

Retiring Right

A Publication of the Oklahoma Public Employees Retirement System

OPERS
newsletter

First Quarter
January 2006

Retiree Edition

Annual Financial Report Summary Edition

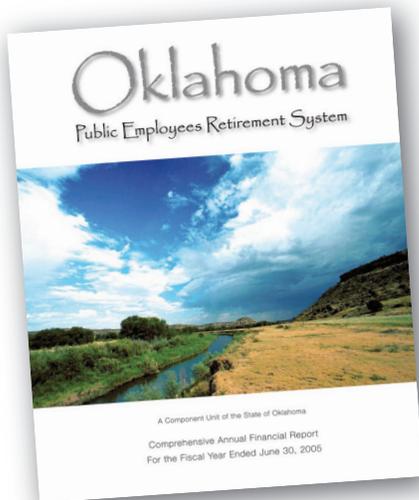
For the Fiscal Year Ended June 30, 2005

Introduction

This edition of Retiring Right summarizes the 2005 Comprehensive Annual Financial Report (CAFR) for the Oklahoma Public Employees Retirement System (OPERS). The summary is designed to educate our readers about OPERS and provide summary information about the financial condition of the retirement system.

For a complete copy of the 2005 CAFR, contact your Retirement Coordinator or call OPERS at (800) 733-9008 or (405) 858-6737. You may also view or download a copy from our website at www.opers.state.ok.us.

The complete report provides detailed information about the financial, investment, and actuarial aspects of the retirement plan. The report also includes administrative and statistical information about OPERS.



About OPERS

OPERS was established in 1964 by the Oklahoma Legislature. Its mission is to provide and promote accountable and financially sound retirement programs for its members. As of June 30, 2005, OPERS consisted of 267 participating employers, 43,918 active members, 5,521 inactive vested members and 23,679 retirees and beneficiaries.

The Director's Corner

by Tom Spencer,
OPERS Executive Director

Reality Check

Why is it that we humans sometimes don't want to hear the truth? The old saying that "the truth hurts" can be so deadly accurate. Even when we hear the truth and are confronted with the cold hard facts, we sometimes go into a denial mode. When Jack Nicholson said "you can't handle the truth" in *A Few Good Men*, he was really quite right.

We know the statistics. Americans are living longer. If retirement ages don't change, pension plans and Social Security will be paying people for longer periods of time. I will leave the Social Security debate for others. But what is the appropriate response to the truth that we are living longer? There are only two choices. Either employers and employees must contribute a larger percentage of their salaries into defined benefit pension plans or the retirement ages must gradually drift upward. If you don't do one or the other, the unfunded liabilities for benefits will continue to rise and we will be passing on this debt to the next generation. That is neither prudent nor right.

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Statements of Plan Net Assets

A summary of OPERS net assets held in trust for benefits on June 30, 2005, 2004 and 2003 is shown below. As of June 30, 2005, OPERS net assets were more than \$5.5 billion.

	(\$ millions)		
	YEARS ENDED JUNE 30,		
	2005	2004	2003
Cash and cash equivalents	\$ 33.3	\$ 29.1	\$ 77.1
Receivables	455.5	240.5	437.3
Investments	5,476.3	5,334.2	4,658.3
Securities lending collateral	835.7	578.0	378.4
Property and equipment	0.4	0.3	0.3
Other assets	0.2	0.3	0.2
Total Assets	6,801.4	6,182.4	5,551.6
Other liabilities	461.2	478.0	554.1
Securities lending collateral	835.7	578.0	378.4
Total Liabilities	1,296.9	1,056.0	932.5
Net Assets Held in Trust for Benefits	\$5,504.5	\$5,126.4	\$4,619.1

Changes in Plan Net Assets

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

	(\$ millions)		
	YEARS ENDED JUNE 30,		
	2005	2004	2003
Member contributions	\$ 52.0	\$ 48.4	\$ 50.1
State and local agency contributions	139.8	133.5	137.5
Net investment income	522.3	636.5	240.4
Total Additions	714.1	818.4	428.0
Retirement, death and survivor benefits	321.6	297.8	282.5
Refunds and withdrawals	10.8	9.8	8.8
Administrative expenses	3.6	3.5	3.2
Total Deductions	336.0	311.1	294.5
Total Changes in Plan Net Assets	\$ 378.1	\$ 507.3	\$ 133.5

Deductions to plan net assets are incurred primarily for the purpose for which OPERS was created, namely the payment of benefits to retirees. Retirement, death and survivor benefits increased primarily due to the increase in the number of retired members and an increase in the average monthly benefits of retired members. Refunds and withdrawals increased as more participants withdrew their contributions on severance of service. Administrative expenses for the current fiscal year increased slightly due to increases in staffing and related personnel expenses.

(Continued from page 1)

The increase in life expectancy in the last half of the 20th century has been steady. According to the National Vital Statistics Reports, life expectancy for males at birth in 1940 was 61.6 years. It was 74.1 in 2000. For women it was 65.9 years in 1940 and 79.5 in 2000. That's an improvement of thirteen or fourteen years over the last six decades.

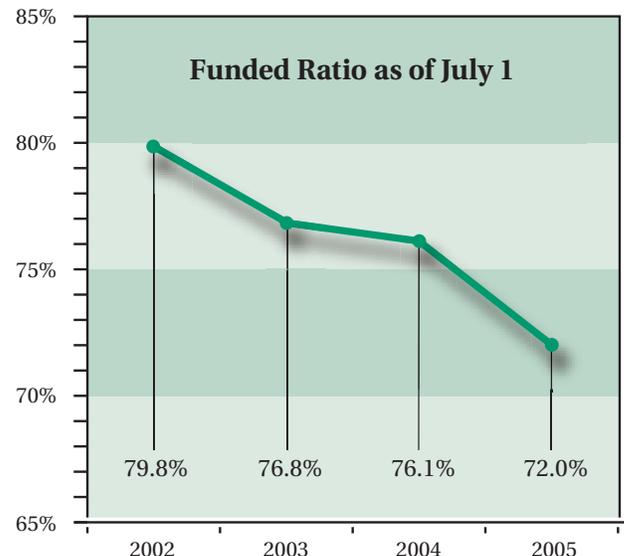
Regardless of whether OPERS members are under the Rule of 80 or 90, we can all retire with unreduced benefits at age 62 (with 6 years of participating service) or with a reduced early retirement at age 55 (with 10 years). Does this sound unreasonable to anyone? The "Rule of 90" has been in effect since 1992. Is it realistic to return to the Rule of 80 for OPERS members when we know this will permit some state employees to retire in their early 50's? Unless those people are going to other jobs, health insurance isn't very affordable for retirees and personal savings will have to be tapped just to make ends meet. The reality is that with life expectancy rising, the more years we will have to work before we retire. That's the truth. Can you handle it?

Funding

A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. The funding objective for OPERS is to meet long-term benefit promises through contributions that remain approximately level as a percent of member payroll. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the level of investment potential. The advantage of a well-funded plan is that the participants can look at the assets that are committed to the payment of benefits. The actuarial accrued liability and actuarial value of assets of OPERS as of July 1, 2005 amounted to \$7.6 billion and \$5.5 billion, respectively.

(Continued on next page)

Actuarial Accrued Liability Status Chart



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The OPERS funded status has been steadily declining over the last several years. On July 1, 2005, the funded ratio was 72.0% compared to 90.7% on July 1, 1998. In 2003 the Legislature authorized a gradual increase of employer contributions to OPERS, scheduled to begin July 1, 2006. In 2004, this scheduled increase of 1.5% was moved to July 1, 2005, with the rate increasing 1% annually until it reaches 16.5% for state agencies.

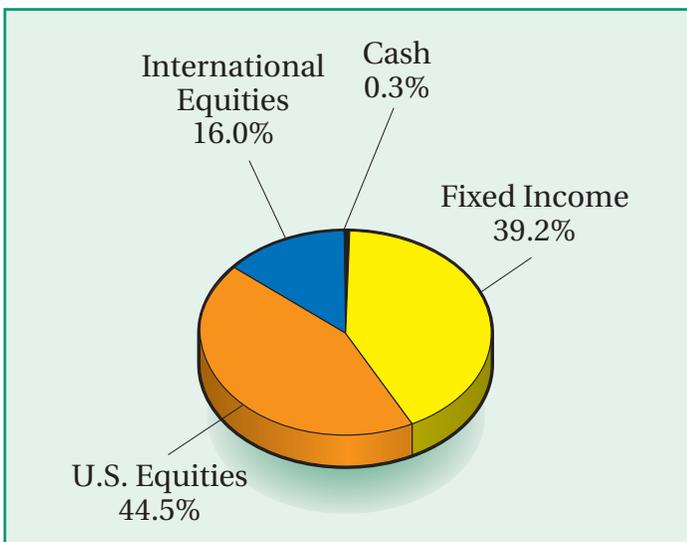
Investments

The standard for OPERS in making investments is to exercise the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. In addition, funds are to be diversified so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so. Funds of OPERS are invested solely in the interest of the membership and their beneficiaries, and for the exclusive purpose of providing benefits to such membership and their beneficiaries and defraying reasonable expenses of administering OPERS. The Board of Trustees has established an investment policy and guidelines which provide for the delegation of investment authority to professional investment advisors. Outside investment advisors execute the investment policy in accordance with the statutory authority, the Board policy and their respective guidelines, but are to use full discretion within the policy and guidelines.

At fiscal year end, the investment portfolio of OPERS was managed by 11 investment management firms in the categories and amounts shown in the pie chart.

For fiscal year 2005, investments provided a 10.45 percent rate of return. The annualized rate of return for OPERS over the last three years was 10 percent and 3.52 percent over the last five years, comparing favorably to the policy benchmark for each period.

June 30, 2005 Asset Mix



New Faces at OPERS

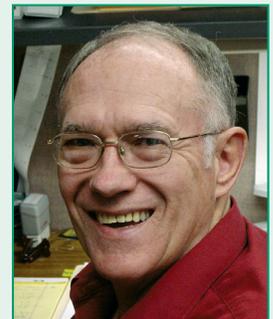
Kristen Lancaster

Kristen began working for OPERS in May of 2005. She is a Retirement Benefit Analyst in our New Retiree section. Before coming to OPERS, she managed a dental office, worked for the Corporation Commission and taught ballroom dancing. She also danced for the Oklahoma Festival Ballet Company and the Prairie Dance Theatre Modern Dance Company. She has a Bachelor's Degree in Fine Arts from the University of Oklahoma. Kristen loves to travel and dance. She is married with three-year-old twin boys and lives in Edmond.



Rheuben Green

Rheuben works as a Benefit Analyst in our Active Member section. He started with OPERS in July of 2005 after working for 25 years in the Naval Nuclear Power Program. He also worked for Boston Edison's Pilgrim Nuclear Power Station and Hermetic Switch. He has a B.S. in Mathematics from the University of the State of New York. Rheuben enjoys writing musical arrangements, both vocal and instrumental, as well as rehabilitating houses. He is married and lives in Rush Springs.



Benefit Increases for Working Retirees

Benefit increases for eligible retirees who have returned to work will be effective with the January payment issued at the end of the month.

These increases will be for those "Retirees who have Returned to Work" (affectionately coined "RRTW's") who accrued 12 months (2,076 hours) of service credit **with an OPERS participating employer** as of June 30th, 2005. Any hours over 12 months will stay in the RRTW's record and add to future post-retirement credit. Increases are based on actual earnings and employment hours.

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

SoonerSave Bank Option Ends

The Savings Account option in SoonerSave will be ending soon. The contract with Bank of Oklahoma is expiring and the OPERS Board of Trustees voted not to replace it in the coming fiscal year. Investments in the Savings Account option will be transferred to the SoonerSave Stable Value Fund before June 30, 2006. The change is an effort to reduce redundant investment options, while continuing to offer lower risk options with a respectable return. The Stable Value Fund has consistently earned a higher return than the Savings Account option and offers the security of investing only in U.S. Government issued securities. Additional information including exact dates of the closing of the BOK Savings Account option and transfer to Stable Value Fund will be available soon and will be posted on the SoonerSave web site (www.soonersave.com). There will also be information in the first quarter participant statements.



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



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