

Retiring Right

A Publication of the Oklahoma Public Employees Retirement System

Retiree Edition



First Quarter
January 2007

Annual Financial Report Summary Edition

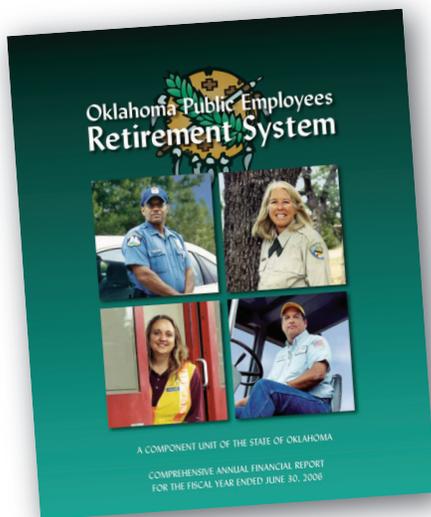
For the Fiscal Year Ended June 30, 2006

Introduction

This edition of Retiring Right summarizes the 2006 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 2006 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, 2006, OPERS consisted of 271 participating employers made up of state, county, and local agencies. The membership includes 45,472 active members, 5,568 inactive vested members and 24,372 retirees and beneficiaries.

The Director's Corner

by Tom Spencer,
OPERS Executive Director

The "Great" Generation

If you haven't read Tom Brokaw's "The Greatest Generation" you must buy or borrow a copy. It tells the story of the generation of parents that created the Baby Boomers of which I am a part. My parents and many of yours lived through the Great Depression and fought for our freedom during World War II. There may never have been a generation of Americans that worked harder and sacrificed more than they did. Both of my parents are gone now but not forgotten. I know that I still stand on their shoulders and would be nothing without them. As great as this generation was and is, let me at least meekly suggest that my Baby Boomer generation is great also.

The birth of my generation created a huge surge in economic activity and development never experienced in the U.S. back in the 1950's. Many of our friends, brothers and loved ones have fought overseas in some very unpopular wars, but they went anyway. We are patriotic too. As we reached adulthood, our innovations and hard work fueled another economic upturn in the 1980's and 1990's. Now it is my generation that is being called to sacrifice. You see since there are so many of us, and many of our parents are still

(Continued on page 2)

Also in This Issue:

Page 2 Statements of Plan Net Assets	Page 3 Benefit Increases for Working Retirees
Page 2 Changes in Plan Net Assets	Page 3 Insurance Premiums
Page 2 Funding	Page 3 Taxes: Withholding & 1099-R
Page 2 Investments	Page 3 1099-R Frequently Asked Questions

Statements of Plan Net Assets

A summary of OPERS net assets held in trust for benefits on June 30, 2006, 2005 and 2004 is shown below. As of June 30, 2006, OPERS net assets were more than \$5.8 billion.

Condensed Schedules of Plan Net Assets	(\$ millions)		
	June 30,		
	2006	2005	2004
Cash and cash equivalents	\$ 42.1	\$ 33.3	\$ 29.1
Receivables	296.8	455.5	240.5
Investments	6,013.4	5,476.3	5,334.2
Securities lending collateral	621.9	835.7	578.0
Property and equipment	0.6	0.4	0.3
Other assets	0.1	0.2	0.3
Total Assets	6,974.9	6,801.4	6,182.4
Other liabilities	535.8	461.2	478.0
Securities lending collateral	621.9	835.7	578.0
Total Liabilities	1,157.7	1,296.9	1,056.0
Net Assets Held in Trust for Benefits	\$ 5,817.2	\$ 5,504.5	\$ 5,126.4

Changes in Plan Net Assets

OPERS is funded through a combination of member contributions, employer contributions and investment earnings. For fiscal year 2006 member and employer contributions increased primarily due to an increase in the salary base on which contributions were calculated, including an increase in the number of active members, and an increased employer contribution rate. Net investment income, although less than the previous year, was due primarily to the appreciation of the fair value of the Plan's investments as a result of improvements in the US equity markets.

Condensed Schedules of Changes in Plan Net Assets	(\$ millions)		
	June 30,		
	2006	2005	2004
Member contributions	\$ 56.0	\$ 52.0	\$ 48.4
State and local agency contributions	171.3	139.8	133.5
Net investment income	434.9	522.3	636.5
Total Additions	662.2	714.1	818.4
Retirement, death and survivor benefits	334.4	321.6	297.8
Refunds and withdrawals	11.1	10.8	9.8
Administrative expenses	4.0	3.6	3.5
Total Deductions	349.5	336.0	311.1
Total Changes in Plan Net Assets	\$ 312.7	\$ 378.1	\$ 507.3

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 2006 retirement, death and survivor benefits increased primarily due to the increase in the number of retired members and an increase in their average monthly benefits. Refunds and withdrawals increased as more participants withdrew their contributions on severance of

(Continued from page 1)

living, we have been referred to as the "sandwich" generation. We must take care of our kids and our parents.

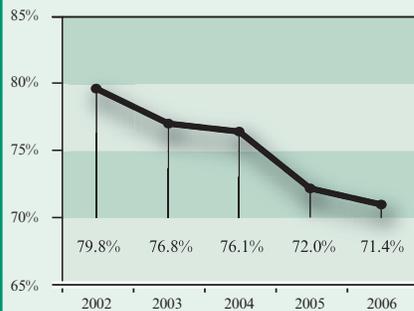
We will probably have to work longer than the Greatest Generation worked. We need to continue to pay the Social Security obligations of our parents, and will have to work longer to contribute more for our own. I personally don't want to leave my kids with an even larger tab than I inherited. I hope my generation is not remembered just as hippies, drug users or worse. Perhaps my generation will be remembered as "great" for its creativity, optimism and the personal sacrifices we will continue to make.

service. Administrative expenses increased due to increases in 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

Actuarial Accrued Liability Status Chart
Funded Ratio as of July 1



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.

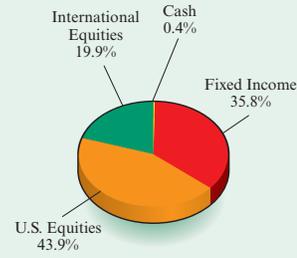
The advantage of a well-funded plan is that the participants can look at the assets that are committed to the payment of benefits. The actuarial accrued liability and actuarial value of assets of OPERS as of July 1, 2006 amounted to \$7.9 billion and \$5.7 billion, respectively.

The OPERS funded status has been steadily declining over the last several years. On July 1, 2006, the funded ratio was 71.4% compared to 90.7% on 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 administering 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

June 30, 2006 Asset Mix



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 an 8.0 percent rate of return. The annualized rate of return for OPERS over the last three years was 10.8 percent and 6.4 percent over the last five years, comparing favorably to the policy benchmark for each period.

At June 30, 2006 the allocation of the investment portfolio is shown in the chart above.

Benefit Increases for Working Retirees

Benefit increases for eligible retirees who have returned to work will be effective with the January payment issued at the end of the month. These increases will be for those "Retirees who have Returned to Work" (affectionately coined "RRTWs") who accrued 12 months (2,076 hours) of service credit **with an OPERS participating employer** as of June 30th, 2006. Any hours over 12 months will stay in the RRTW's record and add to future post-retirement credit. Increases are based on actual earnings and employment hours.

Remember, if you are a retiree who elected the Medicare Gap Benefit Option, you cannot waive your retirement benefits if you return to work with an OPERS participating employer.

For more information about returning to work after retirement, visit that section of our website at www.opers.state.ok.us/returningtowork.

Insurance Premiums

The Oklahoma State and Education Employees Group Insurance Board (OSEEGIB) has announced its 2007 Plan Year Premiums for health insurance effective January 1, 2007, through December 31, 2007. 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.healthchoiceok.com.

Taxes: Withholding & 1099-R

The Oklahoma income tax withholding tables have changed for calendar year 2007. 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 State 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 this February. Your 1099-R form contains the retirement earnings information you will need to complete your tax returns for the tax year 2006. Your 1099-R will be mailed to your home address by the end of January.

1099-R Frequently Asked Questions

Q: When are 1099-R forms mailed?

A: The 2006 Form 1099-Rs will be mailed by January 31, 2007. Please allow for normal delivery time. If you have not received your Form 1099-R by February 15, 2007, contact OPERS to order yours.

Q: Why is the taxable amount (Box 2a) less than the gross distribution (Box 1)?

A: Some of you may have had after-tax dollars in your account at retirement. (This occurs if you made after-tax retirement contributions, used after-tax money to make a purchase, etc.) This reduces the taxable portion of the total amount, thus accounting for the difference in the two amounts.

Q: Where do I find the amount withheld for federal and state taxes?

A: The amount of federal income tax withheld is located in Box 4, and the state tax withheld is found in Box 10.

Q: How do I get a duplicate copy of my Form 1099-R?

A: You may request a duplicate Form 1099-Rs in writing, by e-mail, or by calling OPERS. All requests must include your name, Social Security Number, tax year requested, mailing address, the benefit type, daytime telephone number, and signature. Please allow 10-15 working days to receive your duplicate Form 1099-R.

Q: How do I correct my address on my Form 1099-R?

A: An incorrect address does not affect the validity of your Form 1099-R. However, you should notify OPERS of your correct address to ensure prompt delivery of benefit payments and correspondence. OPERS Change of Address or Name form can be found on the OPERS website at www.opers.state.ok.us/forms or you may contact OPERS for one to be mailed to you.

Q: What does the number in Box 7 represent?

VOID		CORRECTED	
PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution	OMB No. 1545-0119
		\$	2006
		2a Taxable amount	
		\$	Form 1099-R
		2b Taxable amount not determined <input type="checkbox"/>	Total distribution <input type="checkbox"/>
PAYER'S federal identification number	RECIPIENT'S identification number	3 Capital gain (included in box 2a)	4 Federal income tax withheld
		\$	\$
RECIPIENT'S name		5 Employee contributions / Designated Roth contributions or insurance premiums	6 Net unrealized appreciation in employer's securities
Street address (including apt. no.)		\$	\$
City, state, and ZIP code		7 Distribution code(s)	8 Other
		IRA/SEP/SIMPLE <input type="checkbox"/>	\$ %
		9a Your percentage of total distribution %	9b Total employee contributions
		\$	\$
1st year of desig. Roth contrib.		10 State tax withheld	11 State/Payer's state no.
		\$	\$
Account number (see instructions)		13 Local tax withheld	14 Name of locality
		\$	\$
			12 State distribution
			\$
			15 Local distribution
			\$

Form 1099-R Department of the Treasury — Internal Revenue Service

A: See the back side of copy "C" of your 1099-R form for an explanation of distribution codes.

Q: Box 11 is left blank. What is that number?

A: The number for Box 11 is the same as the Payer's Federal Identification Number on the left side of the form.

Q: How do I determine how much was withheld from my 2006 retirement for medical insurance premiums?

A: If you had medical insurance withheld from your OPERS monthly benefit, that amount will appear on the left hand side of the form, under the box containing your name and address.

Q: Why did I receive more than one 1099-R?

A: If you received more than one 1099-R form from OPERS, it means you received a distribution as a beneficiary of someone else's account. You should be able to determine from the amounts which 1099-R is for which distribution, but if you still have questions, contact OPERS.

Contact OPERS

Mailing Address:

Oklahoma Public Employees Retirement System
Post Office Box 53007
Oklahoma City, Oklahoma 73152-3007

Local Phone:

(405) 858-6737

Outside Local Calling Area:

(800) 733-9008

Website:

www.opers.state.ok.us

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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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