

Honesty and Integrity

We conduct ourselves
at **ALL** times
in an **honest** and **professional** manner.

We interact
with our **customers**
and **service providers**
according to the
highest standards of ethics.



STATE OF OKLAHOMA
OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM

November 28, 2008

Letter of Transmittal

To the Board of Trustees and
Members of the Oklahoma Public Employees Retirement System

State law requires that, after July 1 and before December 1 of each year, the Oklahoma Public Employees Retirement System (OPERS) publish an annual report that covers the operation of OPERS during the past fiscal year, including income, disbursements and the financial condition at the end of the fiscal year. This report is published, in part, to fulfill that requirement for the fiscal year ended June 30, 2008. State law also requires that OPERS provide certain information regarding the financial and actuarial condition of OPERS using certain prescribed assumptions as an addendum to the annual report. The Addendum section of this report is provided to fulfill that requirement.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Cole & Reed, P.C., Certified Public Accountants, has issued an unqualified opinion on the Oklahoma Public Employees Retirement Plan's statements of plan net assets as of June 30, 2008 and 2007, and the related statements of changes in plan net assets for the years then ended. The independent auditor's report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the Plan

OPERS is a multiple-employer, cost-sharing public employee retirement plan, which is a defined benefit pension plan. It covers substantially all employees of the State of Oklahoma (the State) except those covered by six other plans sponsored by the State and also covers employees of participating counties and local agencies. The employee and employer contribution rates for each member category are established by the Oklahoma Legislature after recommendation by the OPERS Board of Trustees based on an actuarial calculation which is performed to determine the adequacy of such contribution rates.

Members qualify for full retirement benefits at their specified normal retirement age or, depending upon when they became members, when the sum of the member's age and years of credited service equals 80 or 90. Generally, benefits for state, county, and local agency employees are determined at 2% of the average salary, as defined, multiplied by the number of years of credited service. Members may elect to pay an additional contribution rate to receive benefits using a 2.5% factor for each full year the additional contributions are made. Separate benefit calculations are in effect for elected officials and hazardous duty members.

The Board of Trustees of OPERS consists of thirteen appointed members, some by position and some by association. Those serving through position are a member of the Corporation Commission as selected by the Commission, a member of the Tax Commission as selected by the Tax Commission, the Administrator of the Office of Personnel Management or designee, the State Insurance Commissioner or designee, and the Director of State Finance or designee. Of the remaining members, three are appointed by the Governor, one is appointed by the Supreme Court, two are appointed by the Speaker of the House of Representatives and two are appointed by the President Pro Tempore of the Senate. Qualifications for certain of these appointees include a balance of individuals having experience in investment management, pension management, public fund management, the banking profession or a licensed attorney or a licensed accountant.

Each year, OPERS, along with other state agencies, is required to file a budget work program with the Office of State Finance. This work program, as approved by the Board of Trustees, must include a description of all funds available for expenditure and show spending by major program category. OPERS receives no state appropriations and is funded through employee and employer contributions and investment earnings.

Additionally in each even-numbered year, OPERS, along with other state agencies, must file a strategic plan covering five fiscal years beginning with the next odd-numbered fiscal year. The strategic plan includes a mission statement, the core values and behaviors inherent to operations, and a summary of goals and objectives to be achieved through specific projects outlined for the five-year period. The mission of the OPERS Board and staff is to provide and promote accountable and financially sound retirement programs for Oklahoma's public servants, and the core values and behaviors inherent to agency operations are honesty and integrity, accountability, quality, customer service, teamwork, and workforce development. The summary of goals and objectives outlined in the strategic plan are

- Provide prompt and comprehensive customer service
- Manage the assets of the Plans in a fiscally responsible manner
- Inform and educate all members to help them identify and meet their retirement goals
- Maintain a competent and well-trained workforce
- Achieve and maintain well-funded status to assist the State in paying retirement benefit obligations, and secure changes in plan design that make the plan easier to understand or more equitable without an undue increase in the retirement system's liabilities.

Investments

The standard for OPERS in making investments is to exercise the 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 and unless under the circumstances it is clearly prudent not to do so. Funds of OPERS are invested

solely in the interest of the membership and their beneficiaries, and defraying reasonable expenses of administering OPERS. The Board has established an investment policy and guidelines that identify asset allocation as the key determinant of return and diversification, both by and within asset classes, as the primary risk control element. Passive fund portfolios are considered to be suitable investment strategies, especially in highly efficient markets.

The Board engages outside investment managers to manage the various investment allocations of OPERS. At fiscal year end, the investment portfolio of OPERS was actively managed by three fixed income managers, six domestic equity managers and one international equity manager and passively managed by another investment manager with holdings in one domestic equity index and three international equity index funds.

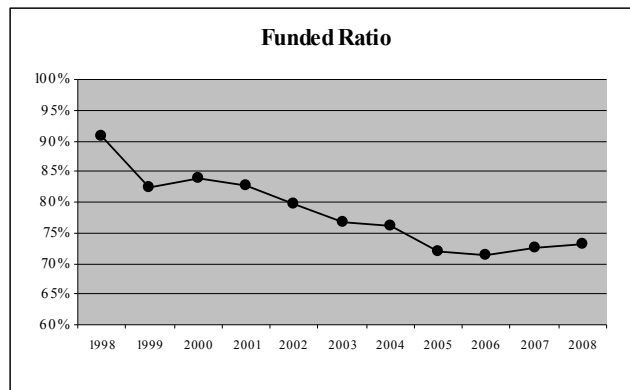
Included in the Investment Section of this report are a summary of the Investment Portfolio by Type and Manager and a comparison of the above amounts to the target allocations, as shown in the Asset Comparison chart. For fiscal year 2008, investments provided a negative 4.2 percent rate of return. The annualized rate of return for OPERS was 6.4 percent over the last three years and 8.7 percent over the last five years.

In recent months the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. Because of these and other economic events the fair value of the Plan's investment portfolio was reduced approximately 9.6 percent at the end of the first quarter when compared to the value at year end. Management and the Plan's investment advisors will continue to monitor these events and their potential impact on the future investment returns of the portfolio and to the extent possible develop strategies to mitigate the impact on the Plan's assets.

Funding

A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. It must also have a revenue source sufficient to keep up with future obligations. The funding objective for OPERS is to meet long-term benefit promises through contributions that remain approximately level as a percent of member payroll. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the level of investment potential. The advantage of a well-funded plan is that the participants can look at assets that are committed to the payment of benefits. The actuarial accrued liability and actuarial value of assets of OPERS as of July 1, 2008 amounted to \$8.9 billion and \$6.5 billion, respectively.

The OPERS funded status has improved in the past two years moving from 71.4 percent at July 1, 2006 to 73.0 percent at July 1, 2008. It was 90.7 percent at July 1, 1998. The Legislature addressed the need for increased funding by increasing the employer contribution rate by 1.5 percent effective July 1, 2005. The next year the rate was increased 1.0 percent for state agencies, and it continues to increase 1.0 percent each year until it reaches 16.5 percent in 2011. That same year for non-state agency employers the combined employee and employer contribution rate



was increased 1.0 percent annually until July 1, 2011 when it will reach 20.0 percent. In 2006 the Legislature increased the state employee contribution rate to be a level 3.5 per cent of salary effective July 1, 2006. Previously in effect was a tiered rate structure of 3.0 per cent on the first \$25,000 of salary and 3.5 per cent on any salary above \$25,000. Also in 2006 the Legislature provided a statutory requirement that retirement bills be analyzed for actuarial fiscal impact and contain adequate funding sources sufficient to pay the cost of the change. A detailed discussion of funding is provided in the Actuarial Section of this report.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Oklahoma Public Employees Retirement System for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2007. This was the eleventh year OPERS has received this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report that satisfies both generally accepted accounting principles and applicable legal requirements.

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

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of OPERS. We wish to express our appreciation to all staff members who assisted and contributed to the preparation of this report. Credit also must be given to the Board of Trustees for their unflinching support for maintaining the highest standards of professionalism in the financial management of the Oklahoma Public Employees Retirement System.

Respectfully submitted,



Tom Spencer
Executive Director



Virginia Lawrence
Director of Finance and Chief Financial Officer



STATE OF OKLAHOMA
OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM

November 28, 2008

Chairman's Letter

Dear OPERS Members:

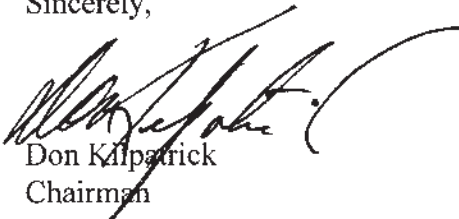
On behalf of the Board of Trustees of the Oklahoma Public Employees Retirement System, (OPERS), I am pleased to present the Comprehensive Annual Financial Report for the fiscal year ending June 30, 2008.

This report is designed to provide a detailed look at the financial, investment and actuarial aspects of OPERS, which continues to be a strong retirement system.

You are encouraged to carefully review this report, as it contains a wealth of information about your retirement system. If you have questions or comments, please feel free to contact us. We can be reached at PO Box 53007, Oklahoma City, Oklahoma 73152-3007. Our telephone number is 405-858-6737 (or toll-free 1-800-733-9008).

I also want to thank the OPERS staff for their diligent work in preparing this report and their commitment to continually improve the administrative operations of OPERS.

Sincerely,



Don Kilpatrick
Chairman

Board of Trustees



Don Kilpatrick
Chairman
Appointee of the President
Pro Tempore of the Senate



Jonathan Barry Forman
Vice Chairman
Appointee of the Governor



Dawn Cash
Appointee of the Speaker
of the House of
Representatives



Jeff Cloud
Member of Corporation
Commission
Selected by Commission



Michael D. Evans
Appointee of the
Supreme Court



Richard Haugland
Appointee of the
Speaker of the House of
Representatives



Oscar B. Jackson, Jr.
Administrator
Office of Personnel Management
Ex Officio



Jerry Johnson
Member Oklahoma
Tax Commission
Selected by Commission



Brian Maddy
Appointee of the President
Pro Tempore of the Senate



DeWayne McAnally
Appointee of the
Governor



Jim McGoodwin
Designee of the State
Finance Director

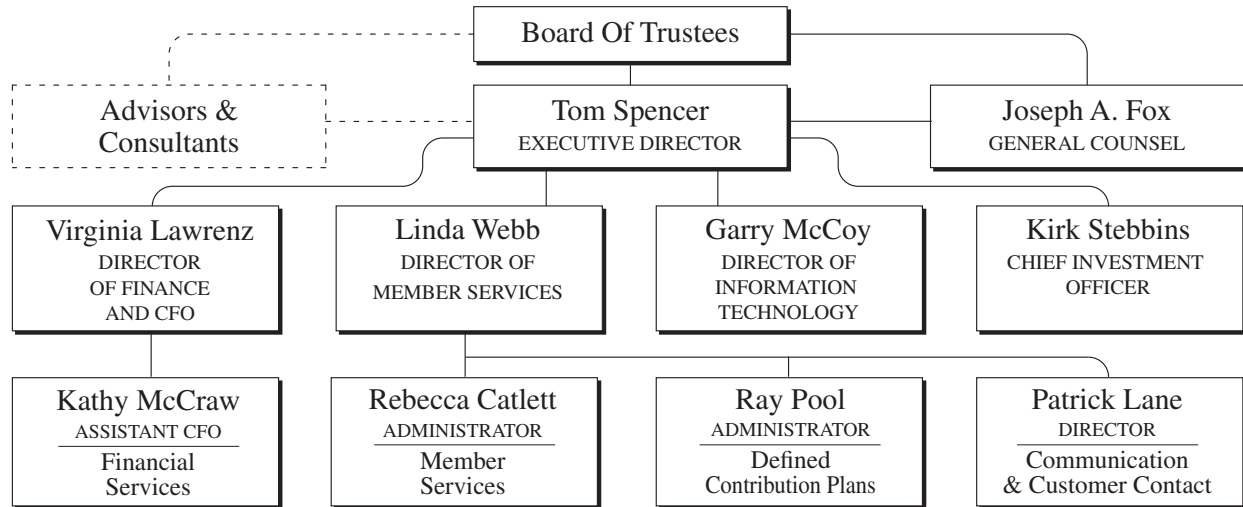


Steve Paris
Appointee of the
Governor



Frank Stone
Designee of the State
Insurance Commissioner,
Kim Holland

Organizational Structure



*Back row, left to right: Tom Spencer, Linda Webb, Kathy McCraw, Joseph Fox
Front row, left to right: Virginia Lawrenz, Garry McCoy, Rebecca Catlett, Ray Pool
Not pictured: Patrick Lane, Kirk Stebbins*

Advisors and Consultants*

Master Custodian
The Northern Trust Company
Chicago, Illinois

Investment Consultant
Strategic Investment Solutions, Inc.
San Francisco, California

Actuarial Consultant
Milliman, Inc.
Omaha, Nebraska

Independent Auditors
Cole & Reed, P.C.
Oklahoma City, Oklahoma

Internal Auditors
Finley & Cook PLLC
Shawnee, Oklahoma

*The Schedules of Investment Expenses and Professional/Consultant Fees in the Financial Section provide more information regarding advisors and consultants.

2008 Legislation

Senate Bill 1641

Revisions to the Calculation of Elected Officials' Benefits

Effective August 21, 2008 the retirement benefit calculation was revised for elected officials. Elected members who join OPERS will have their retirement benefit calculated using the sum of two separate calculations – a 2.0% calculation factor for any non-elected years of service and the elected percentage calculation factor selected by the member ranging from 1.9% to 4.0% for the elected years of service. Previously the retirement benefit calculation was based on the elected percentage calculation factor for the total years of service, elected and non-elected. In addition, OPERS members who are first elected after July 1, 2008 are limited to a benefit that is no more than 100% of their highest monthly salary.

House Bill 3112

Cost of Living Adjustment (COLA)

Any person receiving benefits on or before June 30, 2007 and who continues to receive benefits on or after July 1, 2008 will receive a 4% COLA.

Retirees Returning to Work

OPERS retirees are permitted to return to work with an OPERS participating employer and are subject to the earnings limitations set by Social Security. Effective July 1, 2008 OPERS retirees are prevented from returning to work for the same participating agency employer for a period of one year unless the member waives the receipt of the retirement benefit and returns to work as a regular employee. This restriction is an effort to make pre-arranged re-hiring of retirees less likely and to satisfy the IRS requirement for a “bona-fide separation from employment” in order to receive retirement benefits.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Oklahoma Public Employees Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Charles S. Cox

President

Jeffrey R. Emer

Executive Director