

Retiring Right

A Publication of the Oklahoma Public Employees Retirement System



First Quarter
January 2005

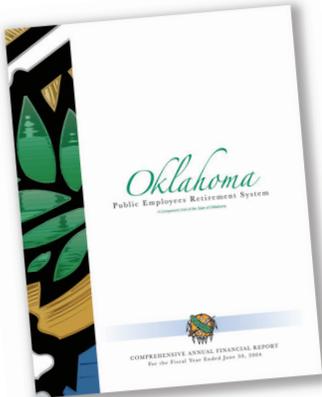
Active Member Edition

Annual Financial Report Summary Edition

For the Fiscal Year Ended June 30, 2004

Introduction

This edition of Retiring Right summarizes the 2004 Comprehensive Annual Financial Report (CAFR) for the Oklahoma Public Employees Retirement System (OPERS). The summary is designed to educate our readers about OPERS and provide summary information about the financial condition of the retirement system.



For a complete copy of the 2004 CAFR, contact your Retirement Coordinator or call OPERS at (800) 733-9008 or (405) 858-6737. You may also view or download a copy from our website at

www.opers.state.ok.us. The

complete report provides detailed information about the financial, investment, and actuarial aspects of the retirement plan. The report also includes administrative and statistical information about OPERS.

About OPERS

OPERS was established in 1964 by the Oklahoma Legislature. Its mission is to provide and promote accountable and financially sound retirement programs for its members. As

of June 30, 2004, OPERS consisted of 260 participating employers, 42,998 active members, 5,482 terminated vested participants and 22,990 retirees and beneficiaries.

Also in This Issue:

- Page 2** The Director's Corner
- Page 3** Identity Theft and Your Social Security Number
- Page 4** 2005 Pre-Retirement Seminars

Statement of Plan Net Assets

A summary of OPERS net assets held in trust for benefits on June 30, 2004, 2003 and 2002 is shown below. As of June 30, 2004, OPERS net assets were more than \$5.1 billion.

	(\$ millions)		
	YEARS ENDED JUNE 30,		
	2004	2003	2002
Cash and cash equivalents	\$ 20.7	\$ 66.9	\$ 35.5
Receivables	240.5	437.3	155.5
Investments	5,342.6	4,668.5	4,447.4
Other assets	0.6	0.5	0.6
Liabilities	(478.0)	(554.1)	(153.4)
	<u>\$ 5,126.4</u>	<u>\$ 4,619.1</u>	<u>\$ 4,485.6</u>

Additions to Plan Net Assets

OPERS is funded through a combination of member contributions, employer contributions and investment earnings. The decrease in member and employer contributions is due primarily to decreases in the salary base on which contributions were calculated and fewer active members. Net investment income increased due primarily to the appreciation of the fair value of the Plan's investments which reflects the improvements in the total US equity markets.

	(\$ millions)		
	YEARS ENDED JUNE 30,		
	2004	2003	2002
Member contributions	\$ 48.4	\$ 50.1	\$ 50.8
Employer contributions	133.5	137.5	139.6
Net investment income (loss)	636.5	240.4	(250.8)
	<u>\$ 818.4</u>	<u>\$ 428.0</u>	<u>\$ (60.4)</u>

The Director's Corner

by Tom Spencer, OPERS Executive Director

In my last column, I told you about our basic retirement benefit. It's a "defined benefit" because no matter how the financial markets perform, we get a specific monthly pension payment after we retire for our lifetime. Defined benefit programs require adequate funding to avoid increasing the State's debt to pay future benefits, and OPERS' funding has been in a state of decline for several years. In this column I want to suggest that pushing for better benefits in the face of inadequate funding could kill the "golden goose" of a defined benefit plan.

In case you don't know, there is a national push to do away with defined benefit ("DB") programs and replace them with defined contribution plans. Defined contribution ("DC") plans are like 401(k)'s for public employees. Employer and employee contributions go into an account, and your ultimate retirement will be determined by how well the financial markets perform. If you have a SoonerSave account now, it would operate in much the same way. These plans are not all bad since they are far more portable and flexible than DB plans. However, you as a member are taking all of the investment risk instead of the State or the retirement system. The effort to do away with DB plans is running parallel with the effort to "privatize" the Social Security system. This is the push to have individual Social Security accounts with individual investment discretion over the funds instead of benefits based on a defined formula.

One of the best arguments against DB plans is to point to the unfunded liabilities of these DB plans. There are a number of state legislatures and retirement plans around the country that continue to increase benefits without increasing contributions to pay for them. The result is that these plans owe far more in benefit promises than they have assets to pay for them.

Unfortunately, Oklahoma is a textbook example of poor funding. In the last Wilshire Report issued on March 12, 2004 by Wilshire Associates, Inc., Oklahoma ranked 48th out of 50 states in funding ratios if you combine all of the state retirement systems together. Oklahoma owes \$9.6 billion more on its pension promises than it has assets to pay them. Certainly the much-publicized Teachers' Retirement System in Oklahoma weighs that number down, but OPERS ranked 103rd out of the 123 systems surveyed. OPERS alone had an unfunded liability at around \$2 billion.

We need to fix what we have before increasing retirement benefits and increasing the liabilities that go with them. If we don't adequately fund our retirement systems first, those who would destroy our defined benefit plans will have an excellent argument to switch to defined contribution plans to stop the State's mounting unfunded liabilities.

Legislation

Several changes affecting OPERS were enacted by the 2004 Oklahoma Legislature. These changes include a cost of living adjustment for retirees and, as mentioned in the Funding section, the graduated employer contribution rate increases beginning July 1, 2005.

Deductions From Plan Net Assets

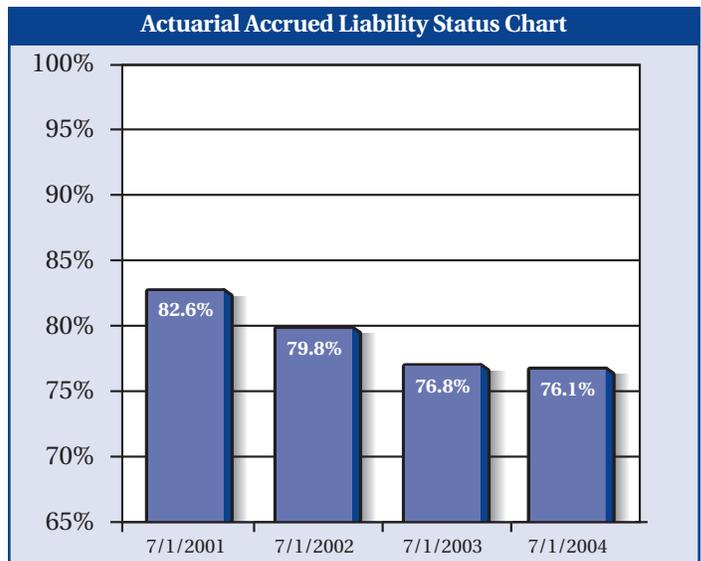
Deductions from plan net assets are incurred primarily for the purpose for which OPERS was created, namely the payment of benefits to retirees. Retirement, death and survivor benefits increased primarily due to the increase in the number of retired members and an increase in the average monthly benefits of retired members. Refunds and withdrawals increased as more participants withdrew their contributions on severance of service. Administrative expenses for the current fiscal year increased slightly due to increases in professional services and miscellaneous expenses.

	(\$ millions)		
	YEARS ENDED JUNE 30,		
	2004	2003	2002
Retirement, death & survivor benefits	\$ 297.8	\$ 282.5	\$ 257.9
Refunds and withdrawals	9.8	8.8	8.3
Administrative expenses	3.5	3.2	3.2
	<u>\$ 311.1</u>	<u>\$ 294.5</u>	<u>\$ 269.4</u>

Funding

A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. 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 the assets that are committed to the payment of benefits. The actuarial accrued liability and actuarial value of assets of OPERS as of July 1, 2004 amounted to \$7.1 billion and \$5.4 billion, respectively.

The OPERS funded status has been steadily declining over the last six years. At July 1, 2004, the funded ratio is 76.1% compared to 90.7% at July 1, 1998. In 2003 the Legislature authorized a gradual increase of employer contributions to OPERS, scheduled to begin July 1, 2006. This past session the Legislature moved the increase to July 1, 2005. It will go up another 1.5% that year and go up to a maximum of 16.5% for state agencies.



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 with like aims. In addition, funds are to be diversified so as to minimize the risk of large losses, 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 for the exclusive purpose of providing benefits to such membership and their beneficiaries and defraying reasonable expenses of administrating OPERS. The Board of Trustees has established an investment policy and guidelines which provide for the delegation of investment authority to professional investment advisors. Outside investment advisors execute the investment policy in accordance with the statutory authority, the Board policy and their respective guidelines, but are to use full discretion within the policy and guidelines.

At fiscal year end, the investment portfolio of OPERS was managed by 11 investment managers in the categories and amounts shown in the pie chart.

For fiscal year 2004, investments provided a 14.0 percent rate of return. The annualized rate of return for OPERS over the last three years was 4.6 percent and 3.4 percent over the last five years.

Identity Theft and Your Social Security Number

Identity theft is one of the fastest growing crimes in America. Thieves with your Social Security number can use it to gain access to your personal information. They can apply for credit cards – and not pay the bills – and you may not know until you get mysterious bills or are turned down for credit. People whose identities have been stolen can spend months or years - and their hard-earned money - cleaning up the mess thieves have made of their good name and credit record.

Your Social Security number is confidential and OPERS will not give it to anyone, except when authorized by law. Be careful about sharing your number with anyone who asks for it (even when you are provided with a benefit or service).

According to the Social Security Administration, identity thieves get your personal information by:

- Stealing wallets, purses or mail (credit card statements or pre-approved credit offers, bank statements, tax information, etc);
- Stealing personal information you provide to an unsecured site on the Internet;
- Sorting through trash for personal data;
- Posing as someone who legitimately needs information about you (employers, landlords, etc); or
- Buying personal information from “inside sources” – like paying a store employee for information on your account.

Here are the steps the Federal Trade Commission says to take if you think your identity has been stolen:

1. Contact the fraud departments of any one of the three major credit bureaus to place a fraud alert on your credit file. The fraud alert requests creditors to contact you before opening any new accounts or making any changes to your existing accounts. As soon as the credit bureau confirms your fraud alert, the other two credit bureaus will be auto-

matically notified to place fraud alerts, and all three credit reports will be sent to you free of charge.

2. Close the accounts that you know or believe have been tampered with or opened fraudulently. Use the FTC’s ID Theft Affidavit when disputing new unauthorized accounts.
3. File a police report. Get a copy of the report to submit to your creditors and others that may require proof of the crime.
4. File your complaint with the Federal Trade Commission. The FTC maintains a database of identity theft cases used by law enforcement agencies for investigations. Filing a complaint also helps them learn more about identity theft and the problems victims are having so that they can better assist you.

Credit Bureaus	
Equifax	www.equifax.com Report fraud: 1-800-525-6285 Order a credit report: 1-800-685-1111 P.O. Box 740241 Atlanta, GA 30374-0241
Experian	www.experian.com Report fraud: 1-888-397-3742 Order a credit report: 1-888-EXPERIAN (1-888-397-3742) P.O. Box 1017 Allen, TX 75013-0949
TransUnion	www.tuc.com Report fraud: 1-800-680-7289 Order a credit report: 1-800-916-8800 Fraud Victim Assistance Department P.O. Box 6790 Fullerton, CA 92834
Note: One of the provisions of the Fair and Accurate Credit Transactions Act (enacted in 2003) requires the three major credit reporting agencies to provide consumers with a free copy of their own credit report every 12 months.	

2005 Pre-Retirement Seminars

The OPERS pre-retirement seminars are designed for those who will retire in 2 years or less. For several years, every scheduled seminar has been full and we have received a more than 98% satisfaction rating from participants. In our presentations, we discuss:

- Retirement Eligibility
- Benefit Calculations
- Retirement Options
- Application Process
- Health Insurance (information provided by OSEEGIB)
- Taxes
- SoonerSave

If you are very close to retiring with OPERS and want to enroll in a pre-retirement seminar, you can call us at 1-800-733-9008. **Please make note of the day each seminar opens for enrollment.**

2005 Seminar Schedule		
Seminar Date	Seminar Location	Opens for Enrollment
Jan 7, 2005	Oklahoma City	Oct 7, 2004
Jan 21, 2005	Oklahoma City	Oct 21, 2004
Feb 4, 2005	Oklahoma City	Nov 4, 2004
Feb 9, 2005	Enid	Nov 9, 2004
Feb 16, 2005	Tulsa	Nov 16, 2004
Mar 4, 2005	Oklahoma City	Dec 3, 2004
Mar 18, 2005	Oklahoma City	Dec 17, 2004
Apr 1, 2005	Oklahoma City	Jan 3, 2005
Apr 13, 2005	Tulsa	Jan 13, 2005
Apr 22, 2005	Oklahoma City	Jan 20, 2005
May 6, 2005	Oklahoma City	Feb 7, 2005
May 20, 2005	Oklahoma City	Feb 18, 2005
June 2, 2005	McAlester	Mar 2, 2005
June 17, 2005	Oklahoma City	Mar 17, 2005
June 30, 2005	Tulsa	Mar 30, 2005
July 8, 2005	Oklahoma City	Apr 7, 2005
July 22, 2005	Oklahoma City	Apr 21, 2005
Aug 3, 2005	Lawton	May 3, 2005
Aug 19, 2005	Oklahoma City	May 19, 2005
Aug 31, 2005	Tulsa	May 31, 2005
Sept 9, 2005	Oklahoma City	June 9, 2005
Sept 23, 2005	Oklahoma City	June 23, 2005
Oct 7, 2005	Oklahoma City	July 7, 2005
Oct 20, 2005	Tulsa	July 20, 2005
Nov 4, 2005	Oklahoma City	Aug 4, 2005
Nov 18, 2005	Oklahoma City	Aug 18, 2005
Dec 9, 2005	Oklahoma City	Sept 8, 2005



P.O. Box 53007
Oklahoma City, OK 73152-3007

PRSRSTD
U.S. POSTAGE
PAID
OKLAHOMA
CITY OK
PERMIT NO.
317