

Retiring Right

A Publication of the Oklahoma Public Employees Retirement System



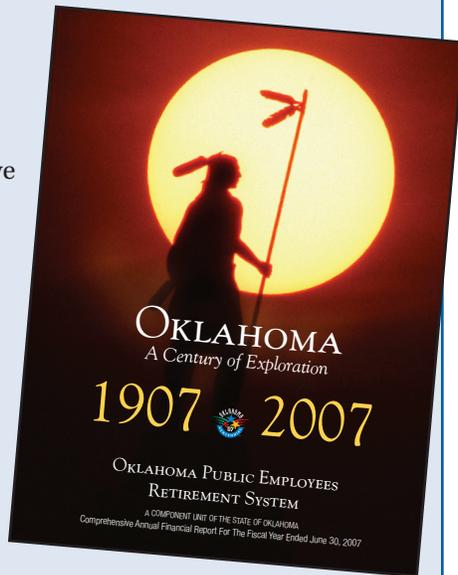
Active Member Edition

Annual Financial Report Summary Edition

For the Fiscal Year Ended June 30, 2007

Introduction

This edition of Retiring Right summarizes the 2007 Comprehensive Annual Financial Report (CAFR) for the Oklahoma Public Employees Retirement System (OPERS). The 2007 CAFR, entitled Oklahoma - A Century of Exploration, celebrates our state's Centennial and pays tribute to Oklahoma's rich history of exploration and discovery. The Annual Financial Report Summary is designed to educate our members about OPERS and provide information about the financial condition of the retirement system.



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The Director's Corner

Making Progress at OPERS

Tom Spencer, Executive Director

If you are obsessed with funding ratios, actuarial accrued liabilities, asset smoothing, assumed rates of return and actuarial required contributions, there is something seriously wrong with you. *Oh wait a minute, that's me!* Since coming to OPERS in 2003, I've been hip deep in all things actuarial. You can't run a pension system successfully without being more than casually acquainted with actuarial principles. Someone who is really good at math like an actuary needs to calculate if OPERS has enough money to pay all of us a pension for the rest of our lives.

The good news is that for the first time in many years, our actuarial numbers have improved. The funded ratio of OPERS went up at the end of the fiscal year for the first time in many years. The funded ratio is calculated by the System's actuary and roughly represents the percentage of assets OPERS has to cover its future benefit liabilities. Being at or near 100% is the goal. The ratio improved from 71.4% in Fiscal Year 2006 to 72.6% after Fiscal Year 2007. Now having the ratio go up 1.2% sounds like a very small improvement, but it is a very positive trend. It also didn't happen by accident. The reasons for the turnaround are three-fold: (1) OPERS' annualized investment return for the last five fiscal years was 10.8% a year. That is 2.8% more than we assume that we'll earn for actuarial purposes; (2) the State employer contribution rate in FY 2005 was 10% of pay. It has gone up each year since then and is now 13.5% for the current fiscal year; (3) finally, no costly benefit legislation has passed to increase OPERS' liabilities.

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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, 2007, OPERS consisted of 273 participating employers made up of state, county, and local agencies. The membership includes 44,712 active members, 5,637 inactive vested members and 25,233 retirees and beneficiaries.

Plan Net Assets

Condensed Schedules of Plan Net Assets	(\$ millions)		
	June 30,		
	2007	2006	2005
Cash and cash equivalents	\$ 42.8	\$ 42.1	\$ 33.3
Receivables	650.2	296.8	455.5
Investments	6,854.8	6,013.4	5,476.3
Securities lending collateral	864.0	621.9	835.7
Property and equipment	0.6	0.6	0.4
Other assets	0.1	0.1	0.2
Total assets	8,412.5	6,974.9	6,801.4
Other liabilities	908.0	535.8	461.2
Securities lending collateral	864.0	621.9	835.7
Total liabilities	1,772.0	1,157.7	1,296.9
Ending net assets held in trust for benefits	\$ 6,640.5	\$ 5,817.2	\$ 5,504.5

A summary of OPERS' net assets held in trust for benefits on June 30, 2007, 2006 and 2005 is shown above. As of June 30, 2007, OPERS net assets were more than \$6.6 billion.

Changes in Plan Net Assets

OPERS is funded through a combination of member contributions, employer contributions and investment earnings. For fiscal year 2007 member and employer contributions increased primarily due to an increase in the salary base on which contributions were calculated and increased member and employer contribution rates. Net investment income increased primarily due to the appreciation in the fair value of the Plan's investments as a result of improvements in fixed income and equity markets.

Deductions to plan net assets are incurred primarily for the purpose for which OPERS was created, namely the payment of benefits to retirees. In fiscal year 2007, retirement, death and survivor benefits increased primarily due to the increase

Condensed Schedules of Changes in Plan Net Assets	(\$ millions)		
	June 30,		
	2007	2006	2005
Member contributions	\$ 64.2	\$ 56.0	\$ 52.0
State and local agency contributions	197.7	171.3	139.8
Net investment income	938.8	434.9	522.3
Total additions	1,200.7	662.2	714.1
Retirement, death and survivor benefits	361.0	334.4	321.6
Refunds and withdrawals	11.8	11.1	10.8
Administrative expenses	4.6	4.0	3.6
Total deductions	377.4	349.5	336.0
Total changes in plan net assets	\$ 823.3	\$ 312.7	\$ 378.1

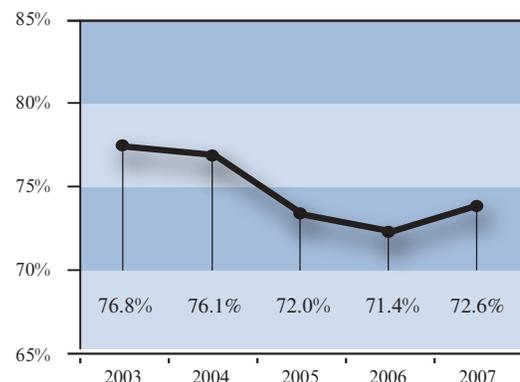
in the number of retired members and a 4% cost of living adjustment to monthly benefits. Refunds and withdrawals increased as more participants withdrew their contributions on severance of service. Administrative expenses increased due to increases in technical services and staff salaries and related personnel expenses.

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, 2007, amounted to \$8.4 billion and \$6.1 billion, respectively.

Funded Ratio Chart

as of July 1



Although the funded status of OPERS has been steadily declining over the last several years, it moved ahead this year to 72.6 percent at July 1, 2007, from 71.4 percent the prior year. It was 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. In 2004, this scheduled increase of 1.5% was moved to July 1, 2005, with the rate increasing 1% annually until 2011 when it reaches 16.5% for state agencies and 20.0% (combined employee/employer rate) for non-state agency employers.

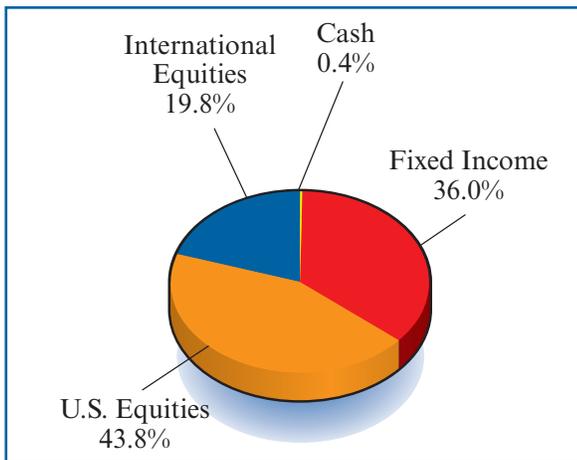
Investments

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 defraying reasonable expenses of administrating OPERS. The Board of Trustees has established an investment policy and guidelines that identify asset allocation as the key determinant of return and diversification as the primary risk control element. Outside investment advisors are engaged to manage the investment portfolio. They execute the investment policy in accordance with the statutory authority, the Board policy and their respective guidelines, and may use full discretion within the policy and guidelines. At fiscal year end, the investment portfolio of OPERS was managed by 10 investment management firms. Investments provided a 16.4 percent rate of return. The annualized rate of return for OPERS over the last three years was 11.6 percent and 10.9 percent over the last five years, comparing favorably to the policy benchmark for each period.

At June 30, 2007, the allocation of the investment portfolio is shown in the chart below.

Asset Mix
June 30, 2007



For a complete copy of the 2007 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.ok.gov. 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.

2008 Pre-Retirement Seminar Schedule

The OPERS pre-retirement seminars are designed for those who will retire in two years or less. Our seminars receive more than a 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
- Returning to Work after Retirement

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.

SEMINAR DATE	LOCATION	OPENS FOR REGISTRATION
Jan 11, 2008	Oklahoma City	Nov 9, 2007
Jan 17, 2008	Tulsa	Nov 15, 2007
Feb 1, 2008	Oklahoma City	Dec 3, 2007
Feb 7, 2008	Enid	Dec 7, 2007
Feb 21, 2008	Tulsa	Dec 19, 2007
Feb 22, 2008	Oklahoma City	Dec 20, 2007
Mar 7, 2008	Oklahoma City	Jan 8, 2008
Mar 21, 2008	Oklahoma City	Jan 22, 2008
April 10, 2008	Tulsa	Feb 8, 2008
April 18, 2008	Oklahoma City	Feb 19, 2008
May 2, 2008	Oklahoma City	Mar 4, 2008
May 16, 2008	Oklahoma City	Mar 17, 2008
May 29, 2008	McAlester	Mar 28, 2008
June 13, 2008	Oklahoma City	April 11, 2008
June 26, 2008	Tulsa	April 25, 2008
July 11, 2008	Oklahoma City	May 13, 2008
July 25, 2008	Oklahoma City	May 23, 2008
July 31, 2008	Tulsa	May 30, 2008
Aug 15, 2008	Oklahoma City	June 17, 2008
Aug 28, 2008	Lawton	June 27, 2008
Sept 12, 2008	Oklahoma City	July 15, 2008
Sept 26, 2008	Oklahoma City	July 28, 2008
Oct 10, 2008	Oklahoma City	Aug 12, 2008
Oct 23, 2008	Tulsa	Aug 21, 2008
Nov 7, 2008	Oklahoma City	Sept 9, 2008
Nov 21, 2008	Oklahoma City	Sept 23, 2008
Dec 12, 2008	Oklahoma City	Oct 14, 2008

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While this is all good news, it's not time to pop the champagne corks and declare victory. Managing a pension fund takes a long-term perspective, but it needs "annual maintenance" along the way. Ideally a pension system needs to be receiving "actuarially required contributions." That gives a system enough to pay the benefits that have been promised, and enough to pay down the debt or "unfunded liability." *We are not there yet, but we are moving in the right direction.* So if you have insomnia, take a look at our full actuarial report on our website at www.opers.ok.gov. Let me know when you want to come by and chat with me about normal cost, mortality tables, and my personal favorite - amortizing unfunded liabilities. Could it get any better than that?

Contact OPERS

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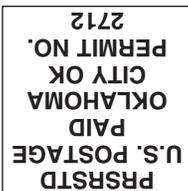
(800) 733-9008

Website:

www.opers.ok.gov

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This summary is for informational purposes only. Individual requirements and benefits may differ, depending on circumstances. Consult the plan provisions or OPERS for detailed information.



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