Retiring Right

A Publication of the Oklahoma Public Employees Retirement System

OPERS newsletter

First Quarter
January 2005

Retiree 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:

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)
	$ 5,126.4	$ 4,619.1	$ 4,485.6

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)
	$ 818.4	$ 428.0	$ (60.4)

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.

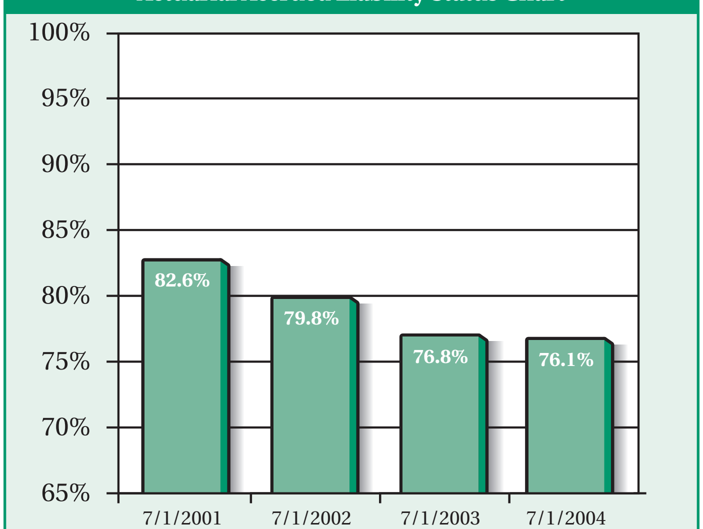
($ millions) YEARS ENDED JUNE 30,	2004	2003	2002
Retirement, death & survivor benefits	$ 297.8	$ 282.5	$ 257.9
Refunds and withdrawals	9.8	8.8	8.3
Administrative expenses	3.5	3.2	3.2
	$ 311.1	$ 294.5	$ 269.4

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.

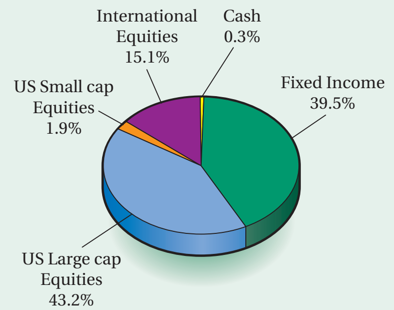
Actuarial Accrued Liability Status Chart



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.

2004 Asset Mix



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.

Returning to Work After Retirement . . .

You may decide that you wish to work again after you retire. If you are considering returning to work with an OPERS participating employer, check OPERS' basic rules to protect your benefits:

Social Security Full Eligibility*

Year Born	Full Eligibility Age
1939	65+4 months
1940	65+6 months
1941	65+8 months
1942	65+10 months
1943-54	66
1955	66+2 months
1956	66+4 months
1957	66+6 months
1958	66+8 months
1959	66+10 months
1960-later	67

**Information is from the Social Security Administration's web site at www.ssa.gov*

1. You cannot return to work for an employer that participates in OPERS within the first **30 days** after retirement, or your retirement will be cancelled.
2. If you return to work with a participating OPERS employer, you must participate in OPERS by paying retirement contributions no matter how many hours you work or the nature of the work (temporary, seasonal, permanent, etc.). You also will be required to complete the Post-Retirement Employment form at that time.
3. A retiree continues to accrue service credit while working for a participating employer, which may increase his or her retirement benefits.

If you return to work with a participating OPERS employer, you must choose to either (A) continue receiving benefits, subject to earnings limits or (B) waive the receipt of benefits while employed. Each of these choices is explained below.

A. Continuation of Retirement Benefits While Working

You can continue to receive benefits while you are working, but unless you are eligible for full Social Security retirement (see table), benefits will cease if your salary exceeds the allowed earnings restrictions during that calendar year. When you exceed the allowed earnings restriction, your benefits stop for the rest of that calendar year. Your benefits will resume at the beginning of the next calendar year until your salary meets the allowed earnings restriction for that calendar year.

Each month you work for a participating OPERS employer and contribute to OPERS, you accrue service credit. Every additional year (2,076 hours) of full-time-equivalent service will increase your benefits. The increase occurs in January of each year if you have accrued those hours by June 30th of the previous year. Benefit increases are based upon the compensation earned during the 2,076 accrued hours. The compensation is inserted in the benefit formula with one year of service.

Example

If you earn $12	$24,912
an hour for 2,076	.02
hours for a total	X 1 (year)
of $24,912, your	$498.24
monthly benefit	÷ 12
would be **$41.52**	$41.52

2005 Earnings Limitations

Born after June 30, 1940:	Age 64 and turn 65+6 months in 2005:	Age 65+6 months and older:
$12,000	$31,800	No Limit

These amounts apply for the year 2005 only. The full retirement age will increase each year.

B. Wavier of Retirement Benefits While Working

You can waive the receipt of your retirement benefits while employed with a participating OPERS employer. Then, no earnings limitations apply and you may retire for a second time after accruing the equivalent of 36 consecutive months of full-time service credit. All of your service credit (before and after retirement) will be recomputed based upon the law governing this System at the time of your second retirement. When you retire the second time, you may also re-select a retirement option.

Telemarketing Fraud - Retired Citizens Particularly Vulnerable

According to the Federal Trade Commission, scam artists often target retired Americans. This is because people over 50 years of age are generally polite to strangers and are more likely to be at home with time to talk with telemarketers. As a result, people over age 50 account for about 56 percent of telemarketing fraud victims - and this type of fraud costs consumers more than $40 billion a year.

Though some callers are indeed legitimate, it is important to be aware of the techniques used by those who are not. Many times the con artists are very smooth and convincing and offer things like prizes or investment opportunities - or even try to solicit donations for a non-existent charity. Be wary if you hear the following types of pitches:

- You must give credit card or bank account information.
- You must act NOW before the offer expires.
- You have won a free prize, but you must pay for postage and handling.
- The company is established and reputable - so you do not need to check them out.

If a company is legitimate, they will respect your wishes to pass on an offer. They will also not be resistant if you ask for written information about the company and the product or service they are offering. It is illegal for them to call before 8 a.m. or after 9 p.m. - so hang up on those who do not follow these rules.

If you suspect a scam, contact the Oklahoma Attorney General's office or the Federal Trade Commission.

Office of the Attorney General
2300 N. Lincoln Blvd, Ste 112
Oklahoma City, OK 73105
Oklahoma City Office:
405.521.3921
Tulsa Office: 918.581.2885
www.oag.state.ok.us

Federal Trade Commission
Consumer Response Center
Washington, DC 20580
(202) FTC-HELP
www.ftc.gov

Taxes: Withholding & 1099-R

The federal income tax withholding tables have changed for calendar year 2005. Accordingly, retirees who have elected to have their income tax withholding calculated from the tables may see a change in the monthly amount withheld.

You may wish to review the amount withheld from your retirement benefits for taxes. Should you decide to change the amount withheld for taxes, contact OPERS and request a Tax Withholding Preference form, and we will mail one to you. Mail the form back to OPERS. Forms received by the 5th day of a month allow us to make changes to that month's retirement check.

Watch for your Form 1099-R in the mail. Your 1099-R form contains the retirement earnings information you will need to complete your tax returns for the tax year 2004. Your 1099-R will be mailed to your home address by the end of January.

Insurance Premiums

The Oklahoma State and Education Employees Group Insurance Board (OSEEGIB) has announced its 2005 Plan Year Premiums for health insurance effective January 1, 2005, through December 31, 2005. This means members covered through OSEEGIB may see a change in the monthly amount withheld from their retirement benefit for health insurance.

For the new premium rates or more information, please contact OSEEGIB at (405) 717-8701 or toll free at (800) 752-9475. You also may visit the OSEEGIB web site at www.sib.state.ok.us.

OPERS newsletter

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