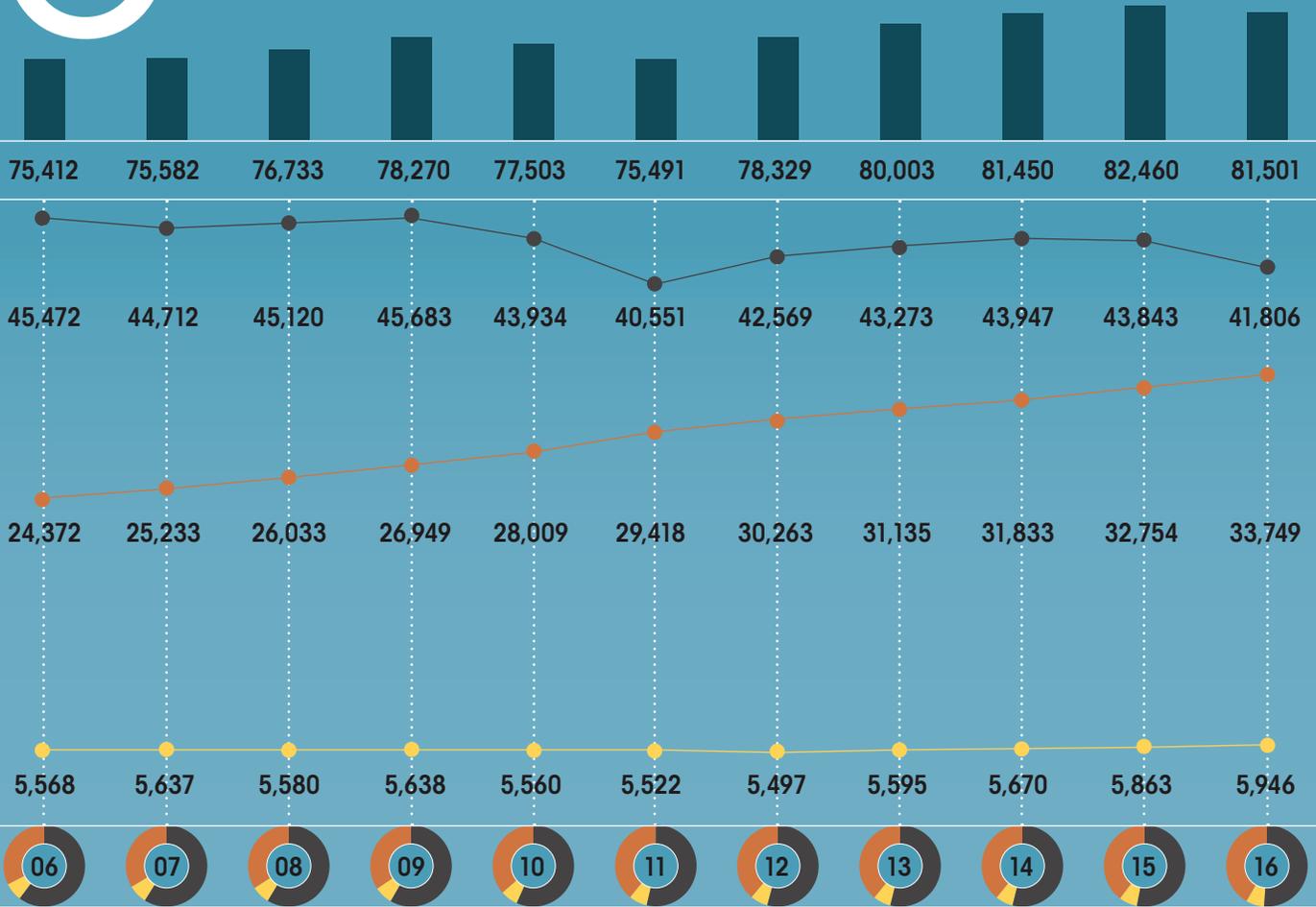


# INTRODUCTORY

# 6

## MEMBERSHIP FROM 2006–2016

■ TOTAL ● ACTIVE ● RETIRED ● VESTED



- 1 Letter of Transmittal
- 5 Chairman's Letter
- 6 Board of Trustees
- 7 Organizational Structure
- 7 Advisors and Consultants
- 8 Certificate of Achievement for Excellence in Financial Reporting
- 9 Public Pension Standards Award For Funding and Administration

# Letter of Transmittal

## Oklahoma Public Employees Retirement System

P.O. Box 53007  
Oklahoma City, Oklahoma 73152-3077

800.733.9008 toll-free  
405.848.5946 fax

November 30, 2016

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, 2016.

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.

RSM US LLP, Certified Public Accountants, has issued an unqualified opinion on the Oklahoma Public Employees Retirement Plan's statements of fiduciary net position as of June 30, 2016 and 2015, and the related statements of changes in fiduciary net position 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%

## Letter of Transmittal (continued)

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 or the Commission's designee selected by the Commission, the Director of the Office of Management and Enterprise Services or the Director's designee, the State Insurance Commissioner or the Commissioner's designee, the Director of Human Capital Management of the Office of Management and Enterprise Services, and a member of the Tax Commission selected by the Tax Commission. 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 Management and Enterprise Services. 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 comprehensive, accountable and financially sound retirement services to Oklahoma's public servants in a professional, efficient and courteous manner. The core values and behaviors inherent to the agency's operations are honesty, integrity and accountability; excellence in service; and commitment to teamwork and team members. 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. OPERS' funds are invested solely in the best interest of the members and their beneficiaries with a goal of keeping administrative expenses as low as possible. 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 asset classes where OPERS has exposure. At fiscal year end, the investment portfolio of OPERS was actively managed by three fixed income managers, six domestic equity

## Letter of Transmittal (continued)

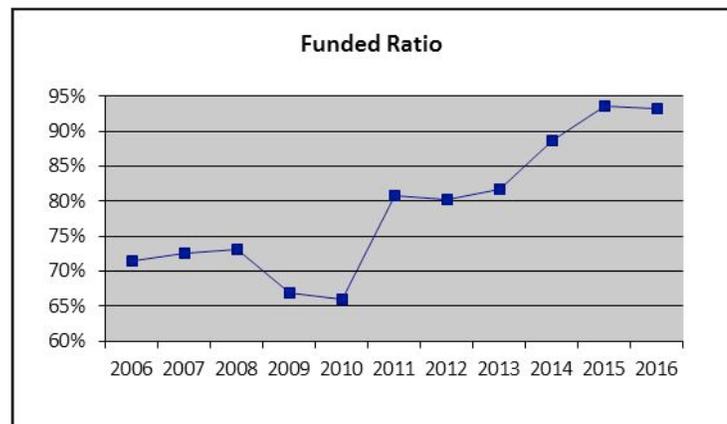
managers and two international equity managers. OPERS' investment portfolio also consisted of passively managed index funds, including one fixed income index fund, two domestic equity index funds and two international equity index funds.

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 2016 investments provided a 0.3 percent rate of return. The annualized rate of return for OPERS was 6.9 percent over the last three years and 7.0 percent over the last five years.

### *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, 2016 amounted to \$9.4 billion and \$8.8 billion, respectively.

The OPERS funded status remained flat at 93.2 percent at July 1, 2016. The funded status had declined from 73.0 percent at July 1, 2008 to 66.0 percent at July 1, 2010 before significantly increasing to 80.7 percent at July 1, 2011 due to the removal of the cost-of-living-adjustment (COLA) assumption, and further increased to 93.6 percent at July 1, 2015. 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 with the continuation of the 1.0 percent increase each year until it was 16.5 percent in fiscal year 2012. In 2006 the Legislature also increased the state employee contribution rate to be a level of 3.5 percent of salary effective July 1, 2006. Previously in effect was a tiered rate structure of 3.0 percent on the first \$25,000 of salary and 3.5 percent on any salary above \$25,000. Non state agency employers also had a rate increase effective July 1, 2006. The combined employee and employer contribution rate was increased 1.0 percent annually until July 1, 2011 when it reached 20.0 percent. 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.



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### *Awards and Acknowledgements*

The Government Finance Officers Association of the United States and Canada (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, 2015. This was the nineteenth 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.

## Letter of Transmittal (continued)

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

In addition, the Oklahoma Public Employees Retirement System was awarded the Public Pension Standards Award by the Public Pension Coordinating Council, a confederation of the National Association of State Retirement Administrators, the National Conference on Public Employee Retirement Systems, and the National Council on Teacher Retirement. This award is in recognition of meeting professional standards for plan funding and administration as set forth in the Public Pension Standards.

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 unfailing support for maintaining the highest standards of professionalism in the financial management of the Oklahoma Public Employees Retirement System.

Respectfully submitted,



Joseph A. Fox  
Executive Director



Susan Reed  
Chief Financial Officer and Director of Finance

# Chairman's Letter

## Oklahoma Public Employees Retirement System

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

800.733.7008 toll-free  
405.848.5946 fax

November 30, 2016

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, 2016.

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 P.O. 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,



DeWayne McAnally  
*Chairman*

## Board of Trustees



**DeWayne McAnally**  
Chair  
Appointee, Governor



**Lucinda Meltabarger**  
Vice Chair  
Director, Human Capital  
Management of the Office  
of Management and  
Enterprise Services



**Bob Anthony**  
Corporation Commissioner



**Jari Askins**  
Appointee, Supreme Court



**Lisa Blodgett**  
Appointee, Governor



**Jill Geiger**  
Designee, State Finance  
Director



**James R. "Rusty" Hale**  
Appointee, Speaker of the  
House of Representatives



**Jan Harrison**  
Appointee, Speaker of the  
House of Representatives



**Steven Kaestner**  
Appointee, Governor



**Thomas E. Kemp, Jr.**  
Member of Tax  
Commission selected by  
Commission



**Don Kilpatrick**  
Appointee, President Pro  
Tempore of the Senate

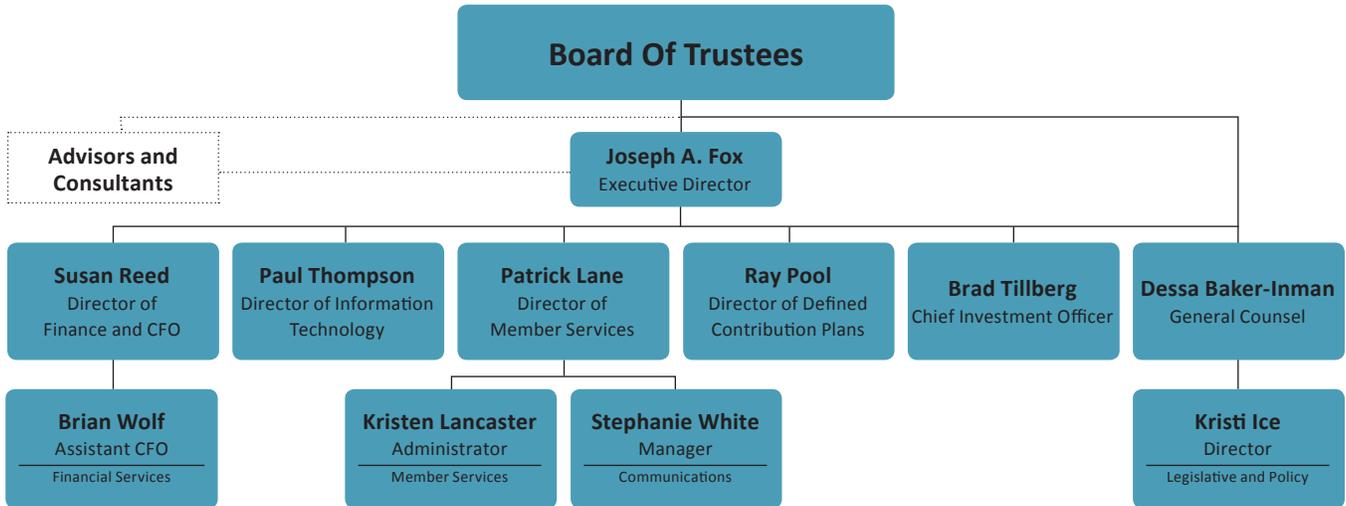


**Brian Maddy**  
Appointee, President Pro  
Tempore of the Senate



**Frank Stone**  
Designee, State Insurance  
Commissioner

# Organizational Structure



Back Row (from left to right): Kristen Lancaster, Paul Thompson, Brian Wolf, Ray Pool, and Stephanie White  
 Front Row (from left to right): Brad Tillberg, Susan Reed, Joseph Fox, Dessa Baker-Inman, and Patrick Lane  
 Not pictured: Kristi Ice

## Advisors and Consultants\*

**Master Custodian**  
**The Northern Trust Company**  
 Chicago, Illinois

**Investment Consultant**  
 Verus Advisory, Inc.  
 Seattle, Washington

**Actuarial Consultant**  
 Cavanaugh Macdonald Consulting, LLC  
 Kennesaw, Georgia

**Independent Auditors**  
 RSM US LLP  
 Oklahoma City, Oklahoma

**Internal Auditors**  
 Finley & Cook PLLC  
 Shawnee, Oklahoma

\*The Schedules of Investment Expenses and Professional/Consultant Fees in the Financial Section and the Schedule of Stock Brokerage Commissions Paid in the Investment Section provide more information regarding advisors and consultants.



Government Finance Officers Association

**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, 2015**

A handwritten signature in black ink, reading "Jeffrey R. Egan". The signature is written in a cursive, flowing style.

Executive Director/CEO



Public Pension Coordinating Council

***Public Pension Standards Award  
For Funding and Administration  
2016***

Presented to

***Oklahoma Public Employees Retirement System***

In recognition of meeting professional standards for  
plan funding and administration as  
set forth in the Public Pension Standards.

*Presented by the Public Pension Coordinating Council, a confederation of*

National Association of State Retirement Administrators (NASRA)  
National Conference on Public Employee Retirement Systems (NCPERS)  
National Council on Teacher Retirement (NCTR)

A handwritten signature in black ink that reads 'Alan H. Winkle'.

Alan H. Winkle  
Program Administrator