



# FINANCIAL

## OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM

A COMPONENT UNIT OF THE STATE OF OKLAHOMA | COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2012

# OPERS

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## **ASCENT**

Preparing for a secure retirement involves successfully navigating a series of important financial decisions throughout life. Retirement is not a singular event. It is the culmination of many years of hard work, imagination, and choices supporting our long-term financial well-being.

Much like a climber securing a foothold on a rocky surface, we are faced with difficult financial decisions in an ever-changing environment. How we approach and negotiate those challenges will ultimately determine our retirement readiness.

The Oklahoma Public Employees Retirement System (OPERS) takes pride in providing timely educational programs, informative publications, and a courteous, professional staff to serve and support our members as they design the retirement that honors their service to the people of Oklahoma.

This edition of the Comprehensive Annual Financial Report for the Oklahoma Public Employees Retirement System reflects upon the *Ascent* our members make in pursuing their dreams of a secure, rewarding retirement.



**This report was prepared by the staff of the Oklahoma Public Employees Retirement System.**

*This publication, printed by University Printing Services, is issued by the Oklahoma Public Employees Retirement System as authorized by its Executive Director. Five hundred copies have been prepared and distributed at a cost of \$3,225.00. An electronic version of this publication has been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.*



2012 Comprehensive Annual Financial Report

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# INTRODUCTORY SECTION

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## THE PATH

Before we can begin any journey, we must carefully consider the direction we will travel. As the saying goes, “If you don’t know where you’re going, any path will take you there.” To some, this quote appeals to a sense of freedom and a wandering spirit. However, when it comes to retirement planning, lacking a sense of direction can be an expensive mistake.

Setting short and long-term budgeting goals is one way we encourage members to make more informed financial decisions. There is fierce competition for every dollar we earn. Credit cards, cars payments, mortgages, our children’s education, and retirement are all vying for a portion of our paycheck. A budget helps define our financial goals, prioritizes our obligations, and provides a tool to ensure our money is directed to those things we value most – those things that keep us on the path to long-term financial security.

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# 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, 2012

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, 2012.

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.

Cole & Reed, P.C., Certified Public Accountants, has issued an unqualified opinion on the Oklahoma Public Employees Retirement Plan's statements of plan net assets as of June 30, 2012 and 2011, and the related statements of changes in plan net assets 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 as selected by the Commission, a member of the Tax Commission as selected by the Tax Commission, the Administrator of the Office of Personnel Management or designee, the State Insurance Commissioner or designee, and the Director of State Finance or designee. 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 State Finance. 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, and the core values and behaviors inherent to agency 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 managers and one international equity manager. 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.

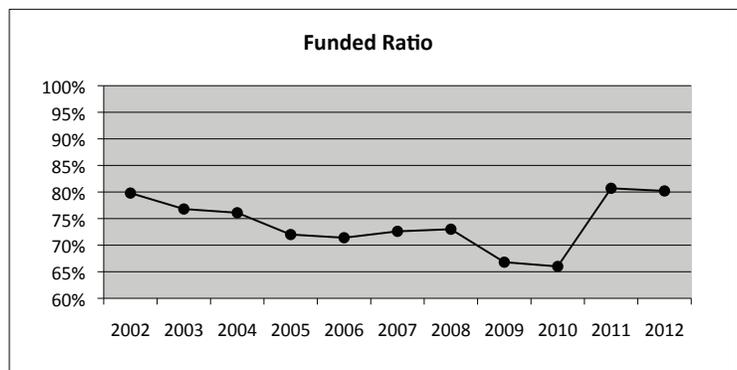
## Letter of Transmittal (continued)

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 2012 investments provided a 2.4 percent rate of return. The annualized rate of return for OPERS was 12.2 percent over the last three years and 2.7 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, 2012 amounted to \$8.3 billion and \$6.7 billion, respectively.

The OPERS funded status remained flat at 80.2 percent at July 1, 2012. For the past six years the funded status had declined from 72.6 percent at July 1, 2007 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 remained level at 80.2 percent at July 1, 2012. It was 91.0 percent at July 1, 1997. 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.



### *Awards and Acknowledgements*

The Government Finance Officers Association (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, 2011. This was the fifteenth 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.

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

## Letter of Transmittal (continued)

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,



Tom Spencer  
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, 2012

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, 2012.

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,



Don Kilpatrick  
Chairman

# Board of Trustees



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



**DeWayne McAnally**  
Vice Chairman  
Appointee of the Governor



**Alexandra Edwards**  
Appointee of the Speaker  
of the House of Representatives



**Michael D. Evans**  
Appointee of the  
Supreme Court



**Jill Geiger**  
Designee of the State  
Finance Director



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



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



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



**Lucinda Meltabarger**  
Administrator  
Office of Personnel Management



**Michael Moradi**  
Appointee of the Governor



**Dana Murphy**  
Member of Corporation  
Commission  
Selected by Commission

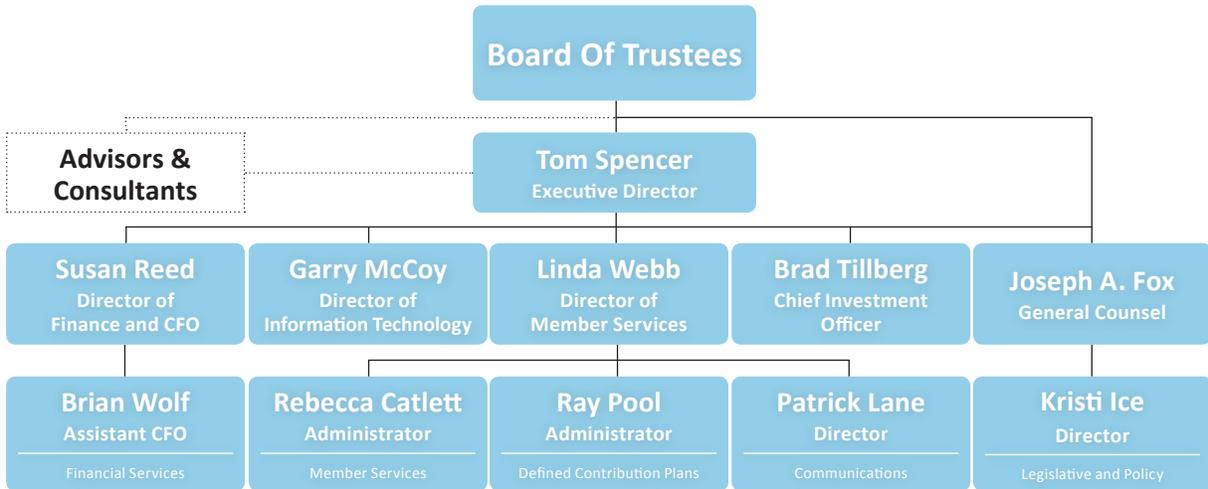


**Steve Paris**  
Appointee of the Governor



**Frank Stone**  
Designee of the State  
Insurance Commissioner

# Organizational Structure



*Back Row: Joe Fox, Linda Webb, Tom Spencer, Brian Wolf, Susan Reed, Brad Tillberg, and Patrick Lane.  
Front row: Kristi Ice, Ray Pool, Rebecca Catlett, and Garry McCoy.*

## Advisors and Consultants\*

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

**Investment Consultant**  
Strategic Investment Solutions, Inc.  
San Francisco, California

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

**Independent Auditors**  
Cole & Reed, P.C.  
Oklahoma City, Oklahoma

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

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

# 2012 Legislation

## **House Bill 2321**

### **Rounding of Service Credit Eliminated for New Members**

Rounding of service credit has been eliminated for members who join OPERS on or after November 1, 2012. The bill states the number of years of credited service used in calculating retirement benefits shall be based on actual years and months of credited service without rounding up or down. Members who joined OPERS prior to November 1, 2012, are not impacted by this new provision.

## **House Bill 2322**

### **Step-Up Program Offered to Elected Officials**

Last year, Senate Bill 794 provided that newly elected officials after November 1, 2011, are subject to the same contribution rates and benefit computation factors as state and local government members of OPERS. This year, HB 2322 went further to allow elected officials to begin participating in the "Step-Up" Program just as state and local government members are allowed to do. The Step-Up program allows members to pay an additional contribution, currently 2.91%, for an increased benefit computation factor of 2.5%.

## **House Bill 2939**

### **Information Technology Consolidation and Participation in Oklahoma Teachers' Retirement System**

This bill affects a relatively small number of members impacted by the 2011 Information Technology Consolidation and Coordination Act. HB 2939 provides state employees who are (or were) members of the Teachers' Retirement System of Oklahoma and are transferred from information technology departments of appropriated agencies to the Office of State Finance pursuant to the Information Technology Consolidation and Coordination Act may elect to continue their participation in the Teachers' Retirement System in lieu of participating in OPERS.

Any transferred employee who wishes to make this election must do so in writing within thirty (30) days of the effective date of this act, which is August 24, 2012. If a transferred employee who has already begun participating in OPERS elects to return to the Teachers' Retirement System, OPERS will transfer the service credit and contributions to the Teachers' Retirement System for any credit that accrued after the initial transfer. The election to continue or return to participation in the Teachers' Retirement System is irrevocable and effective until the employment with the Office of State Finance is terminated.

# 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, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Christopher P. Morrell*

President

*Jeffrey R. Emswiler*

Executive Director



Public Pension Coordinating Council

***Public Pension Standards Award  
For Funding and Administration  
2012***

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

# FINANCIAL SECTION

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## PROVISIONS

Like anything else, retirement is something you have to buy. However, unlike other purchases, you cannot take out a loan to pay for it. You have to know what you want in retirement and make a plan to get there.

The “four-legged chair” is an illustration we use frequently at OPERS and serves as a starting point in determining the necessary provisions we need for a secure retirement. Social Security, employer-sponsored retirement plans like OPERS, personal savings and investments, and working in retirement represent four possible sources of income we may use to support us in our retirement years. These income sources work together to provide real retirement security.

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# FINANCIAL STATEMENTS

## Independent Auditors' Report



Board of Trustees  
Oklahoma Public Employees Retirement System:

We have audited the accompanying statements of plan net assets of the Oklahoma Public Employees Retirement Plan (the Plan), a component unit of the state of Oklahoma, as of June 30, 2012 and 2011, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Plan at June 30, 2012 and 2011, and the changes in its net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report (under separate cover) dated October 18, 2012, on our consideration of the Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions in schedule 1 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The information included in the Introductory Section, the Investment Section, the Actuarial Section, the Statistical Section and schedules 2 through 4 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information in schedules 2 through 4 has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The information in the Introductory Section, the Investment Section, the Actuarial Section and the Statistical Section has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

Cole + Reed P.C.

Oklahoma City, Oklahoma  
October 18, 2012

# Management's Discussion and Analysis

As management of the Oklahoma Public Employees Retirement System (the Plan) we offer readers of the Plan's financial statements this narrative overview and analysis of the financial activities of the Plan for the fiscal years ended June 30, 2012 and 2011.

## Financial Highlights

- The net assets held in trust for pension benefits totaled approximately \$6.8 billion at June 30, 2012 compared to \$6.8 billion at June 30, 2011 and \$5.8 billion at June 30, 2010. The net assets are available for payment of monthly retirement benefits and other qualified distributions to the Plan's participants. The increase of \$1.0 billion from June 30, 2010 to June 30, 2011 resulted primarily from the changes in the fair value of the Plan's investments due to volatile equity markets.
- At June 30, 2012 and 2011 the total number of members participating in the Plan increased 3.8% and decreased 2.6%, respectively. Membership was 78,329 at June 30, 2012 and 75,491 at June 30, 2011. The number of retirees increased by 2.9% as of June 30, 2012 and increased by 5.0% as of June 30, 2011. The total number of retirees was 30,263 at June 30, 2012 and 29,418 at June 30, 2011.
- The funded ratio of the Plan was 80.2% at June 30, 2012 compared to 80.7% at June 30, 2011. The key item responsible for the change in the funded status was a liability gain of \$115.2 million resulting from an actuarial accrued liability that was lower than expected. The funded ratio of the Plan was 66.0% at June 30, 2010.

## Overview of the Financial Statements

The Plan is a multiple-employer, cost-sharing public employee retirement plan, which is a defined benefit pension plan. The Plan 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. For the majority of the Plan's members, benefits are determined at 2% of the average highest thirty-six months' annual covered compensation multiplied by the number of years of credited service. Normal retirement age under the Plan is 62 or when the sum of the member's age and years of credited service equals or exceeds 80 (90 for anyone who became a member after June 30, 1992). Legislation in 2011 raised retirement ages for most new members to age 65, or age 60 if the member's age and years of service equals or exceeds 90. Members become eligible to vest fully upon termination of employment after attaining eight years of credited service or the members' contributions may be withdrawn upon termination of employment.

The Plan's financial statements are comprised of a Statement of Plan Net Assets, a Statement of Changes in Plan Net Assets, and Notes to Financial Statements. Also included is certain required supplementary and supplementary information.

The Plan is administered by the Oklahoma Public Employees Retirement System, a component unit of the State, which together with other similar funds comprise the fiduciary-pension trust funds of the State.

The *notes to financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

The *required supplementary information* presents a schedule of funding progress and a schedule of employer contributions. Schedules of certain expenses and fees paid are presented as *supplementary information*.

## Management's Discussion and Analysis (continued)

### Financial Analysis

The following are the condensed Schedules of Plan Net Assets and Changes in Plan Net Assets for the Oklahoma Public Employees Retirement Plan for the fiscal years ended June 30, 2012, 2011, and 2010.

#### Condensed Schedule of Plan Net Assets

(\$ millions)	June 30		
	2012	2011	2010
<b>Assets:</b>			
Cash and cash equivalents	\$ 132.5	\$ 174.9	\$ 157.4
Receivables	326.9	360.1	307.8
Investments	6,864.9	6,875.9	5,766.9
Securities lending collateral	438.0	725.6	615.5
Property and equipment	0.9	0.8	0.7
Other assets	0.3	0.2	0.2
<b>Total assets</b>	<b>7,763.5</b>	<b>8,137.5</b>	<b>6,848.5</b>
<b>Liabilities:</b>			
Other liabilities	504.2	570.9	458.6
Securities lending collateral	438.0	725.6	615.5
<b>Total liabilities</b>	<b>942.2</b>	<b>1,296.5</b>	<b>1,074.1</b>
<b>Ending net assets held in trust for benefits</b>	<b>\$ 6,821.3</b>	<b>\$ 6,841.0</b>	<b>\$ 5,774.4</b>

#### Condensed Schedules of Changes in Plan Net Assets

(\$ millions)	June 30		
	2012	2011	2010
Member contributions	\$ 66.3	\$ 66.4	\$ 69.0
State and local agency contributions	262.7	252.9	259.8
Net investment income	154.7	1,226.7	716.9
<b>Total additions</b>	<b>483.7</b>	<b>1,546.0</b>	<b>1,045.7</b>
Retirement, death and survivor benefits	484.3	462.1	429.3
Refunds and withdrawals	14.3	12.6	11.0
Administrative expenses	4.8	4.7	4.5
<b>Total deductions</b>	<b>503.4</b>	<b>479.4</b>	<b>444.8</b>
<b>Total changes in plan net assets</b>	<b>\$ (19.7)</b>	<b>\$ 1,066.6</b>	<b>\$ 600.9</b>

For the year ended June 30, 2012 plan net assets decreased \$19.7 million or 0.3%. Total assets decreased \$374.0 million or 4.6% primarily due to a 39.6% decrease in securities lending collateral. Total liabilities decreased \$354.3 million or 27.3% primarily due to a 39.6% decrease in the securities lending collateral liability.

Fiscal year 2012 showed a \$1,062.3 million decrease in total additions and a \$24.0 million increase in total deductions. Compared to the prior year, the decrease in additions was due to decreases of \$1,076.3 million in the net appreciation of assets partially offset by a \$9.7 million increase in contributions. Deductions increased 5.0% due to the \$22.2 million increase in retirement, death and survivor benefits.

For the year ended June 30, 2011 plan net assets increased \$1,066.6 million or 18.5%. Total assets increased \$1.3 billion or 18.8% due to an 18.8% increase in pending sales of securities, a 17.0% increase in receivables, a 19.2% increase in investments and a 17.9% increase in securities lending collateral. Total liabilities increased \$222.5 million or 20.7% due to a 17.9% increase in the securities lending collateral liability and a 24.5% increase in other liabilities.

Fiscal year 2011 showed a \$500.3 million increase in total additions and a \$34.5 million increase in total deductions. Compared to the prior year, the increase in additions was due to increases of \$509.8 million in the net appreciation of assets partially offset by a \$9.5 million decrease in contributions. Deductions increased 7.8% due to the \$32.8 million increase in retirement, death and survivor benefits.

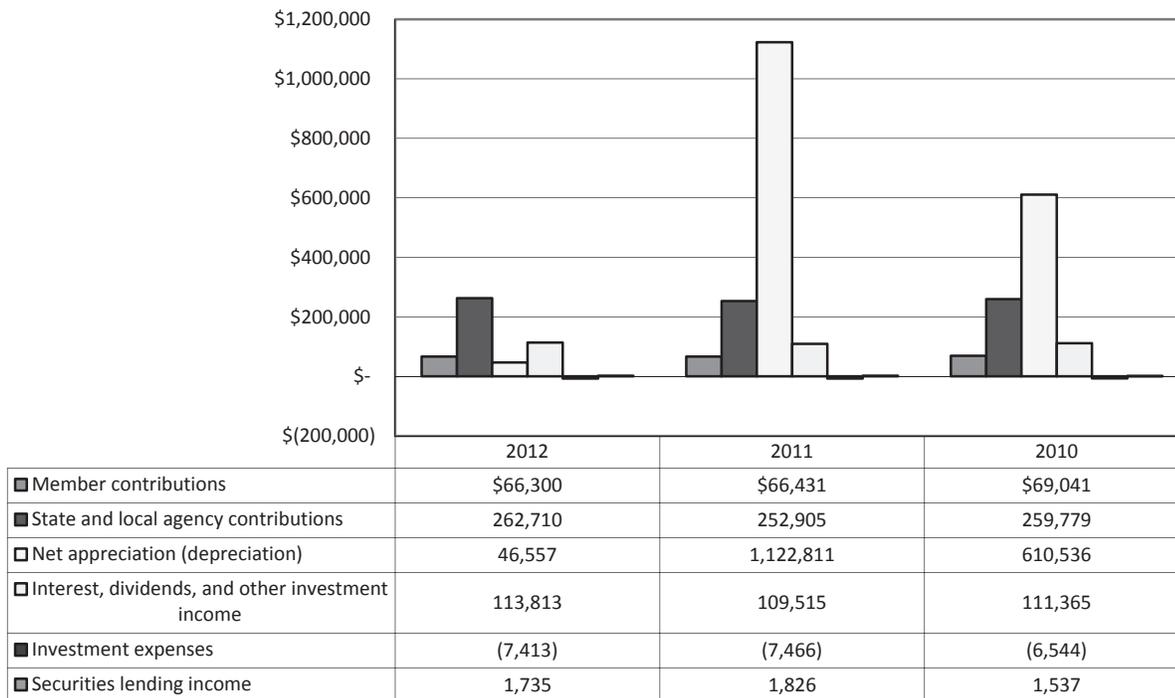
## Management's Discussion and Analysis (continued)

### Additions to Plan Net Assets

For the year ended June 30, 2012 total additions to plan net assets decreased \$1,062.3 million from the prior year. The net decrease in the fair value of investments of \$1,076.3 million was the result of the struggling market, particularly in domestic and international equities. Interest income increased \$1.0 million or 1.4%, and dividend income increased \$3.3 million or 8.3%. Securities lending net income decreased \$0.1 million or 5.0%. Contributions were \$9.7 million or 3.0% higher than the prior year due to increased employer contribution rates for state government.

### Additions to Plan Net Assets

Comparative Data for Fiscal Years Ended June 30, 2012, 2011, and 2010  
(\$ thousands)



For the year ended June 30, 2011 total additions to plan net assets increased \$500.3 million from the prior year. The net change in the fair value of investments of \$509.8 million was the result of the rebounding market in all asset classes. Interest income decreased \$7.1 million or 9.3%, and dividend income increased \$5.3 million or 14.9%. Securities lending net income increased \$0.3 million or 18.8%. Contributions were \$9.5 million or 2.9% lower than the prior year in spite of increased employer contribution rates for local government. The decrease is primarily due to a reduction in the number of active plan participants as a result of the Voluntary Buyout Offer Bill of 2010.

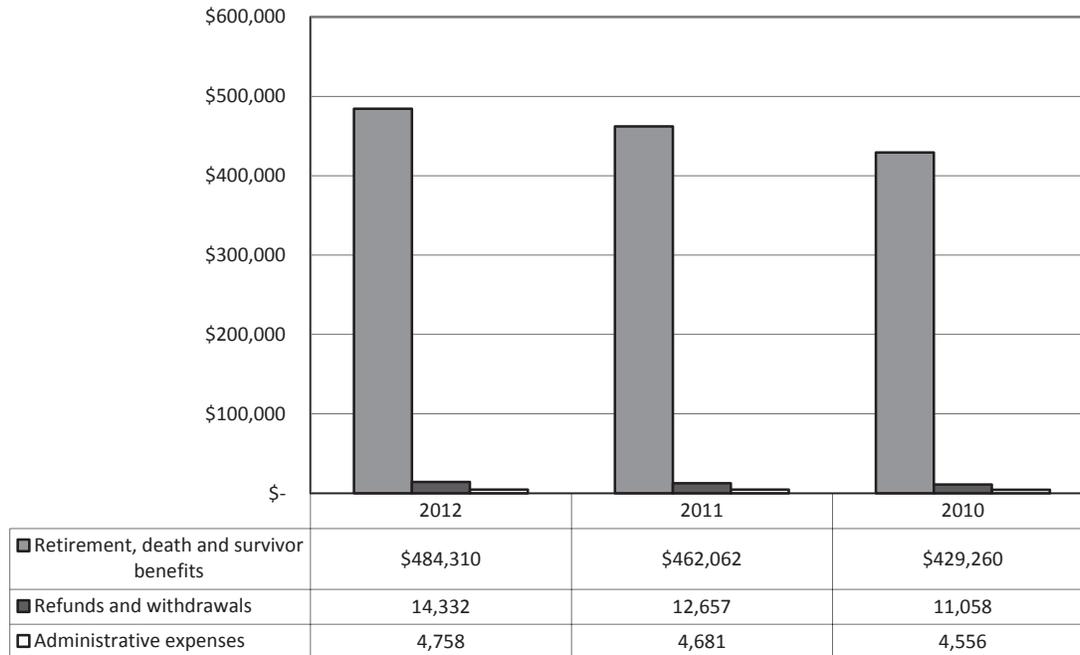
### Deductions to Plan Net Assets

For the year ended June 30, 2012 total deductions increased \$24.0 million or 5.0% from the prior year. Retirement, death and survivor benefits increased \$22.2 million or 4.8% due to a 2.9% increase in the number of retirees at year end and a 1.3% increase in the average benefit. Refunds and withdrawals increased \$1.7 million or 13.2% as more participants withdrew contributions during fiscal 2012. The 1.7% increase in administrative costs was primarily due to the increase in the allocation rate and personnel costs.

## Management's Discussion and Analysis (continued)

### Deductions to Plan Net Assets

Comparative Data for Fiscal Years Ended June 30, 2012, 2011, and 2010  
(\$ thousands)



For the year ended June 30, 2011 total deductions increased \$34.5 million or 7.8% from the prior year. Retirement, death and survivor benefits increased \$32.8 million or 7.6% due to a 5.0% increase in the number of retirees at year end and a 2.3% increase in the average benefit. Refunds and withdrawals increased \$1.6 million or 14.5% as more participants withdrew contributions during fiscal 2011. The 2.7% increase in administrative costs was primarily due to the increase in the allocation rate and personnel costs.

### Investments

The investment portfolio is reported in the chart below by the asset class of the investment managers' portfolios which includes the cash and cash equivalents in those portfolios. A summary of the Plan's cash, cash equivalents, and investments for fiscal years ended June 30, 2012, 2011, and 2010 is as follows:

#### Cash, Cash Equivalents, and Investment Portfolio

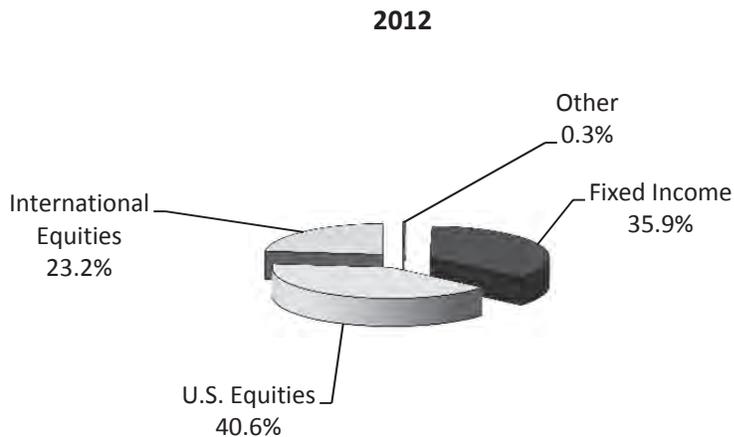
(\$ millions)

	June 30		
	2012	2011	2010
Fixed income	\$ 2,638.6	\$ 2,471.2	2,376.8
U.S. equities	2,762.4	2,881.1	2,218.9
International equities	1,573.7	1,681.6	1,297.9
Other	21.0	15.7	28.6
Total managed investments	6,995.7	7,049.6	5,922.2
Cash equivalents on deposit with State	1.7	1.2	2.0
Securities lending collateral	438.0	725.6	615.5
Total cash, cash equivalents, and investments	\$ 7,435.4	\$ 7,776.4	\$ 6,539.7

## Management’s Discussion and Analysis (continued)

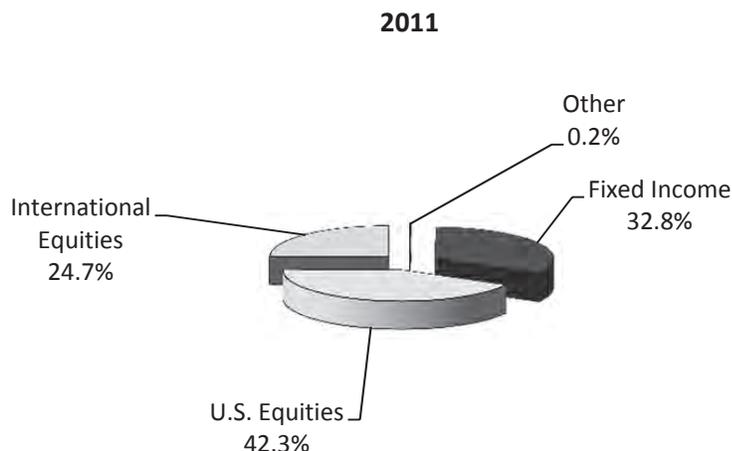
The decrease in the Plan’s managed investments is reflective of the decrease in domestic and international equity markets for the year. The Plan’s overall return for the year ended June 30, 2012 was 2.4%. An 11.5% return for the fixed income component exceeded the market trend for the asset class. U.S. equities showed a return of 4.1%, and international equities showed a return of negative 12.5%. Due to a rebalancing the portfolio, international equities were increased \$100.0 million during the year by reallocating of \$90.0 million from large cap equities and \$10.0 million from small cap equities. Amounts of \$131.8 million of U.S. equities and \$48.5 million of fixed income were used to supplement the cash requirements of monthly retiree benefit payments. The change in securities lending collateral is dependent on the securities loaned by the Plan’s master custodian at year end.

At June, 30, 2012 the distribution of the Plan’s investments including accrued income and pending trades was as follows:



The increase in the Plan’s managed investments is reflective of the increase in all markets for the year. The Plan’s overall return for the year ended June 30, 2011 was 21.2%. A 4.6% return for the fixed income component exceeded the market trend for the asset class. U.S. equities showed a return of 32.2%, and international equities showed a return of 30.0%. Domestic small cap equities were increased \$135.3 million during the year due to a reallocation of \$96.8 million from large cap equities and \$22.0 million from fixed income. Amounts of \$95.0 million of U.S. equities and \$46.7 million of fixed income were used to supplement the cash requirements of monthly retiree benefit payments. The change in securities lending collateral is dependent on the securities loaned by the Plan’s master custodian at year end.

At June, 30, 2011 the distribution of the Plan’s investments including accrued income and pending trades was as follows:



## Management's Discussion and Analysis (continued)

### Economic Factors

#### Funding

A measure of the adequacy of a pension's funding status is when it has enough money in reserve to meet all expected future obligations to participants. The funded ratios of the Plan at June 30 for the current and two preceding fiscal years were as follows:

<b>2012</b>	<b>2011</b>	<b>2010</b>
80.2%	80.7%	66.0%

#### Plan Amendments

Plan provision changes were enacted by the State Legislature during the session ended in May 2012. The changes include the elimination of rounding of service credit, allowing elected officials to begin participating in the "Step-Up" Program and allowing Teachers' Retirement System members affected by the 2011 Information Technology Consolidation and Coordination Act the ability to elect to continue their participation in the Teachers' Retirement System in lieu of participating in OPERS.

According to the Plan's actuary, none of these amendments will have any significant financial impact to the Plan.

#### Other

Other than changes in the fair value of Plan assets as may be impacted by the equity and bond markets, no other matters are known by management to have a significant impact on the operations or financial position of the Plan.

#### Requests for Information

This financial report is designed to provide a general overview of the Plan's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Financial Reporting Division, OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73152-3007.

## Statements of Plan Net Assets

June 30, 2012 and 2011

	2012	2011
<b>Assets</b>		
Cash equivalents	\$ 132,498,192	\$ 174,890,095
Receivables:		
Member contributions	3,560,487	3,077,652
State and local agency contributions	13,239,061	10,884,088
Due from brokers for securities sold	294,568,871	330,608,855
Accrued interest and dividends	15,491,139	15,493,674
Total receivables	326,859,558	360,064,269
Investments, at fair value:		
Short-term investments	9,518,119	39,569,804
Government obligations	1,675,214,620	1,435,424,873
Corporate bonds	865,697,402	854,458,642
Domestic equities	2,737,286,573	2,859,836,292
International equities	1,577,173,105	1,686,604,195
Securities lending collateral	437,964,331	725,638,216
Total investments	7,302,854,150	7,601,532,022
Property and equipment, at cost, net of accumulated depreciation of \$1,434,932 in 2012 and \$1,233,228 in 2011	941,641	818,679
Other assets	295,857	226,641
Total assets	7,763,449,398	8,137,531,706
<b>Liabilities</b>		
Due to brokers and investment managers	504,181,526	570,891,721
Securities lending collateral	437,964,331	725,638,216
Total liabilities	942,145,857	1,296,529,937
Net assets held in trust for pension benefits	\$ 6,821,303,541	\$ 6,841,001,769

See accompanying notes to financial statements.

## Statements of Changes in Plan Net Assets

Years Ended June 30, 2012 and 2011

	2012	2011
<b>Additions</b>		
Contributions:		
Members	\$ 66,299,570	\$ 66,431,434
State and local agencies	262,710,009	252,904,579
Total contributions	329,009,579	319,336,013
Investment income:		
From investing activities:		
Net appreciation in fair value of investments	46,557,082	1,122,811,032
Interest	69,997,122	69,039,631
Dividends	43,816,355	40,475,599
Total investment income	160,370,559	1,232,326,262
Less – Investment expenses	(7,412,642)	(7,466,011)
Income from investing activities	152,957,917	1,224,860,251
From securities lending activities:		
Securities lending income	853,893	2,381,383
Securities lending expenses:		
Borrower rebates	1,183,094	(232,771)
Management fees	(302,468)	(322,370)
Income from securities lending activities	1,734,519	1,826,242
Net investment income	154,692,436	1,226,686,493
Total additions	483,702,015	1,546,022,506
<b>Deductions</b>		
Retirement, death and survivor benefits	484,309,893	462,062,563
Refunds and withdrawals	14,331,714	12,656,758
Administrative expenses	4,758,636	4,680,679
Total deductions	503,400,243	479,400,000
Net (decrease) increase	(19,698,228)	1,066,622,506
<b>Net assets held in trust for pension benefits</b>		
Beginning of year	6,841,001,769	5,774,379,263
End of year	\$ 6,821,303,541	\$ 6,841,001,769

See accompanying notes to financial statements.

# Notes to Financial Statements

June 30, 2012 and 2011

## (1) Summary of Significant Accounting Policies

The following are the significant accounting policies followed by the Oklahoma Public Employees Retirement Plan (the Plan).

### (a) *Basis of Accounting*

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of their trade dates. Member and employer contributions are established by statute as a percentage of salaries and are recognized when due, pursuant to formal commitments, as well as statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

The Plan, together with other similar fiduciary – pension trust funds of the state of Oklahoma (the State), is a component unit of the State. The Plan is administered by the Oklahoma Public Employees Retirement System (OPERS). As set forth in Title 74, of the Oklahoma Statutes, at Section 921, administrative expenses are paid with funds provided by operations of the Plan.

### (b) *Investments*

The Plan is authorized to invest in eligible investments as approved by the Board of Trustees (the Board) as set forth in its investment policy.

Plan investments are reported at fair value. Short-term investments include bills and notes, commercial paper and international foreign currency contracts valued at fair value. Debt and equity securities are reported at fair value, as determined by the Plan's custodial agent, using pricing services or prices quoted by independent brokers based on the latest reported sales prices at current exchange rates for securities traded on national or international exchanges. The fair value of the pro rata share of units owned by the Plan in equity index and commingled trust funds is determined by the respective fund trustee based on quoted sales prices of the underlying securities.

Net investment income (loss) includes net appreciation (depreciation) in the fair value of investments, interest income, dividend income, securities lending income and expenses, and investment expenses, which includes investment management and custodial fees and all other significant investment related costs. Foreign currency translation gains and losses are reflected in the net appreciation (depreciation) in the fair value of investments.

The Plan's international investment managers may enter into forward foreign exchange contracts to protect against fluctuation in exchange rates between the trade date and the settlement date of foreign investment transactions. Any gains and losses on these contracts are included in income in the period in which the exchange rates change.

## Notes to Financial Statements (continued)

The Plan's investment policy provides for investments in combinations of stocks, bonds, fixed income securities and other investment securities along with investments in commingled, mutual and index funds. Investment securities and investment securities underlying commingled or mutual fund investments are exposed to various risks, such as interest rate and credit risks. Due to the risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities may occur in the near term and those changes could materially affect the amounts reported in the statement of plan net assets.

### **(c) Property and Equipment**

Property and equipment with an initial cost of \$100 and an estimated useful life of at least three years are considered capital assets. Property and equipment are carried at cost, less accumulated depreciation. Costs of additions are capitalized as are the costs of internally generated computer software. Maintenance and repairs are charged to expense as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets, as follows:

Furniture and equipment	10-15 years
Computer equipment	3-5 years

### **(d) Use of Estimates**

The preparation of the Plan's financial statements, in conformity with U.S. generally accepted accounting principles, requires the Plan administrator to make significant estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits at the date of the financial statements and the actuarial information included in Note (5) Funded Status and Actuarial Information and the required supplementary information (RSI) as of the benefit information date, the changes in Plan net assets during the reporting period and, when applicable, disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

## **(2) Plan Description and Contribution Information**

The following brief description of the Plan is provided for general information purposes only. Participants should refer to Title 74 of the Oklahoma Statutes, Sections 901 through 932 and 935, as amended, for more complete information.

### **(a) General**

The Plan is a multiple-employer, cost-sharing public employee retirement plan, which is a defined benefit pension plan covering substantially all state employees except employees covered by six other plans sponsored by the State. It also covers employees of participating county and local agencies. Agencies and/or participants not included in the Plan are as follows: teachers, municipal police, municipal firefighters, judicial, wildlife, and state law enforcement.

The supervisory authority for the management and operation of the Plan is the Board, which acts as a fiduciary for investment of the funds and the application of Plan interpretations.

Notes to Financial Statements (continued)

At June 30 the Plan's membership consisted of:

	2012	2011
Retirees and beneficiaries currently receiving benefits	30,263	29,418
Terminated vested participants	5,497	5,522
Active participants	42,569	40,551
<b>Total</b>	<b>78,329</b>	<b>75,491</b>

For purposes of the discussion on benefits and contributions, the members are described in the following categories: hazardous duty members, which includes certain employees of the Department of Corrections who are classified as correction officers, probation and parole officers and fugitive apprehension agents along with Oklahoma Military Department firefighters; elected officials, which includes elected officials who serve the State and participating counties; and State, county and local agency employees, which includes all other employees previously described. If the member category is not specifically identified, the attributes of the Plan discussed apply to all members.

**(b) Benefits**

Members qualify for full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90).

Normal retirement date is further qualified to require that all members employed on or after January 1, 1983, must have six or more years of full-time equivalent employment with a participating employer before being eligible to receive benefits. Credited service is the sum of participating and prior service. Prior service includes nonparticipating service before January 1, 1975, or the entry date of the employer and active wartime military service.

A member with a minimum of ten years of participating service may elect early retirement with reduced benefits beginning at age 55 if the participant became a member prior to November 1, 2011, or age 60 if the participant became a member on or after November 1, 2011.

Disability retirement benefits are available for members having eight years of credited service whose disability status has been certified as being within one year of the last day on the job by the Social Security Administration. Disability retirement benefits are determined in the same manner as retirement benefits, but payable immediately without an actuarial reduction.

The following are various benefit attributes for each member category:

***State, County and Local Agency Employees***

Benefits are determined at 2% of the average annual salary received during the highest thirty-six months of the last ten years of participating service, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. Normal retirement age under the Plan is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule of 90 if the participant became a member on or after November 1, 2011.

Members who elect to pay the additional contribution rate, which became available in January 2004, will receive benefits using a 2.5% computation factor for each full year the additional contributions are made. In 2004 legislation was enacted to provide an increased benefit to retiring members who were not yet

## Notes to Financial Statements (continued)

eligible for Medicare. The Medicare Gap benefit option became available to members under age 65 who retired on or after May 1, 2006. Members may elect to receive a temporary increased benefit to cover the cost of health insurance premiums until the member is eligible to receive Medicare. After the member becomes eligible for Medicare, the retirement benefit will be permanently reduced by an actuarially determined amount. The option is irrevocable, must be chosen prior to retirement, and is structured to have a neutral actuarial cost to the Plan.

Members become eligible to vest fully upon termination of employment after attaining eight years of credited service, or the members' contributions may be withdrawn upon termination of employment.

### ***Elected Officials***

Benefits are determined as the greater of the calculation described in the preceding section or, based on the official's contribution election, either 1.9% or 4.0% of the highest annual covered compensation received as an elected official, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. For members elected prior to November 1, 2011, normal retirement age under the Plan is 60 with six years of participation as an elected official or Rule of 80. For members elected on or after November 1, 2011, the normal retirement age is 62 with 10 years of participation as an elected official or 65 with eight years of participation as an elected official. Members elected prior to November 1, 2011 become eligible to vest fully upon termination of employment after attaining six years of participating service as an elected official. Members elected on or after November 1, 2011 become eligible to vest fully upon termination of employment after attaining eight years of participating service as an elected official. The members' contributions may be withdrawn upon termination of employment.

### ***Hazardous Duty Members***

Benefits are determined at (a) 2.5% of the final average compensation up to the applicable annual salary cap multiplied by the number of years of service as a hazardous duty member not to exceed 20 years and (b) 2.0% of the final average compensation multiplied by the number of years of service in excess of 20 years and any other years of service creditable. Normal retirement age under the Plan is 62 or at completion of 20 years of creditable service as a hazardous duty member or Rule of 80/90 if participant became a member prior to November 1, 2011, or age 65 or at completion of 20 years of creditable service as a hazardous duty member or Rule of 90 if participant became a member on or after November 1, 2011.

Military Department firefighters are not restricted to a maximum of 20 years of hazardous duty for the 2.5% computation.

However, members who contributed prior to July 1, 1990 but do not qualify for normal retirement as a hazardous duty member shall receive benefits computed at 2.5% of the final compensation for those full time years as a hazardous duty member after July 1, 1990, 2.25% before July 1, 1990, and 2.0% for all other years of credited service. Members become eligible to vest fully after 20 years of full time service as a hazardous duty member.

Upon the death of an active member, the accumulated contributions of the member are paid to the member's named beneficiary(ies) in a single lump sum payment. If a retired member elected a joint annuitant survivor option or an active member was eligible to retire with either reduced or unreduced benefits or eligible to vest the retirement benefit at the time of death, benefits can be paid in monthly payments over the life of the spouse if the spouse so elects.

Benefits are payable to the surviving spouse of an elected official only if the elected official had at least six years of participating elected service and was married at least three years immediately preceding death.

## Notes to Financial Statements (continued)

Survivor benefits are terminated upon death of the named survivor and, for elected officials, remarriage of the surviving spouse. Upon the death of a retired member, with no survivor benefits payable, the member's beneficiary(ies) are paid the excess, if any, of the member's accumulated contributions over the sum of all retirement benefit payments made.

Upon the death of a retired member, the Plan will pay a \$5,000 death benefit to the member's beneficiary or estate of the member if there is no living beneficiary. The death benefit will be paid in addition to any excess employee contributions or survivor benefits due to the beneficiary. Death benefits paid for the years ended June 30, 2012 and 2011 totaled approximately \$4,591,000 and \$4,436,000, respectively.

Legislation was enacted in 1999, which provided a limited additional benefit for certain terminated members eligible to vest as of July 1, 1998. This limited benefit is payable as an additional \$200 monthly benefit upon the member's retirement up to the total amount of certain excess contributions paid by the participant to the Plan. In April 2001 limited benefit payments began for qualified retired members. The estimated liability for future payments of the limited benefit of approximately \$0.8 million has been included in the calculation of the actuarial liability of the Plan at June 30, 2012 and 2011.

### (c) **Contributions**

The contribution rates for each member category of the Plan are established by the Oklahoma Legislature after recommendation by the Board based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates.

Each member participates based on their qualifying gross salary earned, excluding overtime. There is no cap on the qualifying gross salary earned, subject to Internal Revenue Service (IRS) limitations on compensation.

The following contribution rates were in effect:

#### ***State, County, and Local Agency Employees***

For 2012 and 2011, *state agency employers* contributed 16.5% and 15.5%, respectively, on all salary, and *state employees* contributed 3.5% on all salary for both years.

For 2012 and 2011, contributions of *participating county and local agencies* totaled 20.0% of salary composed of a minimum employee contribution rate of 3.5% up to a maximum of 8.5% and a minimum employer contribution rate of 11.5% up to a maximum of 16.5%.

Members have the option to elect to increase the benefit computation factor for all future service from 2.0% to 2.5%. The election is irrevocable, binding for all future employment under OPERS, and applies only to full years of service. Those who make the election pay the standard contribution rate plus an additional contribution rate, 2.91% which is actuarially determined. The election is available for all state, county and local government employees, except for elected officials and hazardous duty members. Elected officials elected on or after November 1, 2011 may choose this option.

#### ***Elected Officials***

Elected officials' employee contributions are based on the maximum compensation levels set for all members, and the participating employers are required to contribute on the elected officials' covered salary using the same percentage and limits as applicable for state agencies. Members elected prior to

**Notes to Financial Statements (continued)**

Effective July 1, 1999, elected officials must affirmatively elect or decline participation in the Plan within 90 days after taking office. This decision is irrevocable and failure of an elected official to decline to participate in the Plan will be deemed as an irrevocable election to participate and contribute at the highest rate (currently 3.5% for officials elected on or after November 1, 2011). All current elected officials who had not elected to participate in the Plan must have either elected, including selecting a contribution rate, or declined to participate in the Plan on or before December 1, 1999.

Elected officials who are first elected or appointed to an elected office between November 1, 2010, and October 31, 2011, may only select one of two benefit computation factors - 1.9% or 4.0% - with the respective employee contribution rates of 4.5% or 10.0%.

Effective November 1, 2011, elected officials who are first elected or appointed to an elected office participate with a benefit computation factor of 2.0% with an employee contribution rate of 3.5%.

***Hazardous Duty Members***

For 2012 and 2011 hazardous duty members contributed 8.0% and their employer agencies contributed 16.5% and 15.5%, respectively, on all salary.

**(d) Participating Employers**

At June 30, the number of participating employers was as follows:

	<b>2012</b>	<b>2011</b>
State agencies	127	126
County governments	75	75
Local government towns and cities	28	28
Other local governmental units	57	57
<b>Total</b>	<b>287</b>	<b>286</b>

**(3) Cash and Cash Equivalents**

Cash and cash equivalents represent short-term investment funds held by the Office of the State Treasurer (State Treasurer) and the Plan's custodial agent, and foreign currency.

At June 30 cash and cash equivalents were:

	<b>2012</b>	<b>2011</b>
Cash equivalents		
State Treasurer	\$ 1,696,249	\$ 1,276,210
Custodial agent	128,768,704	171,571,209
Foreign currency	2,033,239	2,042,676
<b>Total cash and cash equivalents</b>	<b>\$132,498,192</b>	<b>\$174,890,095</b>

Cash is deposited to *OK INVEST*, an internal investment pool of the State Treasurer with holdings limited to obligations of the U.S. Government, its agencies and instrumentalities, agency senior debt and mortgage-backed pass-through securities, tri-party repurchase agreements, money market mutual funds, collateralized certificates of deposit, commercial paper, obligations of state and local governments and State of Israel Bonds. Participants are limited to qualifying agencies and funds within the State's reporting entity, and each participant maintains an

## Notes to Financial Statements (continued)

interest in the underlying investments of *OK INVEST* and shares the risk of loss on the funds in proportion to the respective investment in the funds. The custodial agent cash equivalents consist of temporary investments in commingled trust funds of the Plan's custodial agent. The funds are composed of high-grade money market instruments with short maturities. Each participant in the funds shares the risk of loss on the funds in proportion to the respective investment in the funds.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agency but not in the depositor-government's name. At June 30, 2012 and 2011 the cash equivalents in *OK INVEST* and the Plan's custodial agent cash equivalents were not exposed to custodial credit risk because their existence cannot be evidenced by securities that exist in physical or book entry form.

At June 30, 2012, as a result of outstanding checks, the Plan's carrying amount in *OK INVEST* totaled \$1,696,249 and the bank balances totaled \$9,831,489. At June 30, 2011, as a result of outstanding checks, the Plan's carrying amount in *OK INVEST* totaled \$1,276,210 and the bank balances totaled \$9,269,403. At June 30, 2012 and 2011 the carrying amounts of the Plan's custodial agent cash equivalents were the same as the bank balances, \$128,768,704 and \$171,571,209, respectively.

The Plan holds foreign currency in banks outside the United States as a result of transactions of international investment managers. The foreign currency is in accounts in the name of the Plan's custodial agent and is uncollateralized, and the Plan is exposed to custodial credit risk. At June 30, 2012 and 2011 the foreign currency holdings were \$2,033,239 and 2,042,676, respectively. The Plan's exposure to foreign currency risk is detailed in the section entitled Investments, Foreign Currency Risk.

### (4) Investments

#### (a) General

The OPERS Statement of Investment Policy states that the Board believes that Plan assets should be managed in a fashion that reflects the Plan's unique liabilities and funding resources, incorporating accepted investment theory and reliable empirical evidence. Specifically, the Board has adopted the following principles:

- Asset allocation is the key determinant of return and, therefore, commitments to asset allocation targets will be maintained through a disciplined rebalancing program.
- Diversification, both by and within asset classes, is the primary risk control element.
- Passive fund portfolios are suitable investment strategies, especially in highly efficient markets. These index funds which are externally managed by professional investment management firms selected through due diligence of the Board are deemed to be actively managed accounts within the meaning of Section 909.1(D) of Title 74 of the Oklahoma Statutes.

At June 30, 2012 and 2011 the asset allocation guidelines established by policy were U.S. equities – 40%, international equities – 24%, and domestic fixed income – 36%. The guidelines also establish minimum and maximum percentages for each asset class allocation, and when allocations move outside these limits, portfolios are rebalanced.

## Notes to Financial Statements (continued)

The fair value of investments held by the Plan at June 30 was as follows:

	2012	2011
U.S. Treasury notes/bonds	\$ 569,249,755	\$ 310,627,697
U.S. Treasury strips	132,499,808	103,521,994
U.S. TIPS index fund	242,546,008	217,029,797
Government agencies	54,330,935	148,068,004
Government mortgage-backed securities	643,627,988	647,145,562
Municipal bonds	25,232,068	13,381,666
Corporate bonds	519,687,667	545,957,803
Asset-backed securities	214,912,773	157,360,480
Commercial mortgage-backed securities	95,659,590	130,337,416
Non government backed collateralized mortgage obligations	52,659,652	56,106,508
Domestic equities	1,141,258,519	1,183,856,294
U.S. equity index fund	1,596,028,053	1,675,979,998
International equities	447,742,645	576,635,456
International equity index funds	1,129,454,358	1,109,885,131
Securities lending collateral	437,964,331	725,638,216
<b>Total investments</b>	<b>\$ 7,302,854,150</b>	<b>\$ 7,601,532,022</b>

The Plan participates in a fixed income and international and domestic equity index funds managed by BlackRock Institutional Trust Company, N.A. (BTC). BTC, a subsidiary of BlackRock Inc., is a national banking association and operates as a limited purpose trust company. Its primary regulator is the Office of the Comptroller of the Currency (OCC), the agency of the U.S. Treasury Department that regulates United States national banks. Each fund is a collective fund which is a group trust and an entity separate from BTC, other funds, and the investing participants. BTC is trustee of each of the collective fund trusts and holds legal title to each trust's assets for the exclusive benefit of the Plan. The fair value of the Plan's position in the pool is the same as the value of the pool shares. As of June 30, 2012, the Plan was invested in three domestic equity index funds, two international equity index funds and a fixed income index fund. In 2011 the Plan invested in four domestic equity index funds, two international equity index funds and a fixed income index fund. The Plan shares the risk of loss in these funds with other participants in proportion to its respective investment. Because the Plan does not own any specific identifiable investment securities of these funds, the risk associated with any derivative investments held in these funds is not apparent. The degree of risk depends on the underlying portfolios of the funds, which were selected by the Plan in accordance with its investment policy guidelines including risk assessment.

The international funds invest primarily in equity securities of entities outside the United States and may enter into forward contracts to purchase or sell securities at specified dates in the future at a guaranteed price in a foreign currency to protect against fluctuations in exchange rates of foreign currency.

**(b) Securities Lending**

The Plan's investment policy provides for its participation in a securities lending program. The program is administered by the Plan's master custodian and there are no restrictions on the amount of loans that can be made. During 2012 and 2011 the types of securities loaned were primarily U.S. Government and corporate bonds, domestic equity securities, and international equity securities. Certain securities of the Plan are loaned to participating brokers, who must provide collateral in the form of cash, U.S. Treasury or Government Agency securities, or letters of credit issued by approved banks.

## Notes to Financial Statements (continued)

Under the terms of the securities lending agreement, collateral is required to be provided in the amount of 102% of the fair value of U.S. securities loaned, and 105% of the fair value of non-U.S. securities loaned. At June 30, 2012 and 2011 the Plan had no credit risk exposure to borrowers because the amounts the Plan owes the borrowers exceed the amounts the borrowers owe the Plan. The securities on loan at June 30, 2012 and 2011 were \$428,942,703 and \$706,274,811, respectively, and the collateral received for those securities on loan was \$437,964,331 and \$725,638,216, respectively. The master custodian provides for full indemnification to the Plan for any losses that might occur in the program due to the failure of a broker to return a security that was borrowed (and if the collateral is inadequate to replace the securities lent) or failure to pay the Plan for income of the securities while on loan. The Plan cannot pledge or sell collateral securities unless the borrower defaults. The loan premium paid by the borrower of the securities is apportioned between the Plan and its custodial agent in accordance with the securities lending agreement. All securities loans can be terminated on demand by either the lender or the borrower.

The securities lending agreement provides that cash collateral be invested in a custom fund established for holding the collateral on behalf of, and securing the loans of the Plan. This custom fund is administered by the custodial agent. The securities lending agreement sets forth credit quality standards, acceptable investments, diversification standards, and maturity and liquidity constraints for the investment fund. The Plan's investment guidelines do not require a matching of investment maturities with loan maturities, but do establish minimum levels of liquidity and other investment restrictions designed to minimize the interest rate risk associated with not matching the maturities of the investments with the loans. The dollar-weighted average maturity of cash collateral investments shall not exceed 90 days. At June 30, 2012 and 2011 the cash collateral investments had an average weighted maturity of 30 and 21 days, respectively. The Plan's non-cash collateral is held in a segregated account administered by the custodial agent for the Plan.

### (c) **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will default or will otherwise not fulfill its obligations.

The Plan's investment guidelines provide for the domestic fixed income managers to follow one of four investment styles and specifies quality guidelines for each style.

The *Constrained Core* manager will invest in a broadly diversified portfolio with characteristics similar to a broad fixed income market index such as the Barclays Capital Aggregate Bond Index. The total portfolio minimum quality should be A as rated by Standard and Poor's (S&P). The portfolio should primarily consist of investment grade securities, with a minimum quality rating for any issue of BBB- (S&P) or its equivalent rating by at least one Nationally Recognized Statistical Rating Organization (NASRO). In the event that a credit rating is downgraded below this minimum, the investment manager shall immediately notify OPERS staff and provide an evaluation and recommended course of action.

The *Core Plus* manager will invest in a broadly diversified portfolio with characteristics similar to the Constrained Core manager and will add a "plus" of limited exposure to high yield bonds. The total portfolio minimum quality should be A as rated by S&P. No more than 20% of the portfolio shall consist of non-investment grade issues. The minimum quality rating for any issue is B (S&P) or its equivalent rating by at least one NASRO and no more than 5% of a portfolio shall be invested in issues rated below BB (S&P) or its equivalent rating by at least one NASRO. In the event that a credit rating is downgraded below this minimum, the investment manager shall immediately notify OPERS staff and provide an evaluation and recommended course of action.

## Notes to Financial Statements (continued)

The *Interest Rate Anticipator* manager follows a style that seeks to correctly forecast the long term trend in interest rates and adjust the portfolio duration accordingly. The total portfolio minimum quality should be A as rated by S&P, and the portfolio should consist of investment grade securities only.

The *Passive* fixed income style consists of a TIPS index fund. TIPS are securities issued by the U.S. Government that are designed to protect the purchasing power of the investor.

At June 30, 2012 the domestic fixed income portfolio consisted of a constrained core fixed income portfolio, a core plus fixed income portfolio, a rate anticipator portfolio and a passive U.S. TIPS Index fund. All components met the stated policy restrictions except the core fixed income portfolio which held \$28,024,999 in issues rated below BBB- and the core plus fixed income portfolio which held \$6,228,848 in issues rated below B. The Plan's investment managers have advised retention of the securities after having assessed their risk/reward profiles. At June 30, 2011 the domestic fixed income portfolio consisted of a constrained core fixed income portfolio, a core plus fixed income portfolio, a rate anticipator portfolio and a passive U.S. TIPS Index fund. All components met the stated policy restrictions except the core fixed income portfolio which held \$18,121,029 in issues rated below BBB- and the core plus fixed income portfolio which held \$7,065,008 in issues rated below B. The Plan's investment managers have advised retention of the securities after having assessed their risk/reward profiles.

Investments issued by or explicitly guaranteed by the U.S. Government are not considered to have credit risk. At June 30, 2012 the Plan held 30.7% of fixed income investments that were not considered to have credit risk and 9.5% in a U.S. TIPS index fund made up of explicitly guaranteed U.S. Treasury Inflation-Protected Securities. At June 30, 2011 the Plan held 22.1% of fixed income investments that were not considered to have credit risk and 9.3% in a U.S. TIPS index fund made up of explicitly guaranteed U.S. Treasury Inflation-Protected Securities.

The Plan's exposure to credit risk at June 30, 2012 is presented below, in thousands, by investment category as rated by S&P or Moody's Investor Service.

	AAA/Aaa	AA/Aa	A/A	BBB/Baa	BB/Ba	B/B	CCC/Caa	Not Rated or Rating Not Available	Total
Government agencies	\$ -	\$ 41,668	\$ 11,911	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 53,579
Government mortgage- backed securities	8,882	12,676	-	-	-	-	-	550,524	572,082
Municipal bonds	5,678	9,059	10,495	-	-	-	-	-	25,232
Corporate bonds	43,546	63,012	177,869	169,578	45,412	9,614	-	1,162	510,193
Asset-backed securities	124,073	50,074	23,827	12,165	907	7	3,209	651	214,913
Commercial mortgage- backed securities	48,388	6,029	28,062	5,572	3,366	-	-	4,243	95,660
Non government backed collateralized mortgage obligations	36,608	1,503	-	4,483	1,905	-	8,160	-	52,659
Total fixed income securities exposed to credit risk	\$ 267,175	\$ 184,021	\$ 252,164	\$ 191,798	\$ 51,590	\$ 9,621	\$ 11,369	\$ 556,580	\$ 1,524,318
Percent of total fixed income portfolio	10.5%	7.2%	9.9%	7.5%	2.0%	0.4%	0.4%	21.9%	59.8%

Notes to Financial Statements (continued)

The Plan's exposure to credit risk at June 30, 2011 is presented below, in thousands, by investment category as rated by S&P or Moody's Investor Service.

	AAA/Aaa	AA/Aa	A/A	BBB/Baa	BB/Ba	B/B	CCC/Caa	Not Rated or Rating Not Available	Total
Government agencies	\$ 116,498	\$ -	\$ 8,734	\$ 5,908	\$ -	\$ -	\$ -	\$ 16,103	\$ 147,243
Government mortgage- backed securities	28,587	-	-	-	-	-	-	519,501	548,088
Municipal bonds	-	3,074	10,308	-	-	-	-	-	13,382
Corporate bonds	71,405	54,802	172,857	168,134	40,554	9,124	1,335	27,747	545,958
Asset-backed securities	101,237	26,815	16,189	3,427	3,344	10	3,628	2,710	157,360
Commercial mortgage- backed securities	76,907	9,452	40,541	2,917	520	-	-	-	130,337
Non government backed collateralized mortgage obligations	40,985	-	-	1,689	825	7,862	2,296	2,450	56,107
Total fixed income securities exposed to credit risk	\$ 435,619	\$ 94,143	\$ 248,629	\$ 182,075	\$ 45,243	\$ 16,996	\$ 7,259	\$ 568,511	\$ 1,598,475
Percent of total fixed income portfolio	18.7%	4.0%	10.7%	7.8%	1.9%	0.7%	0.4%	24.4%	68.6%

The exposure to credit risk of the underlying investments of the Plan's cash equivalents at June 30 is as follows:

Credit Rating	2012		2011	
	OK INVEST	Custodial Agent	OK INVEST	Custodial Agent
AAA	49.4 %	13.1 %	79.8 %	22.1 %
AA	46.9	86.1	1.3	—
A1	—	0.8	6.9	77.9
BBB	—	—	—	—
BB	—	—	—	—
NR	3.7	—	12.0	—
	100.0 %	100.0 %	100.0 %	100.0 %

(d) **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or a deposit. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates based upon the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. Effective duration estimates the sensitivity of a bond's price to interest rate changes and makes assumptions regarding the most likely timing and amounts of variable cash flows arising from investments such as callable bonds, collateralized mortgage obligations, and other mortgage-backed securities.

## Notes to Financial Statements (continued)

At June 30 the Plan's exposure to interest rate risk as measured by effective duration is listed below by investment category.

	2012		2011	
	Fair Value	Effective duration in years	Fair Value	Effective duration in years
U.S. Treasury notes/bonds	\$ 569,249,755	9.0	\$ 310,627,697	8.9
U.S. Treasury strips	132,499,808	20.2	103,521,994	21.0
U.S. TIPS index fund	242,546,008	8.2	217,029,797	7.6
Government agencies	54,330,935	4.0	148,068,004	3.3
Government mortgage-backed securities	643,627,988	2.3	647,145,562	3.6
Municipal bonds	25,232,068	9.4	13,381,666	9.2
Corporate bonds	519,687,667	4.4	545,957,803	4.2
Asset-backed securities	214,912,773	1.9	157,360,480	1.5
Commercial mortgage-backed securities	95,659,590	3.8	130,337,416	3.6
Non government backed collateralized mortgage obligations	52,659,652	1.6	56,106,508	1.6
<b>Total fixed income</b>	<b>\$ 2,550,406,244</b>		<b>\$ 2,329,536,927</b>	
<b>Portfolio duration</b>		<b>5.8</b>		<b>5.4</b>

The Plan does not have a formal investment policy on interest rate risk. Interest rate risk is controlled through diversification of portfolio management styles.

Some investments' sensitivity to changing interest rates may derive from prepayment options embedded in an investment. Asset-backed securities, mortgage-backed securities, and collateralized mortgage obligations are pass-through securities that represent pooled debt obligations repackaged as securities that pass income and principal from debtors through the intermediary to investors.

Asset-backed securities are bonds or notes backed by loan paper or accounts receivable originated by banks, credit card companies, or other providers of credit and often enhanced by a bank letter of credit or by insurance coverage proved by an institution other than the issuer. At June 30, 2012 and 2011 the Plan held \$214,912,773 and \$157,360,480, respectively, in asset-backed securities.

Mortgage-backed securities are securities backed by mortgages issued by public and private institutions. At June 30, 2012 and 2011 the Plan held \$643,627,988 and \$647,145,562, respectively, in government mortgage-backed securities issued by the Federal Home Loan Mortgage Corporation (FHLMC), Government National Mortgage Association (GNMA), and Federal National Mortgage Association (FNMA) as well as \$95,659,590 and \$130,337,416, respectively, in commercial mortgage-backed securities.

Collateralized mortgage obligations (CMOs) are mortgage-backed bonds that allocate mortgage cash flows (interest and principal) into different maturity classes, called tranches. This is accomplished by dedicating mortgage cash flows to specific tranches and paying each tranche off, in turn by prespecified rules. CMOs provide investors with increased security about the life of their investment compared to purchasing a pass-through mortgage-backed security. If mortgage rates drop (rise) sharply, prepayment rates will increase (decrease), and CMO tranches may be repaid before (after) the expected maturity. At June 30, 2012 and 2011 the Plan held \$52,659,652 and \$56,106,508, respectively, in non government backed CMOs.

## Notes to Financial Statements (continued)

The exposure to interest rate risk of the underlying investments of the Plan's cash equivalents at June 30 is as follows:

Maturities (in days)	2012		2011	
	OK INVEST	Custodial Agent	OK INVEST	Custodial Agent
0 - 14	14.1 %	45.4 %	20.2 %	18.7 %
15 - 30	0.8	8.2	0.8	14.7
31 - 60	0.8	10.6	1.4	16.4
61 - 90	0.7	10.5	1.3	24.8
91 - 180	2.6	4.3	4.3	11.8
181 - 364	3.4	16.3	3.9	13.6
365 - 730	12.1	4.7	9.3	0.0
Over 730	65.5	0.0	58.8	0.0
	100.0 %	100.0 %	100.0 %	100.0 %

### (e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The OPERS Statement of Investment Policy addresses foreign currency risk by stating that the primary sources of value-added for international equity investment managers will be issue and country selection, with currency management focused on limiting losses due to fluctuations in currency values.

The Plan's exposure to foreign currency risk by asset class at June 30, 2012 is as follows:

Currency	Equities	Short-term Investments	Cash	Total	Percent
Australian dollar	\$ 15,411,346	\$(13,966,056)	\$ -	\$ 1,445,290	0.1 %
Brazilian real	10,275,030	-	23	10,275,053	0.6
British pound sterling	62,525,784	(214,983)	250,831	62,561,632	3.9
Canadian dollar	5,699,183	-	170,835	5,870,018	0.4
Euro	134,417,356	-	657,000	135,074,356	8.5
Hong Kong dollar	21,124,148	-	325,900	21,450,048	1.4
Indonesian rupiah	6,348,509	131,031	59,785	6,539,325	0.4
Japanese yen	75,196,030	(240,143)	412,955	75,368,842	4.8
Malaysian ringgit	667,876	-	77,422	745,298	0.0
Mexican peso	3,401,704	-	78,475	3,480,179	0.2
Singapore dollar	11,438,482	-	13	11,438,495	0.7
South African rand	4,409,911	-	-	4,409,911	0.3
South Korean won	8,321,196	-	-	8,321,196	0.5
Swiss franc	23,017,070	491,481	-	23,508,551	1.5
Thai baht	4,008,678	-	-	4,008,678	0.3
Turkish lira	4,663,736	-	-	4,663,736	0.3
International portfolio exposed to foreign currency risk	390,926,039	(13,798,670)	2,033,239	379,160,608	23.9
International portfolio in U.S. dollars	1,186,247,066	13,822,568	6,928,415	1,206,998,049	76.1
<b>Total international portfolio</b>	<b>\$ 1,577,173,105</b>	<b>\$ 23,898</b>	<b>\$ 8,961,654</b>	<b>\$ 1,586,158,657</b>	<b>100.0 %</b>

## Notes to Financial Statements (continued)

The Plan's exposure to foreign currency risk by asset class at June 30, 2011 is as follows:

Currency	Short-term			Total	Percent
	Equities	Investments	Cash		
Australian dollar	\$ 31,606,695	\$(17,221,573)	\$ -	\$ 14,385,122	0.8 %
Brazilian real	13,068,865	-	18	13,068,883	0.8
British pound sterling	89,139,145	(493,030)	(3)	88,646,112	5.2
Canadian dollar	6,438,531	-	-	6,438,531	0.4
Egyptian pound	224,927	-	5,488	230,415	0.0
Euro	183,954,065	-	399,290	184,353,355	10.9
Hong Kong dollar	26,993,235	199,157	141,589	27,333,981	1.6
Indonesian rupiah	4,839,767	-	27,250	4,867,017	0.3
Japanese yen	87,474,243	-	1,425,709	88,899,952	5.3
Malaysian ringgit	1,344,274	-	-	1,344,274	0.1
Mexican peso	3,918,985	-	-	3,918,985	0.2
New Zealand dollar	1,319,889	(162,578)	-	1,157,311	0.1
Polish zloty	895,696	-	-	895,696	0.1
Singapore dollar	15,110,583	-	25	15,110,608	0.9
South African rand	6,672,028	22,871	43,309	6,738,208	0.4
South Korean won	9,056,125	102,242	-	9,158,367	0.5
Swiss franc	22,566,138	(12,412,862)	-	10,153,276	0.6
Thai baht	4,183,108	-	-	4,183,108	0.2
Turkish lira	4,240,234	-	1	4,240,235	0.3
International portfolio exposed to foreign currency risk	513,046,533	(29,965,773)	2,042,676	485,123,436	28.7
International portfolio in U.S. dollars	1,173,557,662	29,882,165	4,702,214	1,208,142,041	71.3
<b>Total international portfolio</b>	<b>\$ 1,686,604,195</b>	<b>\$ (83,608)</b>	<b>\$ 6,744,890</b>	<b>\$ 1,693,265,477</b>	<b>100.0 %</b>

The Plan's actively-managed international equity securities are recorded at fair value, which includes foreign currency gains and losses attributable to fluctuations in the exchange rate between the foreign denominated currency of the investment and the U.S. dollar. This translation gain or loss is calculated based on month-end exchange rates. Cumulative unrealized translation gains at June 30, 2012 and 2011 were approximately \$16.5 million and \$66.3 million, respectively.

### (5) Funded Status and Actuarial Information

#### (a) Funded Status and Funding Progress

The funded status of the Plan as of June 30 is as follows:

	2012	2011
Actuarial value of the assets (a)	\$ 6,682,200,296	\$ 6,598,627,939
Actuarial accrued liability (AAL) (b)	\$ 8,334,637,900	\$ 8,179,767,661
Total unfunded actuarial accrued liability (UAAL) (b-a)	\$ 1,652,437,604	\$ 1,581,139,722
Funded ratio (a/b)	80.2%	80.7%
Covered payroll	\$ 1,633,837,374	\$ 1,570,500,148
UAAL as a percentage of covered payroll	101.1%	100.7%

## Notes to Financial Statements (continued)

The schedules of funding progress, presented as RSI following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

### **(b) Actuarial Methods and Assumptions**

The information presented in the RSI was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation, June 30, 2012 is as follows:

#### ***Funding Method***

Costs are developed using the entry age normal cost method (based on a level percentage of covered payrolls). Under the method used for this plan, the accrued liability and the present value of future normal costs are determined by summing the individual entry age results for each participant.

The normal cost is then determined in the aggregate by spreading the present value of future normal costs as a level percentage of expected future covered payrolls. Entry age is defined as the first day service is credited under the Plan.

Experience gains and losses, i.e., decreases or increases in accrued liabilities attributable to deviations in experience from the actuarial assumptions, adjust the UAAL.

#### ***Asset Valuation Method***

For actuarial purposes, assets are determined equal to the prior year's actuarial value of assets plus cash flows (excluding realized and unrealized gains or losses) for the year ended on the valuation date assuming 7.5% interest return. Prior year's unrecognized gains and losses are added to this amount to develop expected actuarial value. The expected actuarial value is then compared to the market value of the assets at the valuation date, and 20% of any gain (loss) for the last five years is added to the expected actuarial value. The gain (loss) is amortized over five years with the actuarial value of the assets being constrained to a range of 80% to 120% of the market value at the valuation date.

#### ***Amortization***

The funding policy amortizes the UAAL on a level percent of payroll over a 20-year closed period. At June 30, 2012 there are 15 years remaining to the amortization period. Prior to July 1, 2007 the funding policy amortized the UAAL on the level dollar method, and the amortization period was 40 years from July 1, 1987.

#### ***Assumptions***

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2012 and 2011 are as follows:

- Investment return – 7.5% compounded annually
- Salary increases – 4.9% to 8.8% per year
- Mortality rates – Active participants and nondisabled pensioners – RP-2000 Mortality Table projected to 2010 by Scale AA (disabled pensioners set forward 15 years)
- No annual post-retirement benefit increases
- Assumed inflation rate – 3.0%
- Payroll growth – 4.0% per year
- Select period for the termination of employment assumptions – 10 years

## Notes to Financial Statements (continued)

### (6) Federal Income Tax Status

Pursuant to a determination by the IRS, the Plan is qualified under the Internal Revenue Code of 1986, as amended and, therefore, is exempt from federal income taxes. The latest determination letter is dated February 7, 2006 and was a favorable determination for the Oklahoma Public Employees Retirement Plan. The Plan has been amended since receiving the determination letter; however the plan administrator believes that the Plan is designed and is currently being operated in substantial compliance with the applicable requirements of the Internal Revenue Code and will retain its status as a qualified plan.

### (7) Plan Amendments

The State Legislature enacted the following plan provisions during the session ended in May 2012:

#### (a) *Rounding of Service Credit Eliminated for New Members*

HB 2321 eliminates rounding of service credit for members who join OPERS on or after November 1, 2012. The bill states the number of years of credited service used in calculating retirement benefits shall be based on actual years and months of credited service without rounding up or down. Members who joined OPERS prior to November 1, 2012, are not impacted by this new provision.

#### (b) *Step-Up Program Offered to Elected Officials*

SB 794 provided that newly elected officials after November 1, 2011, are subject to the same contribution rates and benefit computation factors as state and local government members of OPERS. This year, HB 2322 went further to allow elected officials to begin participating in the "Step-Up" program just as state and local government members are allowed to do. The Step-Up program allows members to pay an additional contribution, currently 2.91%, for an increased benefit computation factor of 2.5%.

#### (c) *Information Technology Consolidation and Participation in Oklahoma Teachers' Retirement System*

HB 2939 provides state employees who are (or were) members of the Teachers' Retirement System of Oklahoma and are transferred pursuant to the Information Technology Consolidation and Coordination Act may elect to continue their participation in the Teachers' Retirement System in lieu of participating in OPERS. The election to continue or return to participation in the Teachers' Retirement System is irrevocable and effective until the employment with the Office of Management and Enterprise Services is terminated.

### (8) New Pronouncements

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62) which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. GASB 62 is effective for financial statements for periods beginning after December 15, 2011.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63) which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for

## Notes to Financial Statements (continued)

reporting those financial statement elements, which are distinct from assets and liabilities. GASB 63 is effective for financial statements for periods beginning after December 15, 2011.

In April 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). GASB 65 provides further guidance on determining which balances currently reported as assets and liabilities should instead be reported as deferred outflows or deferred inflows of resources. GASB 65 is effective for periods beginning after December 15, 2012, and will be applied on a retroactive basis.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67). GASB 67 replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. GASB 67 builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. GASB 67 enhances note disclosures and required supplementary information (RSI) for both defined benefit and defined contribution pension plans. GASB 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The requirements of GASB 67 are effective for fiscal years beginning after June 15, 2013.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). GASB 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50 as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. GASB 68 also enhances accountability and transparency through revised and new note disclosures and RSI. The requirements of GASB 68 are effective for fiscal years beginning after June 15, 2014.

OPERS is currently evaluating the effects the above GASB Pronouncements will have on its financial statements.

## Required Supplementary Information

(Unaudited)

June 30, 2012

### Schedule 1

#### Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage % of Covered Payroll ((b-a)/c)
6/30/2007	\$6,110,230,058	\$8,413,248,130	\$2,303,018,072	72.6 %	\$1,626,737,832	141.6 %
6/30/2008	6,491,928,362	8,894,287,254	2,402,358,892	73.0	1,682,663,413	142.8
6/30/2009	6,208,245,334	9,291,457,837	3,083,212,503	66.8	1,732,975,532	177.9
6/30/2010	6,348,416,407	9,622,627,833	3,274,211,426	66.0	1,683,697,139	194.5
6/30/2011	6,598,627,939	8,179,767,661	1,581,139,722	80.7	1,570,500,148	100.7
6/30/2012	6,682,200,296	8,334,637,900	1,652,437,604	80.2	1,633,837,374	101.1

#### Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2007	\$338,550,016	58.4 %
2008	363,914,352	60.5
2009	323,104,773	75.2
2010	389,155,339	66.8
2011	402,011,633	62.9
2012	240,131,738	109.4

**Supplementary Information**  
**Schedule of Investment Expenses**  
Years Ended June 30, 2012 and 2011  
**Schedule 2**

	2012	2011
<b>Investment management fees</b>		
Fixed Income Managers:		
BlackRock Institutional Trust Company, N.A.	\$ 1,184,751	\$ 1,111,269
Hoisington Investment Management	354,082	332,247
Metropolitan West Asset Management, LLC	482,282	1,551,912
U.S. Equity Managers:		
Aronson, Johnson, and Ortiz, LP	-	132,311
Barrow, Hanley, Mewhinney & Strauss, Inc.	638,744	640,381
BlackRock Institutional Trust Company, N.A.	123,682	124,233
DePrince Race & Zollo, Inc.	1,065,955	163,435
Mellon Capital Management	125,000	125,000
State Street Global Advisors	98,114	87,617
Turner Investment Partners, Inc.	-	158,951
UBS Global Asset Management	734,612	282,954
International Equity Managers:		
BlackRock Institutional Trust Company, N.A.	503,230	525,753
Mondrian Investment Partners, Ltd	1,829,132	1,958,874
Total investment management fees	7,139,584	7,194,937
<b>Investment consultant fees</b>		
Strategic Investment Solutions, Inc.	244,105	242,134
<b>Investment custodial fees</b>		
Northern Trust Company	28,953	28,940
Total investment expenses	\$ 7,412,642	\$ 7,466,011

See accompanying independent auditors' report.

**Supplementary Information**  
**Schedule of Administrative Expenses**  
Years Ended June 30, 2012 and 2011  
**Schedule 3**

	<b>2012</b>	<b>2011</b>
Staff salaries	\$ 2,664,241	\$ 2,590,863
Social Security	196,285	190,661
Retirement	457,413	421,664
Insurance	633,685	589,537
Temporary employees	29,987	149,594
Total personnel services	3,981,611	3,942,319
Actuarial	147,917	101,967
Audit	182,148	129,715
Legal	32,352	29,247
Administrative	35,000	52,600
Total professional services	397,417	313,529
Printing	83,860	111,570
Telephone	23,949	19,780
Postage and mailing expenses	121,951	114,572
Travel	37,588	37,137
Total communication	267,348	283,059
Office space	200,895	183,239
Equipment leasing	40,347	42,519
Total rentals	241,242	225,758
Supplies	34,485	37,641
Maintenance	87,493	83,027
Depreciation	222,157	204,632
Other	132,643	154,243
Total miscellaneous	476,778	479,543
Total administrative expenses	5,364,396	5,244,208
Administrative expenses allocated		
Uniform Retirement System for Justices and Judges (URSJJ)	(154,623)	(118,765)
Oklahoma State Employees Deferred Compensation Plan (DCP)	(359,035)	(356,095)
Oklahoma State Employees Deferred Savings Incentive Plan (SIP)	(92,102)	(88,669)
Total administrative expenses allocated	(605,760)	(563,529)
Net administrative expenses	\$ 4,758,636	\$ 4,680,679

Note to Schedule of Administrative Expenses

Administrative overhead expenses, including personnel and other supporting services costs, which are paid for by the Plan, are allocated to three other retirement funds also administered by OPERS. The allocation is based on OPERS' estimate of the cost of service provided by the Plan to the other funds.

See accompanying independent auditors' report.

## Supplementary Information Schedule of Professional/Consultant Fees

Years Ended June 30, 2012 and 2011

### Schedule 4

		2012	2011
<b>Professional/Consultant</b>	<b>Service</b>		
Cavanaugh Macdonald Consulting, Inc.	Actuarial	\$ 147,917	\$ 79,167
Milliman, Inc.	Actuarial	-	22,800
Cole & Reed PC	External Auditor	79,300	79,300
Finley & Cook, PLLC	Internal Auditor	102,848	50,415
Ice Miller LLP	Legal	25,302	11,619
Phillips Murrah, P.C.	Legal	-	7,778
Lee Slater, Attorney at Law	Hearings Examiner	3,150	-
Michael Mitchelson	Hearings Examiner	2,250	50
Slater & Denny	Hearings Examiner	1,650	9,800
	Performance Measurement		
CEM Benchmarking, Inc.	Consulting	35,000	35,000
Principal Technologies, Inc.	Executive Search	-	12,600
Glass Lewis & Co.	Proxy Services	-	5,000
<b>Total professional/consultant fees</b>		<b>\$ 397,417</b>	<b>\$ 313,529</b>

See accompanying independent auditors' report.

# INVESTMENT SECTION

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## **BASE CAMP**

Securing a strong financial footing will be a constant struggle if we are unable to quantify what we own versus what we owe. Understanding and calculating net worth on a regular basis serves as a base camp of sorts for retirement planning – a place where we can inventory our assets and liabilities on a regular basis, make adjustments to our plan, and take our first steps toward the summit.

Our money habits should support our personal values, priorities, and needs. Having a large net worth and successfully managing our money is not necessarily dependent on how much money we earn, but how much we keep. Net worth serves as a scorecard for regularly evaluating our progress.

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# Investment Consultant's Report

STRATEGIC INVESTMENT SOLUTIONS, INC.

Strategic Investment Solutions, Inc.  
 333 Bush St., Ste. 2000  
 San Francisco, CA 94104

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## Investment Objectives

The primary financial objective is to earn a long-term return sufficient to avoid deterioration in funded status. The System's actuary estimates this return requirement to be 7.5% while its investment consultant estimates the real return requirement to be 5.1%.

Secondary goals are to outperform the asset allocation-weighted benchmark and to rank in the top forty percent of a universe of public pension funds.

## Asset Allocation

The System's Investment Philosophy stresses the following key points:

1. Asset allocation is the key determinant of return. Therefore, commitments to asset allocation targets are maintained through a disciplined rebalancing program.
2. Diversification, both by and within asset classes, is the primary tool for risk control.
3. Passive instruments (index funds) are suitable strategies in highly efficient markets.

ASSET CLASS	6/30/12 ALLOCATION	LOW	TARGET	HIGH	% PASSIVE OR SEMI-PASSIVE
US EQUITY	40.6%	34.7%	40.0%	45.3%	81.0%
FIXED INCOME	35.9%	31.9%	36.0%	40.1%	61.7%
INT'L EQUITY	23.2%	21.0%	24.0%	27.0%	71.7%
CASH	0.3%	0.0%	0.0%	0.0%	100.0%

## Investment Consultant's Report (continued)

### Review of Fiscal 2012 Investment Environment

Fiscal year ended June 30, 2012 saw a mixed set of equity returns for the twelve-month period; with positive returns in US stock markets, and losses in foreign stock markets in excess of -14%. The Fixed Income markets continued to generate positive returns in fiscal year 2012 as short-term interest rates were kept at historically low levels, and US Treasuries rallied due to a flight to quality by investors. Spread fixed income instruments such as corporate bonds also rallied during the last nine months of the fiscal year. As a diversified investor, Oklahoma Public Employees Retirement System (OPERS) experienced a +2.4% return for the fiscal year. The +2.4% result was above OPERS policy benchmark of +2.1% for the fiscal year by +30 basis points.

Fiscal year 2012 was once again positive for the US equity markets and foreign equity markets experienced negative results as the sovereign debt crisis in Europe continued to be an issue with investors. For the fiscal year, the Russell 3000 US Stock Index gained +3.8% and the MSCI ACW (All Country World) ex-US Index of foreign stocks lost -14.1%. The US fixed income market produced a positive return (+7.5% Barclays Capital US Aggregate Index) for the fiscal year ended June 30, 2012.

Within the US equity markets, stocks of large companies outperformed small companies (+4.4% versus -2.1%) for the fiscal year. Growth stocks outperformed value on a relative basis in large caps (+5.8% versus +3.0%) and within small caps value stocks outperformed growth stocks on a relative basis (-1.4% versus -2.7%).

### Performance Review

At quarterly intervals, the System reviews performance at the total fund, asset class and individual manager levels. At each level, returns are evaluated versus appropriate indexes and peers. Index comparisons have as return objectives various after-fee return premiums with risk (standard deviation) not exceeding 125%-150% of the underlying index. Comparisons with peers seek top forty percentile results.

Investment returns achieved through June 30, 2012 have been calculated using a time-weighted rate of return methodology based upon market values. As shown in the following table, for the 1, and 3-year annualized time periods ended June 30, 2012 the US Equity asset classes performed above its respective benchmark and for the 5-year annualized time period slightly below it. The Non-US Equity asset class performed above its respective benchmark for the 1, 3 and 5-year annualized time periods ended June 30, 2012. The Fixed Income asset class performed above its respective benchmark for the 1, 3 and 5-year annualized time periods ended June 30, 2012.

The Domestic Equity asset class was ranked above median for the annualized time periods of 1 and 3-years and below it for 5-years. The Non-US Equity asset class was ranked right at about median for the annualized time periods of 1, 3 and 5-years. The Fixed Income asset class was ranked above median for these same annualized time periods.

## Investment Consultant's Report (continued)

The total OPERS Plan has performed above its Policy Benchmark for the annualized time period of 1, 3 and 5-years to June 30, 2012. The ranking for the total OPERS Plan for the annualized time period of five years is at the 15th percentile for the peer universe of Public Funds greater than \$100 Million.

PERIODS ENDED 6/30/12	ONE YEAR	THREE YEARS	FIVE YEARS
<b>Domestic Equity</b>	+4.1%	+17.0%	+0.2%
<i>87.5% Russell 1000 / 12.5%</i>			
<i>Russell 2000</i>	+3.6%	+16.8%	+0.4%
Rank	30*	48	71
<b>Non-US Equity</b>	-12.5%	+7.8%	-4.0%
<i>MSCI ACWI ex-US</i>	-14.1%	+7.4%	-4.2%
Rank	47	56	49
<b>Fixed Income</b>	+11.5%	+9.6%	+8.4%
<i>80% BC Agg./ 10% Citi 20-</i>	+10.7%	+7.7%	+7.6%
<i>Year Index/ 10%BC US TIPS</i>			
Rank	14	40	30
<b>Total Fund</b>	+2.4%	+12.2%	+2.7%
<i>Policy Benchmark***</i>	+2.1%	+11.7%	+2.5%
<i>Public Fund &gt; \$100 Million</i>	+1.1%	+11.7%	+1.8%
<i>Median Rank**</i>	16	36	15

\* Ranking 1 is best, 100 is worst.

\*\* Rankings source - ICC Public Funds Universe

\*\*\* Policy Benchmark is: 40% (87.5% Russell 1000/ 12.5% Russell 2000) Custom Domestic Equity Benchmark /36% (80% BC Agg / 10% Citi 20-Year / 10% BC US TIPS) Custom Fixed Income Benchmark / 24% MS ACWI ex-US.

Yours truly,



Paul S. Harte  
Senior Vice President

# Chief Investment Officer's Report

## Oklahoma Public Employees Retirement System

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Oklahoma City, Oklahoma 73152-3077

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Dear Members:

Fiscal year 2011 was a blockbuster of a year from a return perspective, which also made it a tough act to follow. The encore to the impressive results experienced last fiscal year very much reminded me of a sequel to a blockbuster movie. Fiscal year 2012 had a lot of action, but in the end, didn't really live up to expectations. Capital markets were volatile throughout the year, and the overall Fund managed to produce a return of 2.44%. OPERS' performance, while modest, still placed it in the top quarter of its public fund peers. This year's letter, which covers the 2012 fiscal year, will follow the same format as last year. First, I will discuss the general economic environment and the performance of various markets throughout the fiscal year. Next, I will focus on the Fund by reviewing the investment performance and the asset allocation. After that, I will offer an investment outlook and discuss recent events at the Fund. Lastly, I will review the Fund's investment philosophy and guiding principles, because both are critically important to the investment decision-making process.

### **Economic Environment**

Headwinds for the global economic environment appeared to accelerate during the fiscal year, especially in the Eurozone. The World Bank cut its global economic growth forecasts as the turmoil in European economies threatened to negatively impact growth in the U.S., Asia, and in emerging countries. In the U.S., the recovery continued albeit at a very slow pace. Real GDP grew at an annual rate of 1.5% for the three months ending June 30, 2012. The jobs market in the U.S. remained stagnant, as the unemployment rate hit 8.2% in June. The lack of improvement in the jobs market created difficulty in generating positive momentum for the economy as a whole and caused economic growth to continue at levels below its potential. The Federal Reserve announced another program designed to stimulate activity in the U.S. economy, called "Operation Twist." The program is designed to lower interest rates at the long end of the yield curve by purchasing relatively long duration bonds and selling shorter maturity bonds. Political disagreements in the management of existing and potential fiscal risks in the U.S. also created an environment of uncertainty and fear, and resulted in a downgrade of the U.S. sovereign credit rating to AA+ by S&P.

The European Union continued to struggle with the sovereign debt problems of several peripheral European countries. The government debt ratings of six European countries were downgraded by Moody's in early 2012. In March 2012, owners of Greek government debt were forced to accept a restructuring that resulted in a 50% principal reduction, lower interest rates, and extended maturities on Greek debt holdings. The European Central Bank cut rates to a record low as Mario Draghi, ECB President, stated "downside risks to the euro-area economic outlook have materialized." The global risk capital markets continued to be negatively impacted by the lack of resolution to this crisis, but especially those markets in European countries.

## Chief Investment Officer's Report (continued)

### U.S. and Global Stock Markets

The U.S. stock market, as measured by the Russell 3000 Index, experienced volatility during the fiscal year. The Russell 3000 Index is one of the broadest equity indices available and a good proxy for the U.S. equity market as a whole. The U.S. market declined sharply during the first half of the fiscal year, but was able to muster a modest comeback despite evidence of slowing economic activity and a stagnant jobs market in the U.S.

#### Change in the Russell 3000 Index during the fiscal year ended June 30, 2012

Value at 6/30/11 3577.97

Value at 6/30/12 3715.35



Source: Frank Russell Company

The Russell 3000 Index ended the fiscal year up 3.84% for the period. The stock market declined precipitously in August of 2011, as political gridlock concerning the national debt ceiling caused angst for investors. In addition, Standard & Poor's (S&P) downgraded the AAA credit rating of the U.S. Government to AA+. These events combined to result in the worst market environment in the U.S. since the bankruptcy of Lehman Brothers and the beginning of the Great Recession in the U.S.

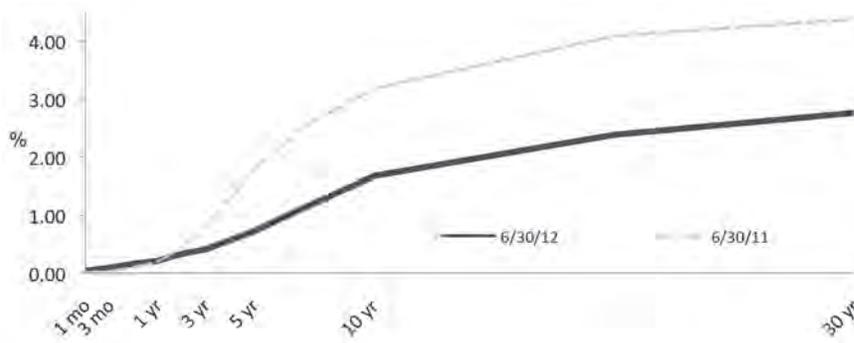
The U.S. market rebounded as the Federal Reserve acted in concert with five other central banks to respond to the European Debt Crisis with programs designed to allow banks outside the U.S. to borrow dollars more cheaply. For the 12 months ended June 30, 2012, the riskiest parts of the market responded the most to the general lack of investor confidence. Small capitalization stocks underperformed large capitalization stocks by almost 6.5% for the fiscal year. Despite the relatively disappointing returns in the U.S., it was still one of the top performing markets in the developed world as equity markets outside the U.S. performed much worse. The MSCI All Country World Index ex-U.S. (ACWI ex-U.S. Index), which includes developed and emerging markets, lost over 14% in U.S. dollar terms for the fiscal year as investors fled markets that were impacted by the European debt crisis. The U.S. dollar strengthened relative to many other foreign currencies, which is common in times of tumult, but also exacerbated U.S. dollar investor losses in European markets.

### Interest Rates

The chart on the next page depicts the U.S. Treasury term structure of interest rates. The yield curve is a graphical representation of yield levels across the spectrum of bond maturities. As shown, rates remained extraordinarily low in the short end of the curve and fell dramatically in the long end of the curve. The Federal Reserve continued its accommodative posture by keeping the short term Federal Funds Rate near zero (0-0.25%) and assured investors it will remain accommodative in order to stimulate economic activity.

## Chief Investment Officer's Report (continued)

U.S. Treasury Yield Curve



Source: U.S. Treasury

Yields on U.S. Treasury bonds generally ended the 2012 fiscal year lower compared to fiscal year-end 2011. Yields on U.S. Government debt reacted to several factors during the year. First, yields fell as investors fled from risk assets, especially in Europe. Secondly, the Fed's "Operation Twist" was designed to reduce interest rate levels in the longer end of the yield curve to stimulate borrowing by corporations and consumers, and therefore spur economic activity. During the year, the 10-year Treasury yield declined from 3.22% at the beginning of the fiscal year to record-breaking low levels at the end of the fiscal year. The 10-year Treasury bond ended the fiscal year yielding 1.67%.

### Investment Returns Through June 30, 2012

U.S. Equity	Style	1 Year	3 Years	5 Years
Russell 3000	Broad US Equity	3.84%	16.73%	0.39%
S&P 500	Large Cap Equity	5.45%	16.40%	0.22%
Russell 1000	Large Cap Equity	4.37%	16.64%	0.39%
Russell 1000 Growth	Large Cap Growth	5.76%	17.50%	2.87%
Russell 1000 Value	Large Cap Value	3.01%	15.80%	-2.19%
Russell 2000	Small Cap Equity	-2.08%	17.80%	0.54%
Russell 2000 Growth	Small Cap Growth	-2.71%	18.09%	1.99%
Russell 2000 Value	Small Cap Value	-1.44%	17.43%	-1.05%
<b>Oklahoma Public Employees Retirement System</b>	<b>Broad US Equity</b>	<b>4.07%</b>	<b>16.97%</b>	<b>0.19%</b>
U.S. Fixed Income	Style	1 Year	3 Years	5 Years
ML 3-Month T-Bill	Cash	0.04%	0.10%	0.87%
Barclays U.S. Aggregate	Core Bonds	7.47%	6.93%	6.79%
Citigroup 20-year Treasury Average	Long Term Bonds	37.19%	14.05%	12.47%
ML High Yield Master II	High Yield Bonds	6.51%	16.16%	8.16%
<b>Oklahoma Public Employees Retirement System</b>	<b>Domestic Fixed Income</b>	<b>11.45%</b>	<b>9.58%</b>	<b>8.35%</b>
International Equity	Style	1 Year	3 Years	5 Years
MSCI ACWI Ex-US	Broad Non-US Equity	-14.15%	7.43%	-4.18%
MSCI EAFE	Developed Non-US Equity	-13.38%	6.45%	-5.63%
MSCI Emerging Market	Emerging Non-US Equity	-15.67%	10.10%	0.21%
<b>Oklahoma Public Employees Retirement System</b>	<b>Non-US Equity</b>	<b>-12.47%</b>	<b>7.77%</b>	<b>-4.04%</b>
Oklahoma Public Employees Retirement System	Total Fund	2.44%	12.22%	2.75%

## Chief Investment Officer's Report (continued)

### Investment Performance

#### **Risk Assets Capitulate to Global Concerns**

The total OPERS Fund produced reasonable results, returning 2.44% for the period. The Fund outperformed the policy benchmark portfolio by thirty basis points (.30%) for the period, as the contribution from the advisors that OPERS hires to manage the investments mandates was positive, on balance, relative to each manager's respective benchmark. As I mentioned in the introduction to this letter, this year's result seems meager when compared to the last several fiscal years, but was still a positive outcome given the volatility in the market.

The Fund benefited from positive absolute returns from several asset classes in which it is invested, but especially within the fixed income segment. The biggest positive driver of returns for the fiscal year was the Fund's fixed income allocation. Overall, the fixed income portfolio returned an unsustainable 11.45%. Next, the U.S. equity portfolio contributed positively, with a return of over 4% for the period. Lastly, the non-U.S. segment of the portfolio was a negative contributor, as the sell-off in global developed and emerging markets produced U.S. dollar losses of over 12% to the Fund.

#### **U.S. Equity**

The Fund used a mix of passive and active investment management within the domestic equity portfolio structure, but the vast majority of U.S. equity assets are managed in a passive style. On balance, active U.S. equity management was a positive contributor to performance for the fiscal year. The Fund benefited from active management in every U.S. equity segment where active management is used. The enhanced index managers added value for the Fund, as those managers tend to emphasize the quality aspects of stocks, which was rewarded during the fiscal year. Two of the three active managers who specialize in small capitalization stocks also performed especially well compared to their respective benchmarks. As a whole, the Fund benefited from both the exposure to U.S. Equity and the performance of the managers within this segment for the fiscal year.

#### **Non-U.S. Equity**

The non-U.S. equity portfolio performed poorly on a nominal basis, having lost more than 12% for the fiscal year. Much like the U.S. Equity portfolio, the majority of these Fund assets are managed in a passive style. One manager uses active strategies in the international value area, and significantly outperformed its benchmark for the period. The manager emphasizes defensive, yield-oriented stocks, which held up better than the other parts of the non-U.S. market. The remaining two mandates in the non-U.S. equity portion of the portfolio are passively managed. One of the passively managed portfolios, the MSCI All Country World Index portfolio, underperformed the benchmark for the year. The contribution from active management helped the non-U.S. segment of the portfolio, but not enough to compensate for the turbulence experienced by the asset class.

#### **Fixed Income**

The Fund's bond portfolio was the largest contributor to the overall results for the fiscal year. While both fixed income managers benchmarked to the broad fixed income market managed to outperform the index, the real stars of the show were the mandates that feature U.S. Government debt. Generally, U.S. Treasury exposure performs well when risk aversion by investors is high, as was the case for most of the fiscal year. In the interest-rate sensitive portion of the portfolio, the manager who emphasized long-duration U.S. Treasury securities returned over 45% as yields fell to record lows in the long end of the curve. The portion of the fixed income portfolio dedicated to protecting against unanticipated increases in inflation rates, the TIPs Index, returned almost 12% for the period. Given the low level of yields currently available, we do not expect results like this to continue.

## Chief Investment Officer’s Report (continued)

### Asset Allocation

#### Diversification Reduces Volatility

Diversification continues to be the most effective defense against the risks associated with any one individual security or asset class. Risks are controlled by allocating the Fund’s assets across various asset classes and sectors within asset classes.

Asset Class	Min	6/30/2012	Target	Max
Cash	0.0%	0.3%	0.0%	0.0%
Domestic Fixed Income	31.9%	35.9%	36.0%	40.1%
U.S. Equity	37.3%	40.6%	40.0%	42.7%
Non-U.S. Equity	21.0%	23.2%	24.0%	27.0%
<b>Total Fund</b>		<b>100%</b>	<b>100%</b>	

### Outlook and Recent Events

#### Outlook

Again this year, I will issue my standard caution regarding the accuracy of forecasted market returns. Correctly and consistently forecasting the market’s behavior is impossible, and taking any forecast as fact is sheer folly. We build the Fund according to the tenets set forth in the Investment Policy making diversification, with respect to different asset classes and within each asset class, a priority.

The global economic environment is a bit precarious at the moment. It would appear that Europe is in recession, and the U.S. and other developed nations are feeling the effects in the form of slowing economic activity as well. Emerging markets, long known as the little engines of economic growth, also appear to be slowing, although from higher relative growth levels. For the most part, central banks across the globe have offered assistance to global capital markets in the form of programs designed to inject liquidity into markets. While these programs certainly help, market sentiment would significantly benefit from signs that progress is being made on long-term structural reforms, such as the public debt situations in Europe and the U.S.

Again for 2012 our largest concern continues to be the prospects for generating and maintaining investment results that match or exceed the actuarial assumed rate of return of 7.5%. We continue to believe this will be a challenging task going forward. Interest rates in fixed income markets are even lower than last year, which will put more pressure on the long-term return generating capacity of a diversified portfolio.

#### Fixed Income

Yields dropped from exceptionally low levels to record low levels over the course of the year in the fixed income markets, where OPERS maintains a sizable investment. **Over a long period of time**, the total return of the bond market **tends** to resemble the yield of years’ past. Over short periods, interest rate movements may have a profound impact on the capital gains (or losses) experienced by bond investors. Our expectation for the total return of the U.S. fixed income markets going forward would more closely reflect current yields, which are around 1.5%. Last year I stated that “returns more than the current yield would probably signal trouble for the broad economy (and the equity markets)” which appears to have been the case.

#### Equity

The equity markets are particularly difficult to predict with any type of precision. Over short periods of time, market sentiment and technical factors (buying and selling) have an overwhelming impact on returns experienced by investors. **Over a long period of time**, the real return from the equity markets can be attributable to three main sources: dividends on stocks, the growth rate of corporate earnings, and changes in the valuation ratios. Generally, the growth rate of earnings

## Chief Investment Officer's Report (continued)

depends on the economic environment. My forward-looking expectation has not changed from last year. The U.S. economy has shown signs of weakening. Consumer spending, which comprises more than two-thirds of the U.S. economy, continues to face the headwinds of stubbornly high unemployment, declines in household wealth from the housing market turbulence and an increase in the rate of savings by consumers. The sustainability of corporate profits given a slowdown in economic growth and the resolution of the European debt crisis continue to be two key drivers for markets in the coming months. Another issue driving sentiment is the political situation in the U.S., and the effort to come to a meaningful long-term compromise on the budget and debt levels.

### Recent Events

OPERS did not make any modifications to the overall asset allocation mix during the year. Under the direction of the Board of Trustees, the staff implemented a change to the Fund at the international equity asset class level. We reduced the amount of the portfolio allocated to the active international value manager, and reduced the allocation to the index fund that balanced the active manager. We re-allocated those assets into the broad MSCI ACWI World ex-U.S. Index fund. While we appreciate the exposures that the active international value manager contributes to the portfolio, the percentage of the Fund allocated to it was higher than the allocation to other active managers in the U.S. domestic equity portfolio. Therefore, we reduced the amount of the allocation to active international equity in order to diversify the sources of excess returns for the Fund as a whole. The overall allocation to non-U.S. equity remained the same, at 24% of the portfolio.

Also, the Board of Directors voted to retain our incumbent investment consultant, Strategic Investment Solutions, for another five-year term.

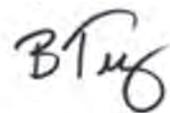
### Investment Philosophy and Guiding Principles

The investment philosophy and the principles that guide the stewardship of the Fund have remained consistent and are listed below. A pension fund has the longest of investment horizons and, therefore, rightly focuses on factors impacting long-term results.

- Asset allocation is the key factor determining long-term results.
- Disciplined rebalancing toward the desired asset allocation maintains diversification and controls risk.
- Diversification within and across asset classes is the most effective tool for controlling risk.
- Passive investment management is commonly the most effective approach in efficient markets; active investment management can be successful in less efficient markets.

For a complete discussion of the investment portfolio and policies thereof, please see the Statement of Investment Policy. A copy of the policy is posted on the OPERS website, [www.OPERS.OK.gov](http://www.OPERS.OK.gov). If you have any questions about this report or the management of the Fund's investments, please contact me. Thank you.

Regards,



Brad Tillberg, CFA  
Chief Investment Officer

## Largest Holdings

The Plan's ten largest fixed income and stock holdings at June 30, 2012, are described in the following schedules. The Plan invests in various index and commingled funds which are separately presented.

### Ten Largest Fixed Income Holdings (By Fair Value):

Security	Par	Fair Value
U.S. Treasury Bonds 4.25% due 5-15-2039	\$69,400,000	\$90,642,924
U.S. Treasury Notes .25% due 5-15-2015	64,125,000	63,844,453
U.S. Treasury Bonds Principal Strips due 2-15-2036	100,750,000	52,430,804
U.S. Treasury Notes .25% due 4-30-2014	50,765,000	50,703,524
U.S. Treasury Bonds Principal Strips due 11-15-2027	68,000,000	46,805,624
U.S. Treasury Notes .625% due 5-31-2017	43,929,000	43,726,531
U.S. Treasury Zero Coupon 1.75% due 5-15-2022	42,235,000	42,578,159
FNMA 30-Year Single Family Mortgage 3.5%	39,990,000	42,033,249
U.S. Treasury Bonds 1.25% due 4-30-2019	31,985,000	32,339,842
U.S. Treasury Notes .875% due 1-31-2017	29,345,000	29,599,480

### Ten Largest Stock Holdings (By Fair Value):

Security	Shares	Fair Value
Exxon Mobil Corp. Common Stock	378,772	\$32,411,520
Apple, Inc. Common Stock	43,259	25,263,256
Chevron Corp. Common Stock	193,846	20,450,753
AT&T, Inc. Common Stock	439,037	15,656,059
General Electric Common Stock	747,135	15,570,293
Pfizer, Inc. Common Stock	660,225	15,185,175
International Business Machines Corporation Common Stock	66,766	13,058,094
JPMorgan Chase & Co. Common Stock	352,321	12,588,429
Verizon Communications Common Stock	273,948	12,174,249
Microsoft Corporation Common Stock	391,536	11,977,086

### Investments in Funds (By Fair Value):

Fund	Units	Fair Value
BlackRock Russell 1000 Index Fund	16,039,678	\$1,458,360,401
BlackRock ACWI ex-U.S. Index Fund	38,862,865	695,740,108
BlackRock ACWI ex-U.S. Growth Index Fund	40,024,611	433,714,250
BlackRock U.S. TIPS Index Fund	11,464,496	242,546,008
BlackRock Russell 1000 Growth Index Fund	10,430,150	137,450,034

A complete list of portfolio holdings is available upon request from the OPERS Investment Accounting and Financial Reporting Department.

## Investment Portfolio by Type and Manager

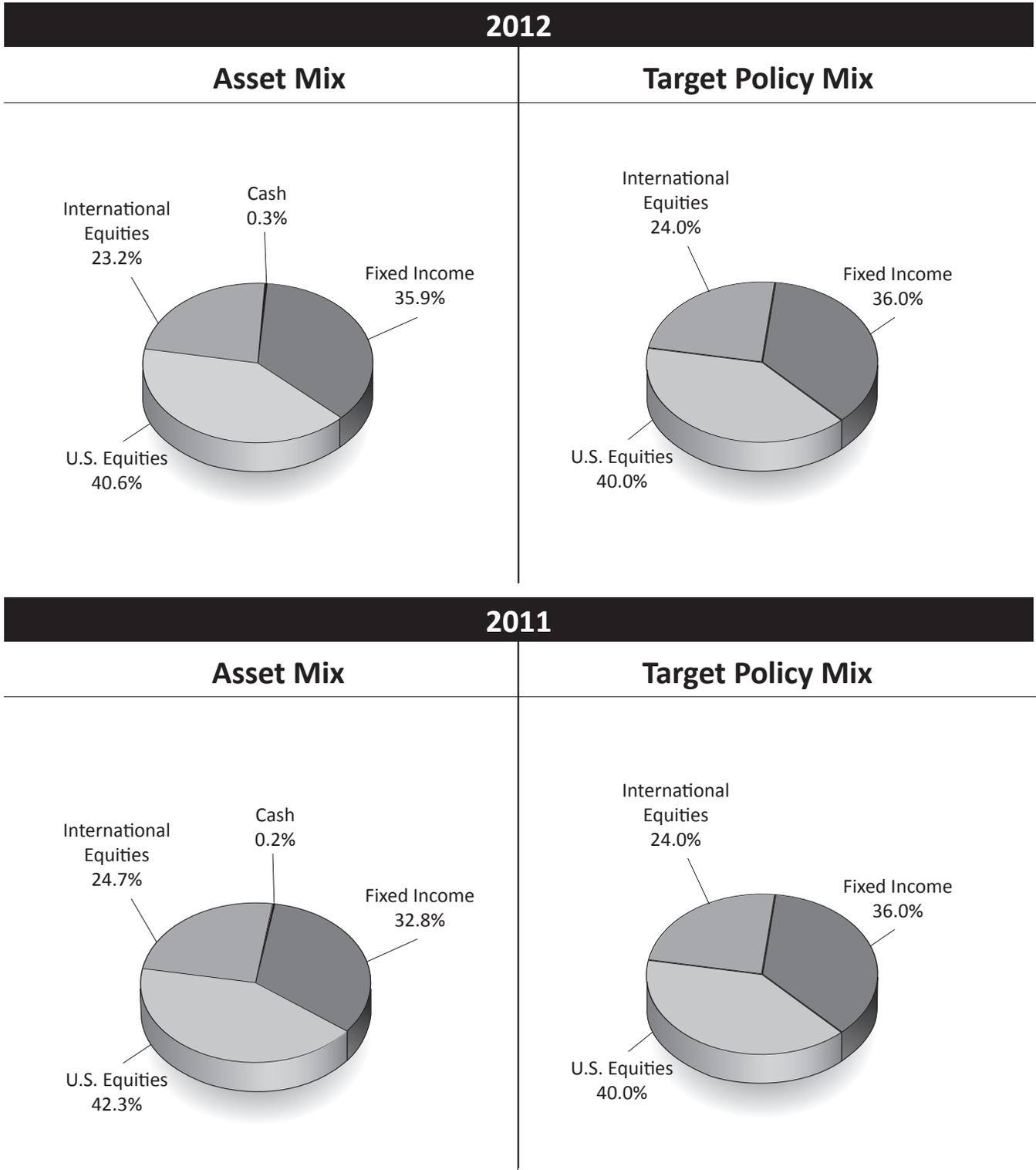
At June 30, 2012, the investment portfolio of OPERS was allocated by type and style as follows:

Investment Type and Manager	Style	Fair Value*	Percent of Total Fair Value
		(000's)	
Fixed Income:			
Blackrock Financial Management, Inc.	Constrained Core	\$ 1,423,787	20.4%
Hoisington Investment Management	Interest Rate Anticipation	250,131	3.6%
BlackRock Institutional Trust Company	Index Fund – U.S. TIPS	242,546	3.5%
Metropolitan West Asset Management	Core Plus	722,134	10.3%
Total Fixed Income		2,638,598	37.8%
U.S. Equities:			
BlackRock Institutional Trust Company	Index Fund – Russell 1000	1,458,361	20.8%
BlackRock Institutional Trust Company	Index Fund – Russell 1000 Growth	137,450	2.0%
Mellon Capital Management	Large cap – Enhanced Index	319,526	4.6%
State Street Global Advisors	Large cap – Enhanced Index	321,586	4.6%
Aronson + Johnson + Ortiz	Large cap – Value	158,597	2.3%
UBS Global Asset Management	Small cap – Growth	133,445	1.9%
Barrow, Hanley, Mewhinney & Strauss, Inc.	Small cap – Value	120,204	1.7%
DePrince, Race & Zollo, Inc.	Small cap – Value	113,227	1.6%
Total U.S. Equities		2,762,396	39.5%
International Equities:			
Mondrian Investment Partners, Ltd.	International Value	443,984	6.3%
BlackRock Institutional Trust Company	Index Fund – ACWI ex-U.S. Growth	433,932	6.2%
BlackRock Institutional Trust Company	Index Fund – ACWI ex-U.S.	695,740	9.9%
Total International Equities		1,573,656	22.4%
Short-term Investment Funds		Operating Cash	21,018 0.3%
Total Managed Investments		6,995,668	100.0%
Securities Lending Collateral		437,964	
Cash Equivalents on Deposit with State		1,720	
Total Investments and Cash Equivalents		\$ 7,435,352	
Statement of Plan Net Assets			
Cash Equivalents		132,498	
Investments		7,302,854	
Total Investments and Cash Equivalents		\$ 7,435,352	

\* Manager fair values include their respective cash and cash equivalents.

## Asset Comparison

A comparison of the actual investment distribution at June 30, 2012 and 2011, based on the net investment manager holdings, including accrued income, payables and receivables, compared to the target allocation for each year is as follows:



## Schedule of Stock Brokerage Commissions Paid

Year Ended June 30, 2012

Brokerage Firm	Shares Traded	Dollar Volume of Trades	Commission	
			Dollar Amount	Per Share
Weeden & Co.	8,477,218	\$ 299,862,998	\$ 127,235	0.015
Merrill Lynch Pierce Fenner & Smith	6,236,967	193,664,640	92,136	0.026
Investment Technology Group, Inc.	2,468,499	91,642,473	33,724	0.015
Goldman Sachs & Company	2,006,818	75,815,854	36,564	0.029
SG Cowen and Company	2,555,732	74,554,978	22,338	0.018
Bernstein, Sanford C. & Co.	2,146,950	67,196,070	32,204	0.013
National Financial Services	3,658,236	64,797,657	54,820	0.018
Deutsche Bank Securities, Inc.	1,884,163	57,012,425	23,998	0.001
McDonald and Company/Keybank	3,105,725	54,917,001	123,829	0.030
Credit Suisse First Boston Corporation	1,858,242	53,837,535	33,344	0.014
Northern Trust Co.	2,753,848	52,657,830	82,615	0.040
Stifel Nicolaus and Company	2,206,875	43,602,629	85,990	0.012
Broadcort Capital Corp.	1,470,530	42,757,806	42,584	0.015
Barclays Capital, Inc. LE	1,188,300	38,824,849	17,825	0.015
Nomura Securities International, Inc.	924,981	36,097,299	13,488	0.015
Sanford C. Bernstein Ltd.	2,956,496	34,535,164	17,271	0.030
Merrill Lynch International Limited	2,139,601	32,678,782	26,153	0.006
Bear Stearns	963,132	22,540,038	25,259	0.009
Instinet	900,009	22,144,727	27,441	0.039
Goldman Sachs International	16,791,764	21,794,178	18,109	0.015
Other	32,109,960	330,635,454	361,358	0.011
<b>Total</b>	<b>98,804,046</b>	<b>\$ 1,711,570,385</b>	<b>\$ 1,298,285</b>	<b>0.013</b>

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# ACTUARIAL SECTION

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## THE PERILS

Being prepared for retirement is more than just reaching a certain age or having a certain amount of money set aside. It is a process of understanding the risks of moving from work into retirement. Risks associated with living longer, protecting our assets against inflation, allocating more money to maintaining health, and understanding market risks as we invest into our retirement years.

Retirement planning goes beyond just dollars and cents. Finances are certainly important, but what else is there to consider? How will I replace the meaning and engagement from our work and other daily social interactions? Am I prepared for a retirement of 20-30 years or more? How well am I protected against the risk of getting sick and prepared for end-of-life issues? Once we begin to approach retirement planning in this way, we will have a better sense of how to define retirement successfully from our own point of view.

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[www.CavMacConsulting.com](http://www.CavMacConsulting.com)

October 18, 2012

Board of Trustees  
Oklahoma Public Employees Retirement System  
5801 N. Broadway Extension, Suite 400  
P.O. Box 53007  
Oklahoma City, OK 73152-3007

Members of the Board:

We have completed an actuarial valuation of the Oklahoma Public Employees Retirement System as of July 1, 2012 for the purpose of determining the actuarial contribution rate and calculating and analyzing key financial measurements. Actuarial valuations are performed annually. This valuation reflects the benefit provisions and contribution rates in effect as of July 1, 2012.

In preparing the valuation, we, as the actuary, relied on the data provided by the System. As part of our work, we performed a limited review of the data for consistency and reasonableness and did not find material defects in the data.

All of the information and supporting schedules in the Actuarial Section have been provided by Cavanaugh Macdonald Consulting, LLC. We also prepared the *Schedule of Funding Progress* and *Schedule of Employer Contributions* shown in the financial section of the Comprehensive Annual Financial Report. All historical information that references a valuation date prior to July 1, 2010 was prepared by the prior actuarial firm.

The assumptions recommended by the actuary and adopted by the Board are, in the aggregate, reasonably related to the experience under the System and to reasonable expectations of anticipated experience under the System and meet the parameters for the disclosures under GASB 25 and 27.

Future actuarial results may differ significantly from the current results presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Since the potential impact of such factors is outside the scope of a normal annual actuarial valuation, an analysis of the range of results is not presented herein.

This is to certify that the independent consulting actuaries, Alisa Bennett and Patrice Beckham, are Members of the American Academy of Actuaries and meet the qualification standards of the American Academy of Actuaries to render the actuarial opinion contained herein. They have experience in performing valuations for public retirement systems. The valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board. The actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.

Respectfully submitted,



Alisa Bennett, FSA, EA, FCA, MAAA  
Principal and Consulting Actuary



Patrice Beckham, FSA, EA, FCA, MAAA  
Principal and Consulting Actuary

# Summary of Results

	7/1/2012 Valuation	7/1/2011 Valuation	% Change
<b>1. PARTICIPANT DATA</b>			
Number of:			
Active Members*	42,569	40,551	5.0
Retired and Disabled Members and Beneficiaries	30,263	29,418	2.9
Inactive Members	5,497	5,522	(0.5)
<b>Total Members</b>	<b>78,329</b>	<b>75,491</b>	<b>3.8</b>
Projected Annual Salaries of Active Members	\$ 1,633,837,374	\$ 1,570,500,148	4.0
Annual Retirement Payments for Retired Members and Beneficiaries	\$ 466,724,541	\$ 447,919,757	4.2
<b>2. ASSETS AND LIABILITIES</b>			
Total Actuarial Accrued Liability	\$ 8,334,637,900	\$ 8,179,767,661	1.9
Market Value of Assets	\$ 6,821,303,541	\$ 6,841,001,769	(0.3)
Actuarial Value of Assets	\$ 6,682,200,296	\$ 6,598,627,939	1.3
Unfunded Actuarial Accrued Liability	\$ 1,652,437,604	\$ 1,581,139,722	4.5
Funded Ratio	80.2%	80.7%	(0.6)
<b>3. EMPLOYER CONTRIBUTION RATES AS A PERCENT OF PAYROLL</b>			
Normal Cost Rate	10.67%	10.66%	
Amortization of Unfunded Actuarial Accrued Liability	8.72%	8.27%	
Budgeted Expenses	0.42%	0.45%	
<b>Total Actuarial Required Contribution Rate</b>	<b>19.81%</b>	<b>19.38%</b>	
<b>Less Estimated Member Contribution Rate</b>	<b>4.11%</b>	<b>4.09%</b>	
<b>Employer Actuarial Required Contribution Rate</b>	<b>15.70%</b>	<b>15.29%</b>	
<b>Less Statutory State Employer Contribution Rate</b>	<b>16.50%</b>	<b>16.50%</b>	
<b>Contribution Shortfall/(Surplus)</b>	<b>(0.80%)</b>	<b>(1.21%)</b>	

\* OPERS inadvertently left off member enrollment data in FY2011 for the period between March 1, 2011 to June 30, 2011. This made the FY2011 total membership appear approximately 1,500 lower than the correct number. The FY2012 Active member count includes the members left off last year and the small actuarial loss associated with these members is included with new entrants and rehires in the (gain)/loss.

# Analysis of Financial Experience

## Gains & Losses in Actuarial Accrued Liability During the Year Ended June 30, 2012 Resulting from Differences Between Assumed Experience & Actual Experience

Type of Activity	(Gain) or Loss for Year End 2012
1. <b>Age &amp; Service Retirements.</b> Generally, if members retire at older ages or with smaller benefits than assumed, there is a gain. If they retire at younger ages or have higher average pays, a loss occurs.	\$ 900,000
2. <b>Disability Retirements.</b> If disability claims are less than assumed, there is a gain. If more claims, a loss.	2,900,000
3. <b>Deaths.</b> If more deaths occur than assumed, there is a gain. If fewer, there is a loss.	(12,000,000)
4. <b>Withdrawal from Employment.</b> If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	(10,200,000)
5. <b>Pay Increases.</b> If there are smaller pay increase than assumed, there is a gain. If greater increases, a loss.	(106,900,000)
6. <b>New Entrants.</b> All new entrants to the System create a loss.	38,100,000
7. <b>Other.</b> Miscellaneous gains and losses resulting from data adjustments, employee transfers, valuation methods, etc.	(28,000,000)
8. <b>(Gain) or Loss During Year From Financial Experience.</b>	230,500,000
9. <b>Composite (Gain) or Loss During Year.</b>	\$ 115,300,000

## Solvency Test

The OPERS funding objective is to be able to pay long-term benefit promises through contributions that remain approximately level from year to year as a percent of salaries earned by members. In this way, members and employers in each year pay their fair share for retirement service accrued in that year by OPERS members.

If the retirement system follows level contribution rate financing principles, the system will pay all promised benefits when due – the ultimate test of financial soundness.

A short-term solvency test is one means of monitoring OPERS funding progress. In a short-term solvency test, the retirement System's present valuation assets are compared with: 1) active member contributions on deposit, 2) the liabilities for future benefits to persons who have retired and the liabilities for terminated employees with vested benefits, and 3) the liabilities for service already rendered by active members. In a system that has been following the discipline of level contribution rate financing, the liabilities for member contributions on deposit (liability 1), the liabilities for future benefits to present retirees and the liabilities for future benefits for terminated employees (liability 2) will be fully covered by present assets, except in rare circumstances.

In addition, the liabilities for service already rendered by members (liability 3) will be partially covered by the remainder of present assets. Generally, if the system has been using level contribution rate financing, the funded portion of liability 3 will increase over time; however, a decrease generally occurs in those years when substantial benefit improvements are granted by the Legislature. It is unusual for liability 3 to be fully funded. The funded ratio of the System based on total actuarial accrued liabilities (1 + 2 + 3) provides an indication of how well the System is funded.

The schedule below illustrates the progress of funding the actuarial accrued liabilities of OPERS.

Actuarial Accrued Liability and Valuation Assets (in thousands)						Portion of Actuarial Accrued Liability Covered by Reported Assets			
Date	Active Member Contributions (Liability 1)	Retirees, Beneficiaries and Terminated Vested Members (Liability 2)	Employer Financed Portion of Active Members (Liability 3)	Total Liability (1 + 2 + 3)	Reported Assets <sup>1</sup>	(1)	(2)	(3)	Funded Ratio of Total Actuarial Liability
July 1, 2003	\$337,656	\$3,458,516	\$3,178,411	\$6,974,583	\$5,354,796	100%	100%	49.0%	76.8%
July 1, 2004	357,219	3,636,307	3,121,252	7,114,778	5,412,167	100	100	45.5	76.1
July 1, 2005	377,543	3,908,960	3,288,917	7,575,420	5,450,665	100	100	35.4	72.0
July 1, 2006	383,990	4,069,604	3,461,064	7,914,658	5,654,276	100	100	34.7	71.4
July 1, 2007	409,159	4,363,690	3,640,399	8,413,248	6,110,230	100	100	36.7	72.6
July 1, 2008	439,754	4,623,210	3,831,323	8,894,287	6,491,928	100	100	37.3	73.0
July 1, 2009	466,880	4,913,032	3,911,546	9,291,458	6,208,245	100	100	21.2	66.8
July 1, 2010	487,980	5,252,862	3,881,786	9,622,628	6,348,416	100	100	15.8	66.0
July 1, 2011	488,418	4,677,760	3,013,590	8,179,768	6,598,628	100	100	47.5	80.7
July 1, 2012	505,373	4,832,068	2,997,197	8,334,638	6,682,200	100	100	44.9	80.2

<sup>1</sup>Actuarial value of assets based on the smoothing technique adopted by Board.

## Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
July 1, 2012	42,569	\$1,633,837,374	\$38,381	(0.90)
July 1, 2011	40,551	1,570,500,148	38,729	1.06
July 1, 2010	43,934	1,683,697,139	38,323	1.01
July 1, 2009	45,683	1,732,975,532	37,935	1.72
July 1, 2008	45,120	1,682,663,413	37,293	2.50
July 1, 2007	44,712	1,626,737,832	36,383	5.49
July 1, 2006	45,472	1,568,350,023	34,490	4.16
July 1, 2005	43,918	1,454,210,509	33,112	2.88
July 1, 2004	43,000	1,383,965,233	32,185	(1.17)
July 1, 2003	43,350	1,411,719,256	32,566	(0.55)

## Schedule of Retirants, Disabled Retirants, and Beneficiaries Added to and Removed from Rolls

Year Ended	Added to Rolls		Removed from Rolls		Rolls – End of Year		% Increase in Annual Allowances	Average Annual Allowances
	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances		
June 30, 2012	1,703	\$29,234,998	858	\$10,430,214	30,263	\$466,724,541	4.20	\$15,422
June 30, 2011	2,232	40,890,700	823	9,670,100	29,418	447,919,757	7.49	15,226
June 30, 2010	1,867	32,394,848	807	9,942,962	28,009	416,699,157	5.69	14,877
June 30, 2009	1,595	27,216,987	679	9,117,210	26,949	394,247,271	4.81	14,629
June 30, 2008	1,526	23,815,666	790	8,508,891	26,033	376,147,494	8.42	14,449
June 30, 2007	1,620	25,583,722	759	8,045,442	25,233	346,932,229	5.21	13,749
June 30, 2006	1,413	19,788,298	720	7,124,367	24,372	329,736,666	7.96	13,529
June 30, 2005	1,483	22,520,925	794	7,927,922	23,679	305,435,002	4.88	12,899
June 30, 2004	1,554	21,706,661	711	6,847,103	22,990	291,233,630	9.27	12,668
June 30, 2003	1,406	19,968,509	711	6,364,104	22,147	266,566,903	5.20	12,036

# Summary of System Provisions

*Effective Date:* The System became effective January 1, 1964. The fiscal year is July 1 to June 30.

*Employees Included:* All permanent employees of the State of Oklahoma, and any other employer such as a county, county hospital, city or town, conservation districts, circuit engineering districts, and any trust in which a county, city, or town participates and is the primary beneficiary, are eligible to join if:

- the employee is not eligible for or participating in another retirement system authorized under Oklahoma law, is covered by Social Security and not participating in the U.S. Civil Service Retirement System,
- the employee is scheduled for 1,000 hours per year and salary is not less than the hourly rate of the monthly minimum wage for State employees (for employees of local government employers, not less than the hourly rate of the monthly minimum wage for such employees).

Membership is mandatory for new eligible employees on the first of the month following employment.

*Employee and Employer Contributions:* 3.5% of pay for most State employees and 16.5% for employers. Local employees, elected officials, members covered by the Department of Corrections Hazardous Duty provisions, and members who elect the step up provision contribute at varying rates.

*Final Average Compensation:* Generally the highest annual average of any thirty-six months within the last ten years of participating service.

*Retirement Date:*  
*Normal:* Age 62 (age 60 for elected officials), 80 age/service points if hired before July 1, 1992, 90 age/service points if hired on or after July 1, 1992.

For non-elected employees hired on or after November 1, 2011, the retirement age is age 65 or 90 age/service points if at least 60. For elected officials hired on or after November 1, 2011, age 65 with 8 years of service or 62 with 10 years of service.

20 years of service for certain members covered by the Department of Corrections Hazardous Duty provisions and certain Oklahoma Military Department Firefighters.

## Summary of System Provisions (continued)

<i>Early:</i>	Age 55 with 10 years of service.
<i>Normal Retirement Benefit:</i>	General formula is 2% of final average compensation multiplied by years of credited service.
<i>Disability Benefit:</i>	After eight years of service, provided the member qualifies for disability benefits as certified either by the Social Security Administration or the Railroad Retirement Board. Benefit is determined by the normal retirement formula based on service and salary history at date of disability. The benefit is payable immediately without actuarial reduction.
<i>In-service Death Benefit:</i>	<p>If the deceased member was vested, the benefit that would have been paid the member had he retired and elected the joint and 100% survivor option (Option B).</p> <p>For elected officials, it is 50% of the benefit that would have been paid the member had he retired.</p>
<i>Postretirement Death Benefit:</i>	\$5,000 lump-sum.
<i>Forms of Payment:</i>	Life annuity, joint and 50% survivor, joint and 100% survivor annuity, life annuity with a minimum of 120 monthly payments, and Medicare Gap Benefit option.
<i>Supplemental Medical Insurance Premium:</i>	The System will contribute the lesser of \$105 per month or the Medicare Supplement Premium to the Oklahoma State and Education Employee's Group Health Insurance Program (or other eligible employer health plans) for members receiving retirement benefits.

# Summary of Actuarial Assumptions and Methods

1. The investment return rate used in the valuation was 7.5 percent per year, net of investment expenses, compounded annually. This rate of return is not the assumed real rate of return. The real rate of return is the rate of return in excess of the inflation rate. Considering other financial assumptions, the 7.5 percent investment return rate translates to an assumed real rate of return of 4.5 percent.
2. The RP-2000 Mortality Table projected to 2010 using Scale AA for males and females is used for preretirement and postretirement mortality for all non-disabled members and beneficiaries.
3. The probabilities of withdrawal from service, together with individual pay increase assumptions, are shown in Schedule 1.
4. The probabilities of retirement with an age and service allowance are shown in Schedules 2A, 2B and 2C.
5. Because of the passage of House Bill 2132, benefits are not assumed to increase due to future ad hoc cost-of-living increases.
6. The individual entry-age normal actuarial cost method of valuation was used in determining actuarial accrued liability and normal cost. Actuarial gains and losses reduce or increase the unfunded actuarial accrued liability and are amortized over the remaining amortization period (15 years as of July 1, 2012).
7. The actuarial value of assets is based on a five-year moving average of expected actuarial values and market values. A preliminary expected value is determined equal to the prior year's actuarial value of assets plus net cash flow for the year ending on the valuation date, assuming the valuation investment return. The expected actuarial asset value is equal to the preliminary expected actuarial value plus the unrecognized investment gains and losses as of the beginning of the previous fiscal year. Twenty percent (20%) of the gain/loss as measured by the difference between the expected actuarial value and the market value at the valuation date is added to the preliminary expected actuarial value plus twenty percent (20%) of the unrecognized gains or losses for the four preceding fiscal years. The final result is constrained to a value no less than 80% and no more than 120% of the market value at the valuation date.
8. Except for the investment return assumption, the actuarial assumptions and methods used in the valuation were adopted by the Board on July 21, 2011 based upon the recommendations of the actuary. The investment return assumption was not changed from 7.5% which was adopted by the Board on May 15, 2008. The remaining assumptions and methods used for the July 1, 2012 valuation were adopted by the Board based on System experience from July 1, 2007 through June 30, 2010.

Summary of Actuarial Assumptions and Methods (continued)

**Schedule 1**

**Withdrawal From Active Employment Before Age & Service Retirement and Individual Pay Increase Assumptions**

Sample Ages	Withdrawal After Ten-Year Select Period	Percent Increase in Individual's Pay During Next Year
25	7.00%	8.2%
30	7.00	6.9
35	5.80	5.9
40	4.40	5.7
45	3.20	5.3
50	3.00	5.0
55	3.00	4.8

**Schedule 2A**

**Percent of Eligible Non-Elected Active Members Retiring Within Next Year**

**Those Eligible for Unreduced Retirement and Hired Before November 1, 2011**

Retirement Ages	Percent	Retirement Ages	Percent
50	20%	61	20%
51	20%	62	30%
52	20%	63	15%
53	20%	64	15%
54	20%	65	30%
55	10%	66	20%
56	10%	67	20%
57	11%	68	20%
58	12%	69	25%
59	13%	70	100%
60	14%		

Summary of Actuarial Assumptions and Methods (continued)

**Those Eligible for Unreduced Retirement and Hired on or after November 1, 2011**

Retirement	
Ages	Percent
60	*
61	*
62	*
63	*
64	*
65	*
66	20%
67	20%
68	20%
69	25%
70	100%

\*30% when first eligible and 15% thereafter.

**Schedule 2B**

**Percent of Eligible Non-Elected Active Members Retiring Within Next Year**

**Those Not Eligible for Unreduced Retirement and hired before November 1, 2011 and Department of Corrections Members With Less Than 20 Years of Service**

Retirement		Retirement	
Ages	Percent	Ages	Percent
55	4%	63	22%
56	5%	64	25%
57	5%	65	40%
58	6%	66	25%
59	7%	67	23%
60	7%	68	22%
61	20%	69	21%
62	40%	70	100%

Percents shown for retirement ages 62 and over are for Department of Corrections members only.

Summary of Actuarial Assumptions and Methods (continued)

Those Not Eligible for Unreduced Retirement and hired on or after November 1, 2011

Regular Employees		Department of Corrections	
Retirement Ages	Percent	Retirement Ages	Percent
60	7%	60	7%
61	7%	61	20%
62	20%	62	20%
63	15%	63	20%
64	15%	64	20%

**Schedule 2C**

Percent of Eligible Active Members Retiring Within Next Year  
 Department of Corrections Members With More Than 20 Years of Service

Service	Percent
20	20%
21 - 24	15%
25 - 29	20%
30 - 34	25%
35	100%

# STATISTICAL SECTION

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## THE SUMMIT

We all must define retirement readiness for ourselves – the how, why, when, and what I will need to retire. These are unique questions to each of us with very personal considerations.

The traditional definition of retirement is changing. Advances in medicine have dramatically improved our longevity, which means we must plan for a longer retirement. For some, retirement will be what we have imagined – a time to enjoy the rewards of our labor, spend more time with our family and friends, and pursue those interests we put on hold during our working years. Others are choosing a “phased” approach to retirement rather than leaving the workforce entirely.

Regardless of your approach, the summit of a successfully planned retirement is a beautiful view. Retirement truly is a journey, not a destination.

## SECTION CONTENTS

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# THE NEW WE CAN S A

**The Statistical Section** provides additional historical perspective, context, and detail to assist the reader in using the information in the financial statements, notes to financial statements and required supplementary information to understand and assess the economic condition of the Oklahoma Public Employees Retirement System (OPERS).

**Financial trend information** is intended to assist users in understanding and assessing the changes in the financial position over time. Schedules presenting financial trend information are *Schedule of Changes in Net Assets, Schedule of Revenue by Source, Schedule of Expenses by Type, Schedule of Benefit Payments and Refunds by Type, and Funded Ratio Chart*.

**Revenue capacity information** is intended to assist users in understanding and assessing the factors affecting the ability of OPERS to generate own-source revenue, specifically investment income. The schedule presenting revenue capacity information is the *Rate of Return by Type of Investment*.

**Operating information** is intended to provide contextual information about the operations and resources of OPERS to assist readers in using financial statement information to understand and assess the economic condition. Schedules and charts presenting operating information are *Schedule of Retired Members by Type of Benefit, Schedule of Average Benefit Payments, Principal Participating Employer, Demographic Chart, Participating Employers, Member Statistics\*, Distribution of Retirees and Beneficiaries\*, Summary of Active Members\**.

Schedules and information are derived from OPERS internal sources unless otherwise noted.

\*Schedules and data are provided by actuarial consultant Cavanaugh McDonald, LLC.

## Schedule of Changes in Net Assets

Year Ended June 30,	Additions			Deductions			Total Changes in Net Assets
	Member Contributions	Employer Contributions	Investment Income (Loss)	Benefit Payments	Administrative Expenses	Refunds	
2012	\$ 66,299,570	\$ 262,710,009	\$ 154,692,436	\$ 484,309,893	\$ 4,758,636	\$ 14,331,714	\$ (19,698,228)
2011	66,431,434	252,904,579	1,226,686,493	462,062,563	4,680,679	12,656,758	1,066,622,506
2010	69,041,436	259,779,236	716,895,081	429,260,056	4,555,833	11,058,379	600,841,485
2009	68,712,683	243,021,660	(967,248,484)	410,036,580	4,602,876	11,516,190	(1,081,669,787)
2008	66,699,385	220,075,992	(276,647,532)	377,974,103	4,575,446	12,848,142	(385,269,846)
2007	64,179,909	197,756,938	938,789,465	361,045,265	4,553,397	11,815,777	823,311,873
2006	55,988,703	171,273,052	434,953,655	334,378,348	4,040,083	11,120,588	312,676,391
2005	52,017,896	139,757,160	522,333,799	321,568,856	3,606,909	10,861,971	378,071,119
2004	48,469,861	133,522,780	636,489,239	297,799,619	3,493,404	9,833,972	507,354,885
2003	50,101,133	137,549,234	240,361,668	282,519,128	3,166,764	8,809,116	133,517,027

## Schedule of Revenue by Source

Year Ended June 30,	Member Contributions	Employer Contributions		Investment Income (Loss)	Total
		Dollars	% of Annual Covered Payroll		
2012	\$ 66,299,570	\$ 262,710,009	15.60 %	\$ 154,692,436	\$ 483,702,015
2011	66,431,434	252,904,579	15.02	1,226,686,493	1,546,022,506
2010	69,041,436	259,779,236	14.99	716,895,081	1,045,715,753
2009	68,712,683	243,021,660	14.44	(967,248,484)	(655,514,141)
2008	66,699,385	220,075,992	13.53	(276,647,532)	10,127,845
2007	64,179,909	197,756,938	12.61	938,789,465	1,200,726,312
2006	55,988,703	171,273,052	11.78	434,953,655	662,215,410
2005	52,017,896	139,757,160	10.10	522,333,799	714,108,855
2004	48,469,861	133,522,780	9.46	636,489,239	818,481,880
2003	50,101,133	137,549,234	9.48	240,361,668	428,012,035

## Schedule of Expenses by Type

Year Ended June 30,	Benefit Payments	Administrative Expenses	Withdrawals	Total
2011	462,062,563	4,680,679	12,656,758	479,400,000
2010	429,260,056	4,555,833	11,058,379	444,874,268
2009	410,036,580	4,602,876	11,516,190	426,155,646
2008	377,974,103	4,575,446	12,848,142	395,397,691
2007	361,045,265	4,553,397	11,815,777	377,414,439
2006	334,378,348	4,040,083	11,120,588	349,539,019
2005	321,568,856	3,606,909	10,861,971	336,037,736
2004	297,799,619	3,493,404	9,833,972	311,126,995
2003	282,519,128	3,166,764	8,809,116	294,495,008

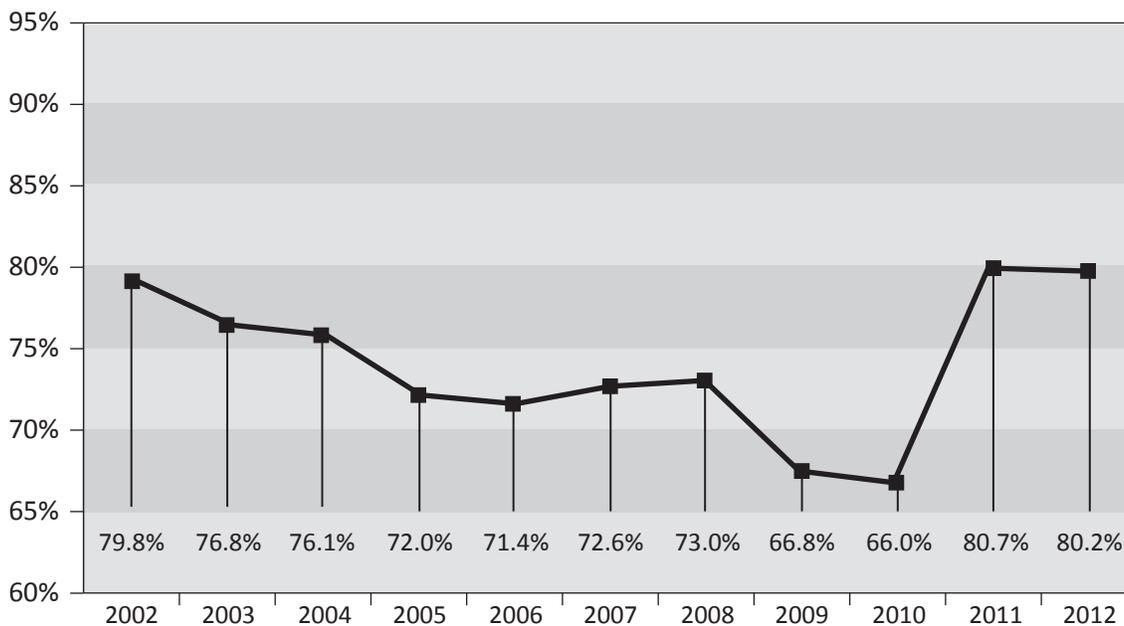
## Schedule of Benefit Payments and Refunds by Type

The following schedule provides information as to the type of benefit expenses incurred by the Plan as reflected in the "Benefit Payment" and "Refunds" columns of the **Schedule of Expenses by Type** included elsewhere in this Statistical Section.

Year Ended June 30,	Benefits			Refunds and Withdrawals	Transfers to Other Systems	Total Benefit Payments and Refunds
	Age and Service	Disability	Beneficiary Death			
2012	\$ 462,439,623	\$ 17,279,429	\$ 4,590,841	\$ 12,070,924	\$ 2,260,790	\$ 498,641,607
2011	441,043,149	16,590,662	4,428,752	9,940,040	2,716,718	474,719,321
2010	408,662,665	16,131,274	4,466,117	8,338,371	2,720,008	440,318,435
2009	389,166,873	16,151,439	4,718,268	8,468,621	3,047,569	421,552,770
2008	358,520,250	15,250,019	4,203,834	8,729,416	4,118,726	390,822,245
2007	342,527,423	14,479,586	4,038,256	8,164,444	3,651,333	372,861,042
2006	316,766,569	13,627,957	3,983,822	7,922,163	3,198,425	345,498,936
2005	304,856,481	12,608,063	4,104,312	7,320,415	3,541,556	332,430,827
2004	282,203,188	11,428,431	4,168,000	7,103,875	2,730,097	307,633,591
2003	267,951,282	10,699,779	3,868,067	6,372,048	2,437,068	291,328,244

## Funded Ratio Chart

As of July 1



## Rate of Return by Type of Investment

<b>Year Ended June 30,</b>	<b>Fixed Income</b>	<b>U.S. Equity</b>	<b>International Equity</b>	<b>Total</b>
2012	11.5 %	4.1 %	(12.5) %	2.4 %
2011	4.6	32.2	30.0	21.2
2010	12.9	16.4	10.0	13.8
2009	4.6	(27.5)	(29.6)	(15.4)
2008	8.5	(13.0)	(7.6)	(4.2)
2007	6.2	19.4	29.0	16.4
2006	(2.0)	9.9	26.2	8.0
2005	10.6	8.3	15.8	10.5
2004	0.8	21.7	31.2	14.0
2003	13.2	0.3	(3.2)	5.7

## Schedule of Retired Members by Type of Benefit

June 30, 2012

Amount of Monthly Benefit	Number of Retirees	Type of Retirement					Option Selected			
		1	2	3	4	5	1	2	3	4
\$1 – 1,000	14,418	8,041	2,988	2,029	1,131	229	8,462	2,997	2,739	220
1,001 – 2,000	10,175	8,789	297	711	376	2	5,846	1,844	2,318	167
2,001 – 3,000	4,011	3,803	20	173	15	-	2,061	769	1,078	103
3,001 – 4,000	1,160	1,091	5	63	1	-	571	204	360	25
4,001 – 5,000	332	326	-	6	-	-	164	57	104	7
Over 5,000	173	169	-	4	-	-	91	26	55	1
<b>Totals</b>	<b>30,269</b>	<b>22,219</b>	<b>3,310</b>	<b>2,986</b>	<b>1,523</b>	<b>231</b>	<b>17,195</b>	<b>5,897</b>	<b>6,654</b>	<b>523</b>

### Type of Retirement

- Type 1 – *Normal retirement for age and service:* Eligible at (1) age 62 or (2) when the sum of the member's age plus years of service equals 80 points for those who became members before July 1, 1992 and 90 points for those becoming members after that date.
- Type 2 – *Early retirement:* Eligible beginning at age 55 with ten (10) years of participating service.
- Type 3 – *Survivor payment:* Normal or early retirement.
- Type 4 – *Disability:* Eligible if member is qualified for payment of disability benefits as certified by the Social Security Administration, has eight (8) years of credited service, and has terminated employment.
- Type 5 – *Survivor payment:* Disability retirement.

### Option Selected

- Option 1 – *Single-life annuity:* The maximum benefit is paid for the member's lifetime.
- Option 2 – *Option A – ½ Joint and Survivor Annuity:* The member will receive a reduced retirement benefit for life and ½ of the reduced retirement benefit will be paid to the surviving joint annuitant for their lifetime.
- Option 3 – *Option B – 100% Joint and Survivor Annuity:* A reduced benefit is paid to the member for life and the same benefit is paid to a surviving joint annuitant for their lifetime.
- Option 4 – *Option C – Single-life Annuity with a 10-Year Certain Period:* The member will receive a reduced benefit for their lifetime. If the member dies within ten years of when the benefit payments began, the monthly payment will be made to the beneficiary for the balance of the 10-year period.

### Deferred Members

At June 30, 2012, there are 5,497 former members with deferred future benefits.

## Schedule of Average Benefit Payments

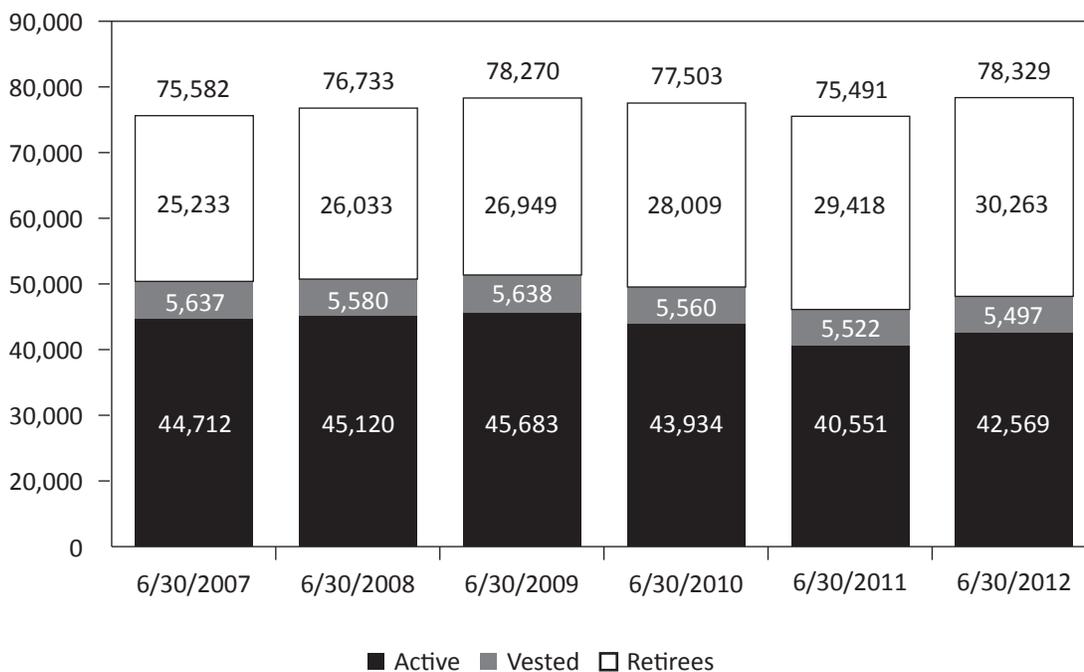
Retirement Effective Dates	Years of Credited Service						
	0 to 5	6 to 10	11 to 15	16 to 20	21 to 25	26 to 30	31+
<b>July 1, 2002 to June 30, 2012</b>							
Period 7/1/02 to 6/30/03							
Average Monthly Benefit	\$ 108	\$ 405	\$ 699	\$ 1,058	\$ 1,487	\$ 1,930	\$ 2,788
Average Final Average Salary	\$ 1,115	\$ 2,164	\$ 2,556	\$ 2,765	\$ 2,920	\$ 3,115	\$ 3,385
Number of Active Retirees	2	147	262	239	278	195	165
Period 7/1/03 to 6/30/04							
Average Monthly Benefit	\$ 154	\$ 384	\$ 595	\$ 1,002	\$ 1,451	\$ 1,853	\$ 2,587
Average Final Average Salary	\$ 1,482	\$ 2,273	\$ 2,393	\$ 2,784	\$ 2,990	\$ 3,142	\$ 3,545
Number of Active Retirees	3	171	286	287	300	237	178
Period 7/1/04 to 6/30/05							
Average Monthly Benefit	\$ 146	\$ 413	\$ 645	\$ 1,122	\$ 1,533	\$ 2,076	\$ 2,782
Average Final Average Salary	\$ 1,430	\$ 2,326	\$ 2,525	\$ 2,900	\$ 3,073	\$ 3,320	\$ 3,687
Number of Active Retirees	6	160	260	279	312	220	166
Period 7/1/05 to 6/30/06							
Average Monthly Benefit	\$ 130	\$ 390	\$ 570	\$ 947	\$ 1,414	\$ 1,874	\$ 2,596
Average Final Average Salary	\$ 1,380	\$ 2,357	\$ 2,430	\$ 2,846	\$ 3,107	\$ 3,382	\$ 3,637
Number of Active Retirees	1	169	275	277	282	195	161
Period 7/1/06 to 6/30/07							
Average Monthly Benefit	\$ 132	\$ 404	\$ 610	\$ 1,048	\$ 1,526	\$ 1,998	\$ 2,748
Average Final Average Salary	\$ 1,536	\$ 2,379	\$ 2,532	\$ 2,853	\$ 3,218	\$ 3,617	\$ 3,703
Number of Active Retirees	6	221	267	279	312	251	218
Period 7/1/07 to 6/30/08							
Average Monthly Benefit	\$ 102	\$ 391	\$ 596	\$ 962	\$ 1,443	\$ 1,947	\$ 2,542
Average Final Average Salary	\$ 1,502	\$ 2,367	\$ 2,570	\$ 2,899	\$ 3,223	\$ 3,447	\$ 3,814
Number of Active Retirees	2	195	311	291	300	287	180
Period 7/1/08 to 6/30/09							
Average Monthly Benefit	\$ 99	\$ 436	\$ 614	\$ 1,079	\$ 1,551	\$ 2,154	\$ 2,815
Average Final Average Salary	\$ 1,589	\$ 2,587	\$ 2,685	\$ 3,073	\$ 3,370	\$ 3,740	\$ 4,033
Number of Active Retirees	3	227	347	284	317	2,798	192
Period 7/1/09 to 6/30/10							
Average Monthly Benefit	\$ 153	\$ 428	\$ 650	\$ 1,078	\$ 1,578	\$ 2,048	\$ 2,766
Average Final Average Salary	\$ 1,699	\$ 2,657	\$ 2,813	\$ 3,179	\$ 3,468	\$ 3,764	\$ 4,041
Number of Active Retirees	3	236	324	298	348	354	294
Period 7/1/10 to 6/30/11							
Average Monthly Benefit	\$ 59	\$ 484	\$ 678	\$ 1,121	\$ 1,665	\$ 2,084	\$ 2,940
Average Final Average Salary	\$ 1,759	\$ 2,810	\$ 2,836	\$ 3,213	\$ 3,583	\$ 3,773	\$ 4,183
Number of Active Retirees	1	286	362	349	452	421	363
Period 7/1/11 to 6/30/12							
Average Monthly Benefit	\$ 155	\$ 457	\$ 671	\$ 1,029	\$ 1,615	\$ 2,146	\$ 2,861
Average Final Average Salary	\$ 1,872	\$ 2,819	\$ 2,997	\$ 3,076	\$ 3,835	\$ 3,892	\$ 4,199
Number of Active Retirees	2	258	289	300	297	280	279

## Principal Participating Employer

The Oklahoma Public Employees Retirement System is a multiple-employer cost-sharing public employee retirement plan. The Plan covers all state employees that are not covered by six other plans and employees of participating county and local agencies in the State. The State of Oklahoma is the principal participating employer. A list of participating state, county and local agencies is included elsewhere in this Statistical Section.

<b>Year Ended June 30,</b>	<b>Covered Employees of the State</b>	<b>Percent of Total System</b>
2012	32,403	76.1 %
2011	32,840	81.0
2010	34,086	77.6
2009	35,209	77.1
2008	34,659	76.8
2007	34,726	77.7
2006	34,673	76.1
2005	33,630	76.6
2004	33,080	76.9
2003	33,071	76.3

## Demographics Chart



## Participating Employers

### State Agencies

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ABLE Commission  
Abstractors, Board of  
Accountancy, Board of Public  
Aeronautics Commission  
Agriculture, Department of  
Architects, Board of Governors  
Arts Council, State  
Attorney General's Office  
Auditor and Inspector  
Banking Department  
Boll Weevil Eradication Organization  
Bond Advisor, Office of the State  
Central Services, Department of  
Children and Youth, Commission on  
Chiropractic Examiners, Board of  
Commerce, Department of  
Commercial Pet Breeders, Board of  
CompSource Oklahoma  
Conservation Commission  
Construction Industries Board  
Consumer Credit, Department of  
Corporation Commission  
Corrections, Department of  
Cosmetology, Board of  
Council on Judicial Complaints  
Court of Criminal Appeals  
Davis Gun Museum  
Dentistry, Board of  
Disability Concerns, Office of  
District Attorneys' Council  
District Courts  
Education, Department of  
Educational Television Authority  
Election Board, State  
Emergency Management  
Employees Benefits Council  
Employment Security Commission  
Engineers and Surveyors, Board of  
Environmental Quality, Department of  
Ethics Commission  
Finance, State Office of  
Fire Marshall Commission, State  
Firefighters Pension and Retirement  
Board  
Funeral Board  
Governor's Office  
Grand River Dam Authority  
Health, Department of  
Health Care Authority  
Historical Society  
Horse Racing Commission  
House of Representatives

Housing Finance Agency  
Human Rights Commission  
Human Services, Department of  
Indian Affairs Commission  
Indigent Defense System  
Industrial Finance Authority  
Insurance Department, State  
Interstate Oil Compact Commission  
Investigation, State Bureau of  
Juvenile Affairs, Office of  
Labor, Department of  
Land Office, Commissioners of the  
Law Enforcement Education and  
Training, Council on  
Law Enforcement Retirement System  
Legislative Service Bureau  
Libraries, Department of  
Licensed Alcohol and Drug Counselors,  
Board of  
Licensed Social Workers, Registration  
Board of  
Lieutenant Governor, Office of  
Liquefied Petroleum Gas Administration  
Lottery Commission  
Marginally Producing Oil and Gas Wells,  
Commission on  
J.D. McCarty Center  
Medical Licensure Board  
Medicolegal Investigations, Board of  
Mental Health & Substance Abuse,  
Department of  
Merit Protection Commission  
Military Department  
Mines, Department of  
Motor Vehicle Commission  
Municipal Power Authority  
Narcotics and Dangerous Drugs Control,  
Bureau of  
Nursing, Board of  
Nursing Home Administrators, Board of  
Examiners for  
Optometry Board  
Ordinance Works Authority  
Osteopathic Examiners, State Board of  
Pardon and Parole Board  
Peanut Commission  
Personnel Management, Office of  
Pharmacy, Board of  
Physicians Manpower Training  
Commission  
Police Pension and Retirement  
Psychologists Examiners, Board of  
Public Employees Retirement System  
Public Safety, Department of

Quartz Mountain Arts and Conference  
Center Nature Park  
Real Estate Commission  
Rehabilitation, Department of  
Scenic Rivers Commission  
Science and Technology, Center for  
Advancement of  
Secretary of State, Office of the  
Securities Commission  
Senate, State  
Space Industry Development Authority  
Speech Pathology and Audiology Board  
State and Education Employees Group  
Insurance Board  
Supreme Court  
Tax Commission  
Teacher Preparation, Commission on  
Test for Alcohol and Drug Influence  
Board  
Tobacco Settlement Trusts  
Tourism and Recreation Department  
Transportation, Department of  
Treasurer's Office, State  
Turnpike Authority  
Uniform Building Code Commission  
University Health Sciences Center  
University Hospitals Authority  
Used Motor Vehicles and Parts  
Commission  
Veterans Affairs, Department of  
Veterinary Medical Examiners,  
State Board of  
Waters Resources Board  
Wheat Commission  
Will Rogers Memorial Commission  
Workers' Compensation Court

### Counties and County Governmental Units

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Adair County  
Alfalfa County  
Alfalfa County Rural Water District  
Atoka County  
Atoka County Rural Water District #2  
Atoka County Rural Water District #4  
Beaver County  
Beaver County Memorial Hospital  
Beckham County  
Blaine County  
Bryan County  
Caddo County  
Canadian County  
Carter County

## Participating Employers (continued)

Cherokee County  
Choctaw County  
Choctaw County Ambulance  
Cimarron County  
Cleveland County  
Coal County  
Comanche County  
Comanche County Facilities Authority  
Cotton County  
Craig County  
Craig County General Hospital  
Creek County  
Creek County Rural Water District #3  
Creek County Rural Water District #5  
Custer County  
Delaware County  
Delaware County E-911 Trust Authority  
Delaware County Solid Waste Trust Authority  
Dewey County  
Ellis County  
Garfield County  
Garvin County  
Grady County  
Grady County Criminal Justice Authority  
Grady County EMS  
Grant County  
Greer County  
Greer County Special Ambulance Service  
Harmon County  
Harper County  
Haskell County  
Hughes County  
Jackson County  
Jefferson County  
Johnston County  
Johnston County Rural Water District  
Kay County  
Kingfisher County  
Kiowa County  
Latimer County  
LeFlore County  
LeFlore County EMS  
LeFlore County Rural Water and Sewer  
LeFlore County Rural Water District #3  
Lincoln County  
Lincoln County E-911 Trust Authority  
Logan County  
Love County  
Major County  
Major County EMS  
Marshall County  
Mayes County  
Mayes County Rural Water District #3  
Mayes Emergency Services Trust Authority

McClain County  
McClain-Grady County EMS  
McCurtain County  
McCurtain County EMS  
McIntosh County  
Murray County  
Muskogee County  
Muskogee County EMS  
Noble County  
Nowata County  
Nowata Consolidated Rural Water District #1  
Okfuskee County  
Okmulgee County  
Okmulgee County Criminal Justice Authority  
Osage County  
Ottawa County  
Ottawa County E-911 Authority  
Pawnee County  
Payne County  
Pittsburg County  
Pittsburg County Rural Water District #7  
Pontotoc County  
Pottawatomie County  
Pottawatomie County Public Safety Center  
Pushmataha County  
Roger Mills County  
Rogers County  
Seminole County  
Sequoyah County  
Sequoyah County Rural Water District #7  
Stephens County  
Texas County  
Tillman County  
Tillman County EMS  
Tillman County Rural Water District  
Wagoner County  
Washington County  
Washita County  
Woods County  
Woodward County

### **Towns, Cities and Municipal Governmental Units**

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Anadarko Housing Authority  
Arnett, Town of  
Beaver, City of  
Bixby, City of  
Bixby Public Works  
Cheyenne, City of  
Commerce, City of  
Cyril, Town of  
Fairfax, Town of

Fort Supply, Town of  
Grandfield, City of  
Grove, City of  
Grove Municipal Airport Managing Authority  
Heavener, City of  
Heavener Utility Authority  
Hinton, Town of  
Holdenville, City of  
Holdenville Housing Authority  
Hugo, City of  
Idabel Housing Authority  
Ketchum, City of  
Ketchum Public Works  
Kingfisher, City of  
Mangum, City of  
Mountain View, City of  
Muskogee City-County 911 Trust Authority  
Okarche, City of  
Poteau Valley Improvement Authority  
Rush Springs, Town of  
Ryan, City of  
Sentinel, Town of  
Shattuck, City of  
Stigler, City of  
Tahlequah, City of  
Vici, Town of  
Watonga Housing Authority  
Watts Public Works Authority  
Wewoka, City of  
Wilson, City of

### **Other Governmental Units**

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Association of South Central Oklahoma Government  
Circuit Engineering District #4  
Circuit Engineering District #6  
Eastern Oklahoma Circuit Engineering District #2  
Eastern Oklahoma District Library  
Grand Gateway Economic Development Association  
Kiamichi Economical Development District of Oklahoma  
Midwestern Oklahoma Development Authority  
Oklahoma Environmental Management Authority  
Southeast Circuit Engineering District #3  
Southwestern Oklahoma Ambulance Authority  
Southwestern Oklahoma Developmental Authority  
Tri-County Rural Water District

## Member Statistics

Inactive members as of July 1, 2012	Number	Amount of Annual Benefit
<b>Members receiving benefits</b>		
Retired	25,528	\$ 419,564,529
Surviving spouses	3,212	32,688,039
Disabled	1,523	14,471,973
<b>Total</b>	<b>30,263</b>	<b>\$ 466,724,541</b>
<b>Members with deferred benefits</b>		
Vested terminated	3,434	\$ 32,279,512
Assumed deferred vested members (estimated benefits)	2,063	20,345,555
<b>Total</b>	<b>5,497</b>	<b>\$ 52,625,067</b>

Statistics for	Average			
	Number	Age	Service	Earnings
<b>Active members as of July 1, 2011</b>				
Continuing	37,715	47.6	11.8	\$ 37,728
New	2,836	38.8	1.0	24,830
<b>Total</b>	<b>40,551</b>	<b>47.0</b>	<b>11.1</b>	<b>\$ 36,826</b>
<b>Active members as of July 1, 2012</b>				
Continuing	35,984	48.1	12.3	\$ 38,263
New	6,585	37.4	1.0	27,894
<b>Total</b>	<b>42,569</b>	<b>46.5</b>	<b>10.5</b>	<b>\$ 36,659</b>

## Distribution of Retirees and Beneficiaries

Age	Number			Annual Benefits		
	Male	Female	Total	Male	Female	Total
<b>Under 50</b>	126	110	236	\$ 1,983,661	\$ 1,196,537	\$ 3,180,198
<b>50-55</b>	276	380	656	5,916,006	8,108,129	14,024,135
<b>55-60</b>	914	1,476	2,390	18,334,823	28,108,061	46,442,884
<b>60-65</b>	2,102	2,945	5,047	39,566,716	49,530,782	89,097,498
<b>65-70</b>	2,993	3,701	6,694	51,751,364	55,312,986	107,064,350
<b>70-75</b>	2,422	3,079	5,501	39,796,579	42,110,837	81,907,416
<b>75-80</b>	1,856	2,428	4,284	27,722,841	30,304,720	58,027,561
<b>80-85</b>	1,160	1,815	2,975	16,072,628	21,472,863	37,545,491
<b>85-90</b>	569	1,099	1,668	8,064,189	12,312,397	20,376,586
<b>90-95</b>	219	444	663	2,852,448	4,725,592	7,578,040
<b>95-100</b>	29	99	128	352,446	917,735	1,270,181
<b>Over 100</b>	2	19	21	22,255	187,946	210,201
<b>Total</b>	<b>12,668</b>	<b>17,595</b>	<b>30,263</b>	<b>\$ 212,435,956</b>	<b>\$ 254,288,585</b>	<b>\$ 466,724,541</b>

## Summary of Active Members

### Age and years of credited service

Earnings tabulated are average rates of pay as of July 1, 2012

Age	Years of Service									Total	
	0 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & Up		
<b>Under 25</b>	1,339	21									<b>1,360</b>
<b>Average Pay</b>	\$22,978	\$28,909									<b>\$23,070</b>
<b>25 to 29</b>	2,681	644	4								<b>3,329</b>
<b>Average Pay</b>	\$27,824	\$31,205	\$35,474								<b>\$28,488</b>
<b>30 to 34</b>	2,114	1,565	333	4							<b>4,016</b>
<b>Average Pay</b>	\$28,940	\$35,262	\$36,418	\$34,032							<b>\$32,029</b>
<b>35 to 39</b>	1,723	1,373	967	207	3						<b>4,273</b>
<b>Average Pay</b>	\$30,066	\$35,833	\$40,073	\$42,245	\$33,315						<b>\$34,776</b>
<b>40 to 44</b>	1,529	1,305	1,049	718	270	9					<b>4,880</b>
<b>Average Pay</b>	\$30,030	\$36,454	\$39,296	\$43,521	\$45,167	\$47,976					<b>\$36,595</b>
<b>45 to 49</b>	1,299	1,161	926	763	849	349	64				<b>5,411</b>
<b>Average Pay</b>	\$29,978	\$35,680	\$38,145	\$41,152	\$45,762	\$47,270	\$48,951				<b>\$37,991</b>
<b>50 to 54</b>	1,322	1,271	1,013	779	926	830	510	7			<b>6,658</b>
<b>Average Pay</b>	\$31,264	\$35,130	\$38,284	\$40,553	\$45,280	\$48,871	\$48,020	\$52,694			<b>\$39,607</b>
<b>55 to 59</b>	1,080	1,194	1,050	798	912	591	518	126	2		<b>6,271</b>
<b>Average Pay</b>	\$32,867	\$36,487	\$38,567	\$40,442	\$43,804	\$49,371	\$49,572	\$48,494	\$55,348		<b>\$40,322</b>
<b>60 to 64</b>	640	879	782	563	555	354	313	174	1		<b>4,261</b>
<b>Average Pay</b>	\$33,818	\$36,697	\$38,399	\$40,373	\$44,083	\$48,436	\$48,257	\$51,770	\$43,982		<b>\$40,466</b>
<b>65 to 69</b>	218	369	299	195	178	126	77	66	2		<b>1,530</b>
<b>Average Pay</b>	\$34,732	\$36,507	\$39,201	\$41,886	\$43,578	\$47,937	\$54,052	\$57,657	\$51,024		<b>\$41,044</b>
<b>70 &amp; up</b>	93	130	100	83	88	42	26	12	6		<b>580</b>
<b>Average Pay</b>	\$31,052	\$30,534	\$35,931	\$42,274	\$39,797	\$43,549	\$42,430	\$39,902	\$50,717		<b>\$36,511</b>
<b>Total</b>	<b>14,038</b>	<b>9,912</b>	<b>6,523</b>	<b>4,110</b>	<b>3,781</b>	<b>2,301</b>	<b>1,508</b>	<b>385</b>	<b>11</b>		<b>42,569</b>
<b>Average Pay</b>	<b>\$29,359</b>	<b>\$35,512</b>	<b>\$38,660</b>	<b>\$41,313</b>	<b>\$44,631</b>	<b>\$48,538</b>	<b>\$48,854</b>	<b>\$51,354</b>	<b>\$51,003</b>		<b>\$36,659</b>

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**Oklahoma Public Employees Retirement System**

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