100% of member’s remaining reduced monthly benefit for >15 years after benefit begins

**Average Benefit Payments**  
2008-2017

<b>Retirement During</b>		<b>Years of Credited Service</b>			<b>Overall</b>
		<b>20 to &lt;25</b>	<b>25 to &lt;30</b>	<b>30+</b>	
2017	Average Monthly Benefit	\$3,115	\$3,640	\$4,219	\$3,584
	Average Final Average Salary	\$5,611	\$5,795	\$5,986	\$5,775
	Number of Retirees	13	53	5	71
2016	Average Monthly Benefit	\$2,511	\$3,846	\$4,013	\$3,505
	Average Final Average Salary	\$5,020	\$6,091	\$5,678	\$5,796
	Number of Retirees	13	35	2	50
2015	Average Monthly Benefit	\$2,882	\$3,648	\$3,980	\$3,478
	Average Final Average Salary	\$5,287	\$5,828	\$5,821	\$5,684
	Number of Retirees	13	31	5	49
2014	Average Monthly Benefit	\$3,181	\$4,063	\$6,669	\$4,002
	Average Final Average Salary	\$5,093	\$5,982	\$7,824	\$5,903
	Number of Retirees	6	37	1	44
2013	Average Monthly Benefit	\$3,725	\$4,128	\$4,207	\$3,936
	Average Final Average Salary	\$5,190	\$6,164	\$5,747	\$5,677
	Number of Retirees	13	33	2	48
2012	Average Monthly Benefit	\$3,023	\$3,453	\$4,055	\$3,339
	Average Final Average Salary	\$5,146	\$5,643	\$4,922	\$5,450
	Number of Retirees	15	29	2	46
2011	Average Monthly Benefit	\$2,781	\$3,757	\$4,738	\$3,685
	Average Final Average Salary	\$5,734	\$5,779	\$6,155	\$5,694
	Number of Retirees	8	42	4	54
2010	Average Monthly Benefit	\$2,923	\$3,571	\$5,375	\$3,670
	Average Final Average Salary	\$5,185	\$5,501	\$7,123	\$5,632
	Number of Retirees	7	33	5	45
2009	Average Monthly Benefit	\$2,861	\$4,114	\$5,424	\$3,826
	Average Final Average Salary	\$4,975	\$6,016	\$7,334	\$5,792
	Number of Retirees	9	19	2	30
2008	Average Monthly Benefit	\$2,621	\$3,879	\$4,822	\$3,736
	Average Final Average Salary	\$5,182	\$6,009	\$6,491	\$5,902
	Number of Retirees	6	24	3	33

The table above does not include active DROP participants.

The average monthly benefit is based on the benefit paid at termination from employment, not entry into DROP.



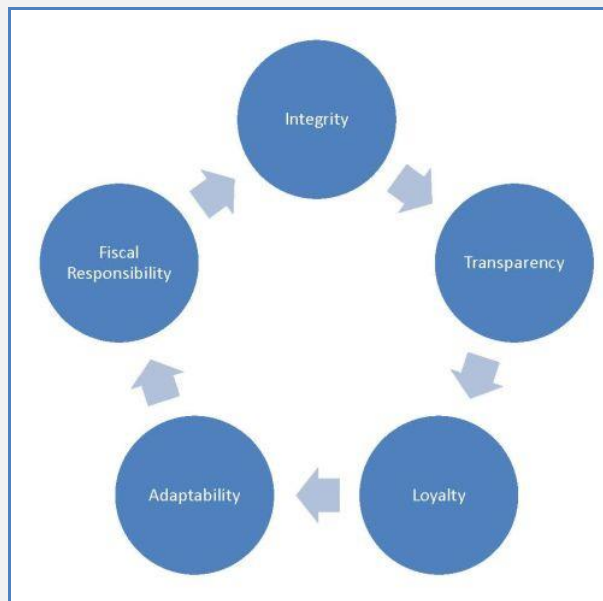
### **HPRS Mission Statement**

*Provide stable pension services that are fiscally responsible, prudently administered, and delivered with understanding and responsiveness to all members and beneficiaries.*

### **HPRS Vision Statement**

*Maintain a financially sound pension system that is a leader in the oversight of our investments and liabilities, providing for the long-term financial wellbeing of our retirement system.*

### **HPRS Values**



Highway Patrol Retirement System  
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Office Hours: 8:00 am to 4:30 pm

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# Dave Yost • Auditor of State

## OHIO STATE HIGHWAY PATROL RETIREMENT SYSTEM

### FRANKLIN COUNTY

#### CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
SEPTEMBER 4, 2018