

Retiring Right

A Publication of the Oklahoma Public Employees Retirement System



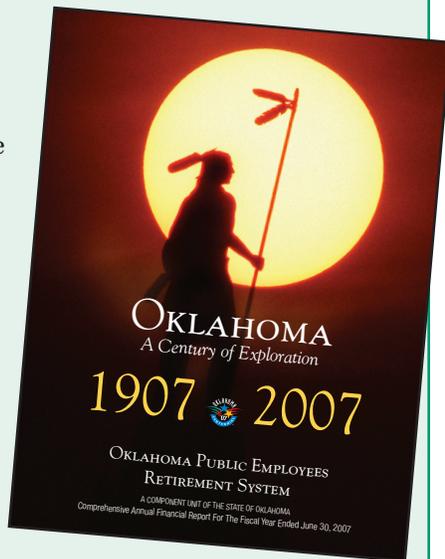
Retiree Edition

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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SEE INSIDE: 1099-Rs Will Be Mailed Soon!

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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 in the

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

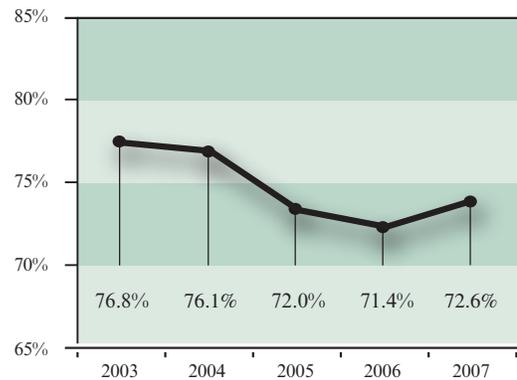
number of retired members and a 4% cost of living adjustment to monthly benefits. Refunds and withdrawals increased as more participants withdrew their contributions on severance of service. Administrative expenses increased due to increases in technical services and staff salaries and related personnel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

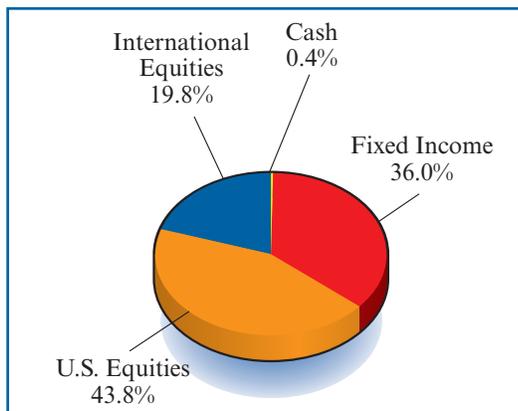
The standard for OPERS in making investments is to exercise the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in

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 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 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.

1099-R Frequently Asked Questions

Q: When are 1099-R forms mailed?

A: The 2007 Form 1099-Rs will be mailed by January 31, 2008. Please allow for normal delivery time. If you have not received your Form 1099-R by February 15, 2008, contact OPERS.

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

A: 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: What does the number in Box 7 represent?

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

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(Director's Corner continued from page 1)

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?

(1099-R Frequently Asked Questions continued from page 3)

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 2007 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:

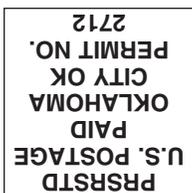
(800) 733-9008

Website:

www.opers.ok.gov

This publication, printed by the University of Oklahoma Printing Services, is issued by the Oklahoma Public Employees Retirement System (OPERS) as authorized by its Executive Director. Twenty-five thousand eight hundred copies have been prepared and distributed at a cost of \$3,735.00. Copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries. (01/08)

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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