

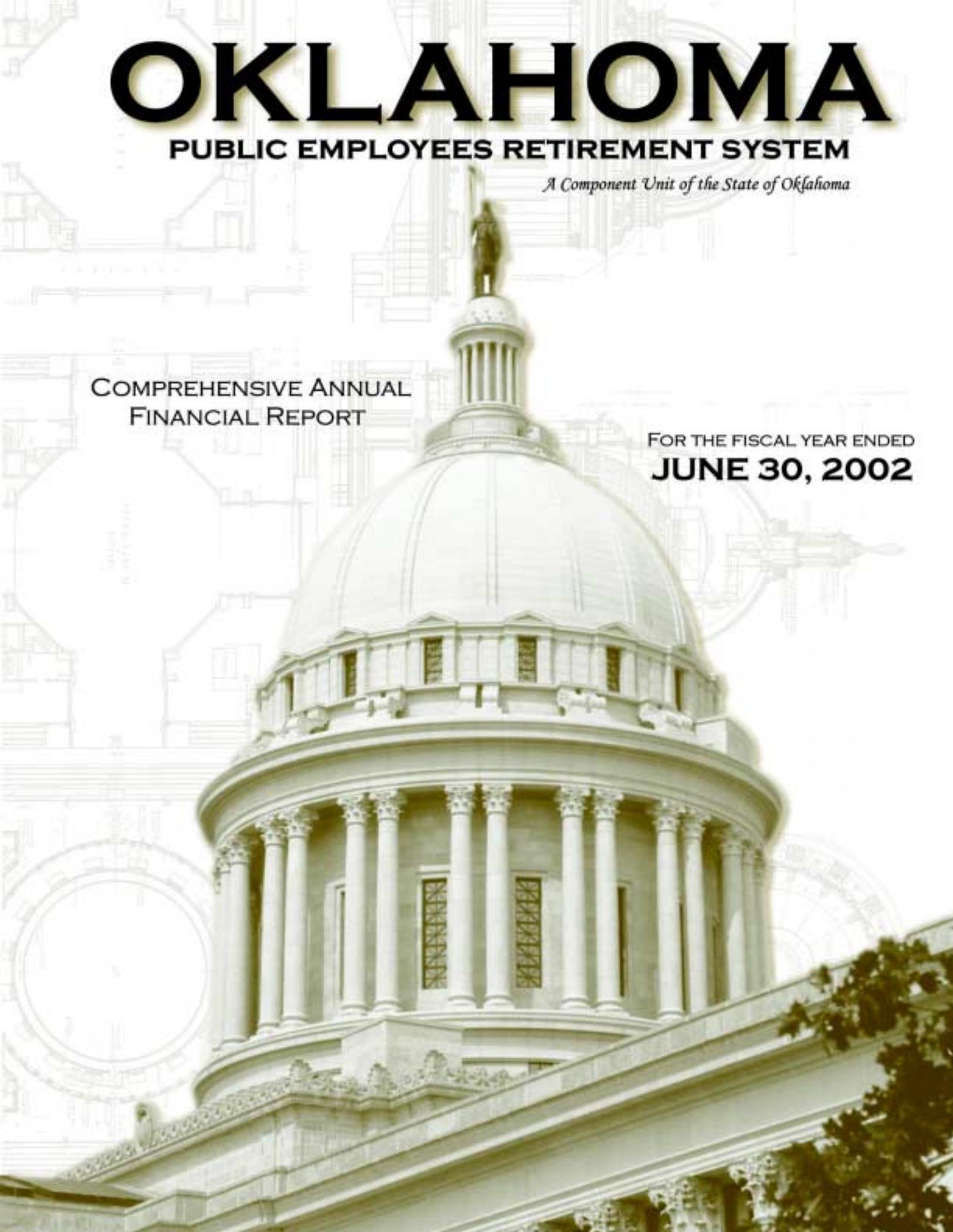
# OKLAHOMA

## PUBLIC EMPLOYEES RETIREMENT SYSTEM

*A Component Unit of the State of Oklahoma*

COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED  
**JUNE 30, 2002**



## Foreward

This year's annual report celebrates the completion of the Oklahoma Capitol dome. In 1914, Oklahoma's original Capitol design included a dome, but due to financial constraints the dome was not constructed. Now, in 2002, the dome has been completed, with 75 percent of the necessary funds raised from private sources. The dome is topped by a nearly 23 foot bronze sculpture entitled "The Guardian" designed by Oklahoma State Senator Enoch Kelly Haney.

"This dome is a symbol of the new Oklahoma, the prosperous Oklahoma – a symbol that Oklahoma can complete what it starts."

–Governor Frank Keating

## Credits

The Oklahoma Public Employees Retirement System would like to thank the Photo Division of the Legislative Services Bureau, the Capitol Dome Builders and the Oklahoma Historical Society for the use of their photography.

All photographs in this report are used with permission.

# **OKLAHOMA**

**PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
*A Component Unit of the State of Oklahoma*

## Comprehensive Annual Financial Report

FOR THE FISCAL YEAR ENDED  
**JUNE 30, 2002**

Prepared by the staff of the  
Oklahoma Public Employees Retirement System

This publication, printed by the Department of Central Services, is issued by the Oklahoma Public Employees Retirement System as authorized by its Executive Director. Three thousand copies have been prepared and distributed at a cost of \$10,540. Copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.

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# INTRODUCTORY SECTION





Oklahoma Historical Society

**Groundbreaking ceremony for the State Capitol Building on July 20, 1914.**

DON KILPATRICK  
CHAIRMAN



FRANK KEATING  
GOVERNOR

STATE OF OKLAHOMA  
OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM

November 29, 2002

## Letter of Transmittal

Board of Trustees  
Oklahoma Public Employees Retirement System

Ladies and Gentlemen:

The Comprehensive Annual Financial Report (CAFR) of the Oklahoma Public Employees Retirement System (OPERS) for the fiscal year ended June 30, 2002 is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation rests with the management of OPERS, and sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements, supporting schedules and statistical tables. We hope that you and the members of the retirement system will find this CAFR helpful in understanding the current financial condition of OPERS.

OPERS is considered a component unit of the state of Oklahoma for financial reporting purposes and, as such the financial statements contained in this report are also included in the State of Oklahoma Comprehensive Annual Financial Report. For financial reporting purposes, the Plan utilizes Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, along with GASB Statement No. 34, Basic Financial Statements— and Management's Discussion and Analysis (MD&A)—for State and Local Governments*. MD&A is intended to provide a narrative introduction, overview, and analysis to accompany the basic financial statements. This Letter of Transmittal is designed to complement MD&A and should be read in conjunction with it.

This CAFR is divided into five sections: an Introductory Section, which contains this transmittal letter, the administrative organization, and a summary of recently enacted legislation; a Financial Section, which contains the Independent Auditors' Report, MD&A, the financial statements of the system, certain required supplementary information and schedules of investment, administrative and professional/consultant fees; an Investment Section, which contains a report on the investment activity, investment policies, investment results, and various investment schedules; an Actuarial Section, which contains an Actuary's Certification Letter and the results of the annual actuarial valuation; and a Statistical Section, which includes significant data pertaining to OPERS. The Addendum sets forth a report on the financial and actuarial condition of OPERS based on the prescribed assumptions as required by legislation enacted in the May 2002 session.

The Oklahoma Public Employees Retirement System was established in 1964 by the Oklahoma Legislature. Currently, OPERS consists of 252 participating employers, 44,292 active members, 5,392 terminated vested participants and 21,452 retirees and beneficiaries. The purpose of OPERS is to provide for an orderly means whereby employees covered by OPERS who have attained retirement age may be retired from active service and enable such employees to accumulate reserves for themselves and their dependents, and provide for termination of employment and retirement and death benefits.

### Additions to 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 increases in the salary on which contributions were calculated. The net investment loss reflects the impact of the decline in the equity markets during this period.

#### Additions to Plan Net Assets (expressed in millions)

	2002	2001	Increase (decrease)	
			Amount	Percent
Member Contributions	\$ 50.8	\$ 47.3	\$ 3.5	7.4%
Employer Contributions	139.6	131.2	8.4	6.4%
Net Investment Loss	(250.8)	(311.6)	60.8	(19.5%)
	<u>\$ (60.4)</u>	<u>\$(133.1)</u>	<u>\$ 72.7</u>	<u>(54.6%)</u>

### Deductions from Plan Net Assets

Deductions from 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 newly retired members. Also, in July 2000, OPERS transferred \$37.7 million of certain excess contributions to qualifying members. Administrative expenses for the current fiscal year remained substantially unchanged from the prior period.

#### Deductions from Plan Net Assets (expressed in millions)

	2002	2001	Increase (Decrease)	
			Amount	Percent
Retirement, Death & Survivor Benefits	\$ 257.9	\$ 247.1	\$ 10.8	4.4%
Refunds and Withdrawals	8.2	9.9	(1.7)	(17.2%)
Transfer of Contributions and Earnings	--	37.7	(37.7)	(100.0%)
Administrative Expenses	3.2	2.8	0.4	14.3%
	<u>\$ 269.3</u>	<u>\$ 297.5</u>	<u>\$ (28.2)</u>	<u>(9.5%)</u>

### 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 10 investment managers in the following categories and amounts:

	<u>000's</u>	
Domestic Equity Large Cap	\$ 1,506,440	33.7%
Domestic Equity Mid Cap	203,737	4.5%
Domestic Equity Small Cap	208,669	4.7%
Non-US Equity	581,827	13.0%
Fixed Income	1,952,673	43.5%
Cash	28,877	0.6%
	<u>\$ 4,482,223</u>	<u>100.0%</u>

Included in the Investment Section of this report is a summary of the Investment Portfolio by Type and Manager. For fiscal year 2002, investments provided a -5.1 percent rate of return. The annualized rate of return for OPERS over the last three years was -0.6 percent and 5.0 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. 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 June 30, 2002 amounted to \$6.6 billion and \$5.3 billion, respectively. A detailed discussion of funding is provided in the Actuarial Section of this report.

### **Legislation**

Several plan modifications were enacted by the 2002 Oklahoma Legislature, which become effective July 1, 2002. A cost of living increase ranging from 5% to 6% was granted to qualifying retired persons. OPERS will be required to offer a benefit option to the surviving spouse of a deceased active member who was eligible to retire or vest regardless of whether the spouse was named beneficiary. A report on the financial and actuarial condition of OPERS using prescribed assumptions is now required as an addendum to OPERS' annual financial report. A more complete summary of legislative changes is contained in the Introductory Section of this report.

### **Professional Services**

Professional consultants are appointed by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of OPERS. Opinions from the independent auditors and the actuary are included in this report. Aside from the individual

investment managers, which are listed elsewhere in this report, the professional consultants to the Board for the past fiscal year are as follows:

KPMG LLP, Independent Auditors  
Finley & Cook, PLLC, Internal Auditors  
Mercer Human Resource Consulting, Actuary  
The Northern Trust Company, Custodial Bank  
Strategic Investment Solutions, Inc., Investment Consultant

### **Certificate of Achievement for Excellence in Financial Reporting**

The Government Finance Officers Association of the United States and Canada (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, 2001. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of a state and local government financial report.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Oklahoma Public Employees Retirement System has received a Certificate of Achievement for the last five consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

### **Acknowledgments**

The compilation of this report reflects the combined effort of the staff of OPERS under the leadership of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the funds of OPERS.

This report is being provided to the retirement coordinators for all participating employers of OPERS. The retirement coordinators form a vital link between OPERS and its membership and their cooperation contributes significantly to the success of OPERS. The report is also available, upon request, to any member of OPERS. We hope the employers and their employees find this report informative.

We would like to take this opportunity to express our gratitude to the Board, the staff, the advisors, and to the many people who work so diligently to assure the successful operation of OPERS.

Respectfully submitted,



Stephen C. Edmonds  
Executive Director



Virginia Lawrenz, CPA  
Chief Financial Officer

DON KILPATRICK  
CHAIRMAN



FRANK KEATING  
GOVERNOR

STATE OF OKLAHOMA  
OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM

November 29, 2002

## Chairman's Letter

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, 2002.

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 PO 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,

A handwritten signature in black ink, appearing to read "Don Kilpatrick".

Don Kilpatrick  
Chairman

# Board of Trustees



**Don Kilpatrick**  
Chair  
Secretary-Member,  
Oklahoma Tax Commission  
Ex Officio



**Howard Conyers**  
Vice chair  
Appointee of the Supreme  
Court



**Faye Waits**  
Appointee of the Speaker of  
the House of Representatives



**Vic Thompson**  
Appointee of the President  
Pro Tempore of the Senate



**Denise Bode**  
Chair, Corporation Commission  
Ex Officio



**Richard Haugland**  
Appointee of the Speaker of  
the House of Representatives



**James C. Thomas**  
Appointee of the President  
Pro Tempore of the Senate



**Tom Daxon**  
Director of State Finance  
Ex Officio



**Oscar B. Jackson, Jr.**  
Administrator, Office of  
Personnel Management  
Ex Officio



**Carroll Fisher**  
State Insurance  
Commissioner  
Ex Officio



**Bob Keasler**  
Appointee of the Governor

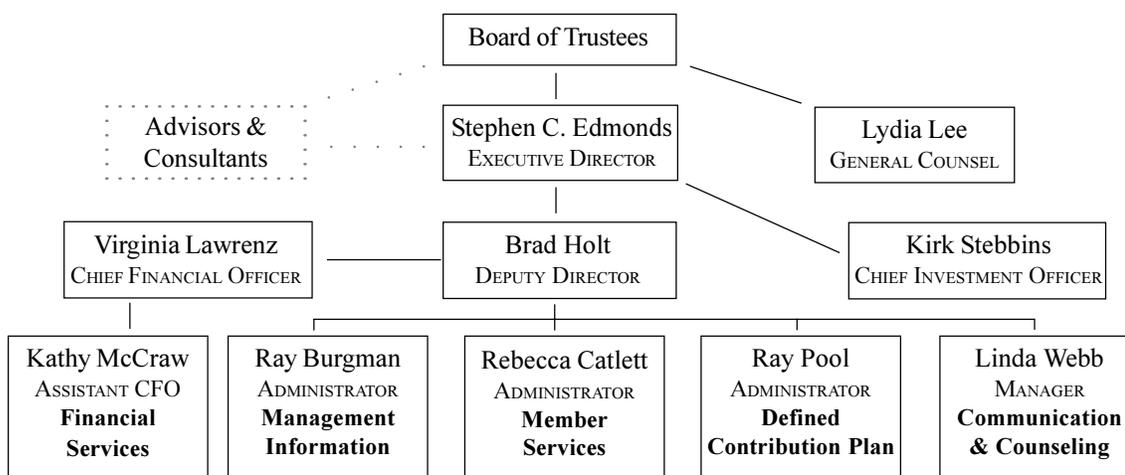


**John Willbanks**  
Appointee of the Governor



**DeWayne McAnally**  
Appointee of the Governor

# Organizational Structure



BACK ROW, LEFT TO RIGHT: Virginia Lawrenz, Rebecca Catlett, Brad Holt, Ray Pool, Kirk Stebbins, Lydia Lee.  
FRONT ROW, LEFT TO RIGHT: Kathy McCraw, Steve Edmonds, Ray Burgman, Linda Webb.

## Advisors and Consultants

### Master Custodian

The Northern Trust Company  
Chicago, Illinois

### Investment Consultant

Strategic Investment Solutions, Inc.  
San Francisco, California

### Independent Auditors

KPMG LLP  
Oklahoma City, Oklahoma

### Actuarial Consultant

Mercer Human Resource Consulting  
Dallas, Texas

### Internal Auditors

Finley & Cook, PLLC  
Shawnee, Oklahoma

# 2002 Legislation

Effective July 1, 2002

## General

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### **Payments to Multiple Beneficiaries**

**Senate Bill 1366** amends the current procedure for paying applicable benefits upon the death of a member who named multiple beneficiaries. OPERS will pay the beneficiaries who have completed their required paperwork, regardless of whether or not all beneficiaries have completed such paperwork.

### **Pension Commission Additions**

**House Bill 1719** provides for two additional appointees to the Oklahoma State Pension Commission; expands the duties of the Commission; and requires additional reporting on the financial and actuarial condition of the System based on certain prescribed assumptions.

## Active Members

---

### **Retirement Eligibility Requirements Change for Oklahoma Military Department Firefighters**

**Senate Bill 405** changes the retirement eligibility requirements for Oklahoma Military Department firefighters, making their benefit provisions similar to the Department of Corrections' hazardous duty employees.

### **Surviving Spouse Benefits Upon Death Of Eligible Member**

**House Bill 1660** requires OPERS to offer joint annuitant benefits under Option B to the surviving spouse of an active member who was eligible to retire or vest at the time of his or her death, regardless of whether the spouse was named as beneficiary. This is applicable only if no benefits or distributions have previously been paid.

### **Compensation for Retirement Purposes**

**House Bill 1660** clarifies the Board of Trustees' authority to define "compensation" for retirement purposes; and also grants rule-making authority.

### **Clarification of Participating Employer Status**

**House Bill 1660** expands the term "participating employer" for situations when a participating employer of the Oklahoma Teachers Retirement System has one or more employees in OPERS as a result of previous legislation.

## **Fugitive Apprehension Agents to be Included In Correctional Officer Provisions**

**Senate Bill 1242** adds fugitive apprehension agents to the group covered in provisions for correctional, probation and parole officers. This bill also modifies the computation of “final average compensation” in certain instances.

## **Transfer Election for Employees Of the Oklahoma Commission for Teacher Preparation**

**Senate Bill 1456** allows employees of the Oklahoma Commission for Teacher Preparation who joined between June 1, 2001 and July 1, 2002 who had previous service in the Oklahoma Teachers Retirement System (OTRS) an opportunity to make an irrevocable election of membership in OTRS rather than OPERS. Those who elect OTRS membership may transfer the OPERS service since June 1, 2001 to OTRS by paying an amount calculated by OTRS.

## **Eligibility for SoonerSave**

**Senate Bill 1223** provides certain employees of the University of Oklahoma Board of Regents participating in OPERS the opportunity to participate in the Oklahoma State Employees Deferred Savings Incentive Plan (SoonerSave).

## **Issues Addressed in Other Bills**

**Senate Bill 1223** contains identical language to House Bill 1660 on the issues of “compensation” for retirement purposes, expansion of the term “participating employer” and surviving spouse benefits.

## **Retirees**

---

### **Retiree Cost of Living Adjustment**

**House Bill 2124** provides a benefit increase for any person receiving benefits from OPERS on June 30, 2001 and who continues to receive benefits on or after July 1, 2002. This increase was payable beginning with the July 1, 2002 benefit payment and ranged from 5 – 6% depending on the retiree’s years of service.

### **Insurance Allowance for Retirees Not Covered through the Oklahoma State and Education Employees Group Insurance Board (OSEEGIB)**

**Senate Bill 1377** provides that OPERS will begin paying the \$105 insurance premium contribution toward the premiums of retirees in employer group plans other than OSEEGIB under certain conditions.

**Senate Bill 1377** also allows members not offered insurance by their participating employer to elect coverage with OSEEGIB when they retire.

# 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, 2001

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.

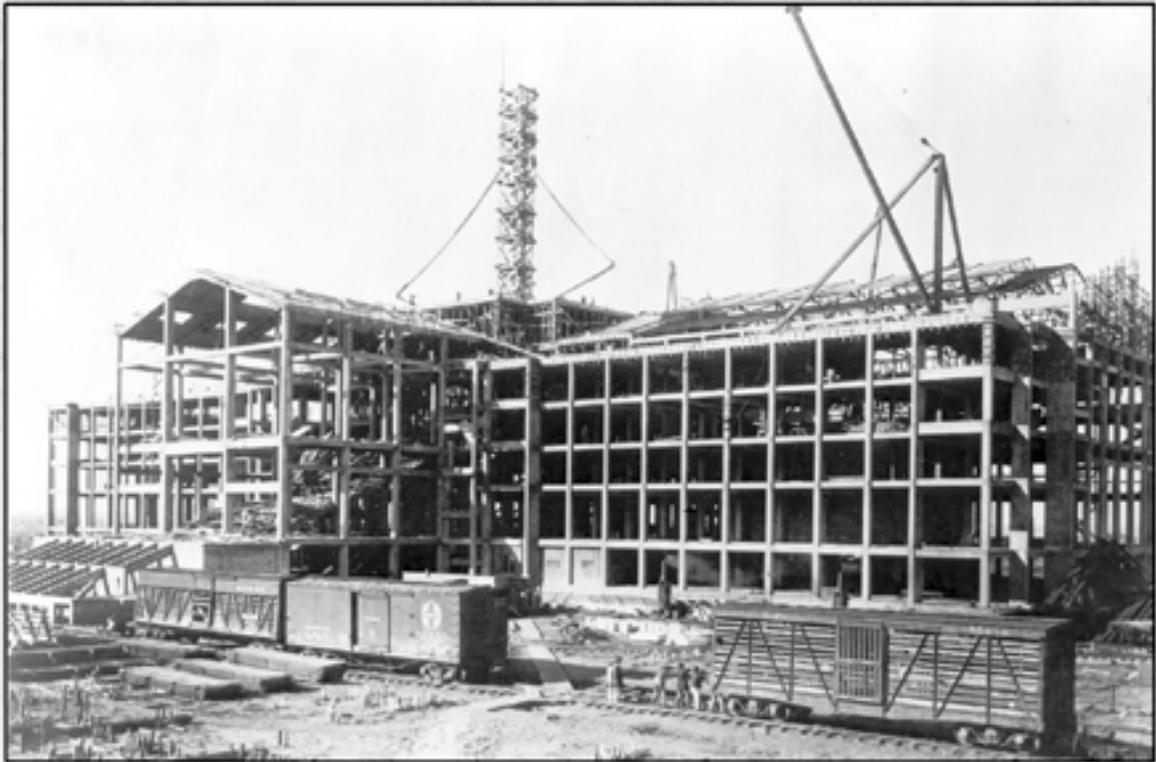


*Imelda Aruete*  
President

*Jeffrey L. Esser*  
Executive Director

**FINANCIAL**  
SECTION





Oklahoma Historical Society

**State Capitol Building under construction on December 2, 1915 .**

# **OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN**

Administered by the Oklahoma Public Employees Retirement System

Financial Statements

June 30, 2002 and 2001

(With Independent Auditors' Report Thereon)

**Oklahoma Public Employees Retirement Plan**  
Administered by the Oklahoma Public Employees Retirement System

**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, 2002 and 2001.

**Financial Highlights**

- The net assets held in trust for pension benefits totaled approximately \$4.5 billion at June 30, 2002 compared to \$4.8 billion at June 30, 2001. The net assets are available for payment of monthly retirement benefits and other qualified distributions to the Plan's participants. The decrease of \$329.8 million resulted primarily from the reduction in the fair value of the Plan's investments due to equity market value declines affecting the year ended June 30, 2002.
- The total number of members participating in the Plan remained fairly constant, increasing 1.91% from June 30, 2001, to 71,136 at June 30, 2002.
- The funded ratio of the Plan was 79.8% at June 30, 2002 compared to 82.6% at June 30, 2001. This resulted from liability gains of \$157.8 million and asset losses of \$115.2 million as computed by the Plan's actuary.
- In July 2000, a transfer of approximately \$37.7 million was made by the Plan to qualifying members' accounts in the Oklahoma State Employees Deferred Savings Incentive Plan representing excess optional contributions, as defined, plus earnings made by such members to the Plan from 1987 through 1994.

**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 three years' 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). 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 other 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 *statement of plan net assets* presents information on the Plan's assets and liabilities and the resulting *net assets held in trust for pension benefits*. This statement reflects the Plan's investments, at fair value, along with cash and short-term investments, receivables and other assets and liabilities.

**Oklahoma Public Employees Retirement Plan**  
Administered by the Oklahoma Public Employees Retirement System

**Management's Discussion and Analysis**

The *statement of changes in plan net assets* presents information showing how the Plan's net assets held in trust for pension benefits changed during the years ended June 30, 2002 and 2001. It reflects contributions by members and participating employers along with deductions for retirement benefits, refunds and withdrawals, and administrative expenses. Investment income during the period is also presented showing income from investing and securities lending activities.

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* and the related note present a schedule of funding progress along with a discussion of actuarial assumptions and methods. Schedules of certain expenses and fees paid are also presented as *other supplementary information*.

**Financial Analysis**

**Investments**

**Fiscal 2002 compared to 2001**

Cash and short-term investments and investments, at fair value, (Plan investments) comprised 97.0% of the total assets of the Plan at June 30, 2002 compared to 98.3% at June 30, 2001.

A summary of the Plan's investments and changes from the prior year by type is as follows:

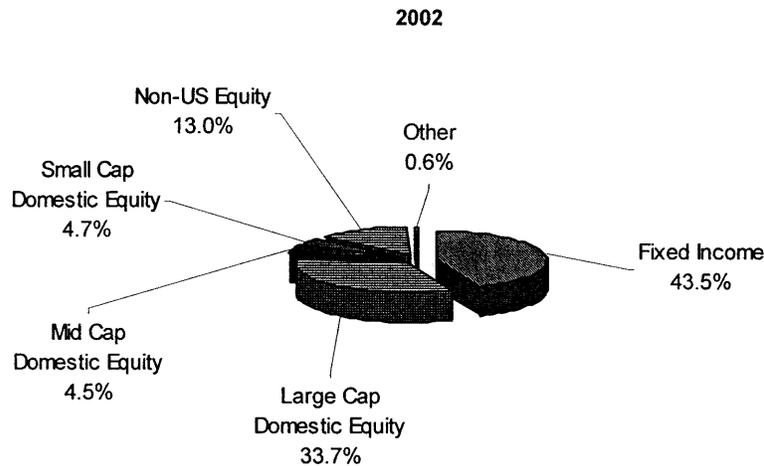
	(\$ millions)			
	June 30,		Change	
	2002	2001	Amount	%
Fixed Income	\$ 1,952.7	\$ 2,045.7	\$ (93.0)	(4.5%)
Large Cap Domestic Equity	1,506.5	1,696.9	(190.4)	(11.2%)
Mid Cap Domestic Equity	203.7	-	203.7	-
Small Cap Domestic Equity	208.7	464.2	(255.5)	(55.0%)
Non-US Equity	581.8	590.1	(8.3)	(1.4%)
Other	28.9	26.3	2.6	9.9%
<b>Total managed investments</b>	<b>4,482.3</b>	<b>4,823.2</b>	<b>(340.9)</b>	<b>(7.1%)</b>
Cash on deposit with State	0.6	0.6	-	0.0%
Securities Lending Collateral	573.9	656.8	(82.9)	(12.6%)
<b>Total Investments and Cash and Short-Term Investments</b>	<b>\$ 5,056.8</b>	<b>\$ 5,480.6</b>	<b>\$ (423.8)</b>	<b>(7.7%)</b>

**Oklahoma Public Employees Retirement Plan**  
Administered by the Oklahoma Public Employees Retirement System

**Management's Discussion and Analysis**

The reduction in the Plan's managed investments is reflective of the decline in the US and non-US equity markets. The Plan's overall return for the year ended June 30, 2002 was a negative 5.1%. The Plan's fixed income component earned 7.3% and, in accordance with the Plan's allocation policy, was reduced \$144 million during the year through transfers of \$113 million to the large cap domestic equity portfolio and \$31 million to the non-US equity portfolio. These assets were also decreased by the cash flow requirements of the Plan for operations. Equities suffered negative returns for the year of 16.0% for domestic equity and 6.6% for non-US equity. During the year \$205 million was reallocated from small cap domestic equity to mid cap domestic equity. The change in securities lending collateral is dependent on the securities loaned by the Plan's master custodian at year end.

At June 30, 2002, the distribution of the Plan's managed investments including cash and short-term investments was as follows:



**Fiscal 2001 compared to 2000**

Cash and short-term investments and investments, at fair value, (Plan investments) comprised 98.3% of the total assets of the Plan at June 30, 2001 compared to 97.2% at June 30, 2000.

**Oklahoma Public Employees Retirement Plan**  
Administered by the Oklahoma Public Employees Retirement System

**Management's Discussion and Analysis**

A summary of the Plan's investments and changes from the prior year by type is as follows:

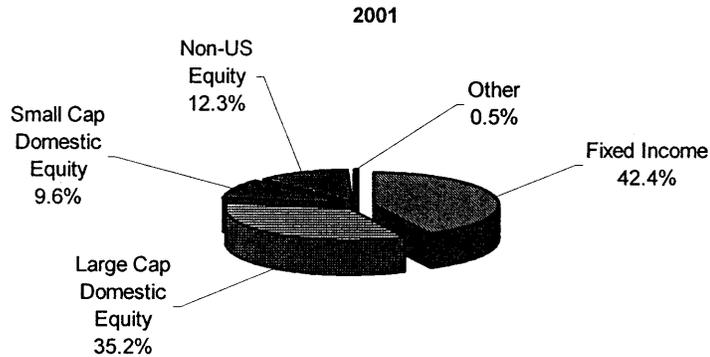
	(\$ millions)			
	June 30,		Change	
	2001	2000	Amount	%
Fixed Income	\$ 2,045.7	\$ 2,077.6	\$ (31.9)	(1.5%)
Large Cap Domestic Equity	1,696.9	2,132.5	(435.6)	(20.4%)
Small Cap Domestic Equity	464.2	481.5	(17.3)	(3.6%)
Non-US Equity	590.1	808.0	(217.9)	(27.0%)
Other	26.3	33.2	(6.9)	(20.8%)
 Total managed investments	 4,823.2	 5,532.8	 (709.6)	 (12.8%)
 Cash on deposit with State	 0.6	 0.5	 0.1	 20.0%
Securities Lending Collateral	656.8	802.8	(146.0)	(18.2%)
 Total Investments and Cash and Short-Term Investments	 <u>\$ 5,480.6</u>	 <u>\$ 6,336.1</u>	 <u>\$ (855.5)</u>	 <u>(13.5%)</u>

The reduction in the Plan's managed investments is reflective of the decline in the US and non-US equity markets. The Plan's overall return for the year ended June 30, 2001 was a negative 5.9%. The Plan's fixed income component earned 10.6% and, in accordance with the Plan's allocation policy, was increased \$159 million during the year through a transfer from large cap domestic equity investments. These assets were also decreased by the cash flow requirements of the Plan for operations, including the transfer out of excess contributions and earnings of \$37.7 million in July 2000. The decrease in large cap domestic equity is due to the \$159 million allocation transfer to fixed income coupled with negative returns for the year of 12.0% for domestic equity and 26.5% for non-US equity. The change in securities lending collateral is dependent on the securities loaned by the Plan's master custodian at year end.

**Oklahoma Public Employees Retirement Plan**  
Administered by the Oklahoma Public Employees Retirement System

**Management's Discussion and Analysis**

At June 30, 2001, the distribution of the Plan's managed investments including cash and short-term investments was as follows:



**Contributions and deductions**

**Fiscal 2002 compared to 2001**

Contributions to the Plan by members and their employers for the years ended June 30, 2002 and 2001 are summarized as follows:

	(\$ millions)			
	June 30,		Change	
	2002	2001	Amount	%
Member contributions	\$ 50.8	\$ 47.3	\$ 3.5	7.4%
Employer contributions	139.6	131.2	8.4	6.4%
<b>Total contributions</b>	<b>\$ 190.4</b>	<b>\$ 178.5</b>	<b>\$ 11.9</b>	<b>6.7%</b>

The increase in both member and employer contributions is due primarily to increases in the salary on which the contributions were calculated.

**Oklahoma Public Employees Retirement Plan**  
Administered by the Oklahoma Public Employees Retirement System

**Management's Discussion and Analysis**

Deductions from Plan assets for the years ended June 30, 2002 and 2001 are summarized as follows:

	(\$ millions)			
	June 30,		Change	
	2002	2001	Amount	%
Retirement, death and survivor benefits	\$ 257.9	\$ 247.1	\$ 10.8	4.4%
Refunds and withdrawals	8.2	9.9	(1.7)	(17.2%)
Transfer of contributions and earnings	-	37.7	(37.7)	(100.0%)
Administrative expenses	3.2	2.8	0.4	14.3%
<b>Total deductions</b>	<b>\$ 269.3</b>	<b>\$ 297.5</b>	<b>\$ (28.2)</b>	<b>(9.5%)</b>

Retirement, death and survivor benefits grew primarily due to the increasing numbers of retired members and an increase in the average monthly benefits of newly retired members. At June 30, 2002, the total number of members receiving retirement benefits was 21,452 compared to 20,863 at June 30, 2001, an increase of 2.8%.

The change in refunds and withdrawals results from a decrease in the number of participants that withdrew during the period compared to the prior year. The increase in administrative expense relates primarily to increased personnel, professional, and communication costs.

**Fiscal 2001 compared to 2000**

Contributions to the Plan by members and their employers for the years ended June 30, 2001 and 2000 are summarized as follows:

	(\$ millions)			
	June 30,		Change	
	2001	2000	Amount	%
Member contributions	\$ 47.3	\$ 45.1	\$ 2.2	4.9%
Employer contributions	131.2	125.8	5.4	4.3%
<b>Total contributions</b>	<b>\$ 178.5</b>	<b>\$ 170.9</b>	<b>\$ 7.6</b>	<b>4.4%</b>

The increase in both member and employer contributions is due primarily to increases in the salary on which the contributions were calculated. Additionally, contributions received for service transports from another state retirement system and purchases have also increased over the prior year.

**Oklahoma Public Employees Retirement Plan**  
Administered by the Oklahoma Public Employees Retirement System

**Management's Discussion and Analysis**

Deductions from Plan assets for the years ended June 30, 2001 and 2000 are summarized as follows:

	(\$ millions)			
	June 30,		Change	
	2001	2000	Amount	%
Retirement, death and survivor benefits	\$ 247.1	\$ 222.7	\$ 24.4	11.0%
Refunds and withdrawals	9.9	7.6	2.3	30.3%
Transfer of contributions and earnings	37.7	-	37.7	-
Administrative expenses	2.8	2.5	0.3	12.0%
	<u>\$ 297.5</u>	<u>\$ 232.8</u>	<u>\$ 64.7</u>	27.8%

Retirement, death and survivor benefits grew primarily due to the increasing numbers of retired members and an increase in retirement and survivor benefits, effective July 2000. Generally, benefits were increased \$2.13 per month for each year of the member's credited service and was applicable to members who retired on or before June 1, 1999. At June 30, 2001, the total number of members receiving retirement benefits was 20,863 compared to 20,306 at June 30, 2000, an increase of 2.7%.

The change in refunds and withdrawals results from an increase in the number of participants that withdrew during the period compared to the prior year. In July 2000, the Plan transferred \$37.7 million of certain excess contributions and earnings to qualifying members in accordance with legislation enacted in 1999. The increase in administrative expense relates primarily to increased personnel, rental, and communication costs.

**Economic Factors**

**Funding**

A pension fund is well funded 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:

<u>2002</u>	<u>2001</u>	<u>2000</u>
79.8%	82.6%	84.0%

**Oklahoma Public Employees Retirement Plan**  
Administered by the Oklahoma Public Employees Retirement System

**Management's Discussion and Analysis**

**Federal Legislation**

The Economic Growth & Tax Relief Reconciliation Act (EGTRRA) of 2001 was signed into law in June 2001 and included significant enhancements to individual and employer sponsored retirement plans. These changes generally improve portability and the options offered to participants and are not expected to have a negative impact on the Plan.

**Plan Amendments**

Significant plan provision changes were enacted by the State Legislature during the session ended in May 2002. These changes include a retiree benefit cost of living adjustment as well as a change to the surviving spouse benefit eligibility.

**Other**

Other than changes in the fair value of Plan assets as may be impacted by the stock 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.



700 Oklahoma Tower  
210 Park Avenue  
Oklahoma City, OK 73102-5671

## Independent Auditors' Report

Board of Trustees  
Oklahoma Public Employees Retirement System:

We have audited the accompanying statement of plan net assets of the Oklahoma Public Employees Retirement Plan (the Plan), administered by the Oklahoma Public Employees Retirement System, as of June 30, 2002, and the related statement of changes in plan net assets for the year 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 audit. The financial statements of the Plan as of June 30, 2001, and for the year then ended were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated September 25, 2001, which included an explanatory paragraph regarding the adoption of Governmental Accounting Standards Board Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*"

We conducted our audit in accordance with auditing standards generally accepted in 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 audit provides 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, 2002, and the changes in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The schedules of funding progress and employer contributions in Schedule 1 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures prescribed by professional standards, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the 2002 basic financial statements taken as a whole. The supplementary information included in Schedule 2 through 4 is presented for purposes of additional analysis and is not a required part of the 2002 basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the 2002 basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the 2002 basic financial statements taken as a whole.

KPMG LLP

September 30, 2002

**OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN**  
Administered by the Oklahoma Public Employees Retirement System

Statements of Plan Net Assets

June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<b>Assets</b>		
Cash and short-term investments	\$ 150,629,380	\$ 141,176,125
Receivables:		
Member contributions	801,046	758,639
State and local agency contributions	1,943,945	1,938,750
Due from brokers for securities sold	130,072,628	62,291,985
Accrued interest and dividends	<u>22,687,459</u>	<u>27,594,938</u>
Total receivables	155,505,078	92,584,312
Investments, at fair value:		
Government obligations	1,210,356,852	1,374,512,455
Corporate bonds	639,960,003	592,791,836
Domestic stocks	1,943,672,841	2,161,752,068
International equities	538,230,707	553,499,634
Real estate fund	—	37,774
Securities lending collateral	<u>573,935,175</u>	<u>656,802,811</u>
Total investments	4,906,155,578	5,339,396,578
Property and equipment, at cost, net of accumulated depreciation of \$640,012 in 2002 and \$798,922 in 2001	391,920	428,701
Other assets	<u>185,923</u>	<u>111,394</u>
Total assets	5,212,867,879	5,573,697,110
<b>Liabilities</b>		
Due to brokers and investment managers	153,386,588	101,597,561
Securities lending collateral	<u>573,935,175</u>	<u>656,802,811</u>
Total liabilities	<u>727,321,763</u>	<u>758,400,372</u>
Net assets held in trust for pension benefits (Schedule of Funding Progress is presented in Schedule 1)	\$ <u><u>4,485,546,116</u></u>	\$ <u><u>4,815,296,738</u></u>

See accompanying notes to financial statements.

**OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN**  
Administered by the Oklahoma Public Employees Retirement System

Statements of Changes in Plan Net Assets

Years Ended June 30, 2002 and 2001

	2002	2001
Additions:		
Contributions:		
Members	\$ 50,750,779	\$ 47,323,569
State and local agencies	139,614,903	131,200,423
Total contributions	190,365,682	178,523,992
Investment income (loss):		
From investing activities:		
Net depreciation in fair value of investments	(374,464,731)	(440,787,117)
Interest	116,711,068	126,929,478
Dividends	11,676,601	9,978,449
Real estate	(884)	(217,694)
Other	99,191	133,899
Total investment loss	(245,978,755)	(303,962,985)
Less - Investment expenses	(6,562,232)	(9,587,954)
Loss from investing activities	(252,540,987)	(313,550,939)
From securities lending activities:		
Securities lending income	16,069,237	38,852,568
Securities lending expenses:		
Borrower rebates	(13,627,611)	(35,995,236)
Management fees	(732,488)	(857,200)
Income from securities lending activities	1,709,138	2,000,132
Net investment loss	(250,831,849)	(311,550,807)
Total decrease	(60,466,167)	(133,026,815)
Deductions:		
Retirement, death and survivor benefits	257,938,411	247,076,546
Refunds and withdrawals	8,145,894	9,868,568
Transfer of contributions and earnings	3,170	37,681,952
Administrative expenses	3,196,980	2,825,116
Total deductions	269,284,455	297,452,182
Net decrease	(329,750,622)	(430,478,997)
Net assets held in trust for pension benefits:		
Beginning of year	4,815,296,738	5,245,775,735
End of year	\$ 4,485,546,116	\$ 4,815,296,738

See accompanying notes to financial statements.

**OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN**  
Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2002 and 2001

**(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 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 in the period in which employees' salaries are earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

The Plan is administered by the Oklahoma Public Employees Retirement System (OPERS) a component unit of the State of Oklahoma (the State), which together with other similar funds comprise the fiduciary-pension trust funds of the State. 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 and commercial paper, valued at fair value, and an investment fund composed of an investment in units of a commingled trust fund of the Plan's custodial agent, which is valued at cost, which approximates 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 and in 2001, a mutual fund is determined by the respective fund trustee based on quoted sales prices of the underlying securities. The fair value of the real estate fund in 2001 is provided by the fund's manager based on the value of the underlying real estate properties as determined from independent appraisals.

Net investment income includes net appreciation (depreciation) in the fair value of investments, interest income, dividend income, investment income from real estate, 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. Investment income from real estate includes the Plan's pro rata share of income from operations, net appreciation (depreciation) in the fair value of the underlying real estate properties and the Plan's real estate investment management fees.

**OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN**  
Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2002 and 2001

The Plan's international investment managers 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. The gains and losses on these contracts are included in income in the period in which the exchange rates change.

The Plan invests in various traditional financial instruments that fall under the broad definition of derivatives. The Plan's derivatives include U.S. Treasury Strips, collateralized mortgage obligations, convertible stocks and bonds, and variable rate instruments. These investments do not increase investment risk beyond allowable limits specified in the Plan's investment policy.

The Plan's investment policy provides for investments in any 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, market 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 that such changes could materially affect the amounts reported in the statement of plan net assets.

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

Property and equipment are carried at cost, less accumulated depreciation. Costs of additions are capitalized. 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 accounting principles generally accepted in the United States of America 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 in Schedule 1 included in the required supplementary information 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.

**OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN**  
Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2002 and 2001

**(e) Risks and Uncertainties**

Contributions to the Plan and the actuarial information in Schedule 1 included in the required supplementary information are reported based on certain assumptions pertaining to interest rates, inflation rates and employee compensation and demographics. Due to the changing nature of these assumptions, it is at least reasonably possible that changes in these assumptions may occur in the near term and, due to the uncertainties inherent in setting assumptions, that the effect of such changes could be material to the financial statements.

**(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, 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.

At June 30, the Plan's membership consisted of:

	<b>2002</b>	<b>2001</b>
Retirees and beneficiaries currently receiving benefits	21,452	20,863
Terminated vested participants	5,392	5,241
Active participants	44,292	43,696
	<b>71,136</b>	<b>69,800</b>

For purposes of the discussion on benefits and contributions, the members are described in the following categories: eligible officers, which includes certain employees of the Department of Corrections who are classified as correction officers or probation and parole officers; 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 described above. If the member category is not specifically identified, the attributes of the Plan discussed apply to all members.

**OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN**  
Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2002 and 2001

**(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 employee 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.

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 of 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 three of the last ten years of participating service multiplied by the number of years of credited service. Normal retirement age under the Plan is 62 or Rule of 80/90.

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.

*Elected Officials*

Benefits are determined as the greater of the calculation described in the preceding section or, based on the official's contribution election, a range from 1.9% to 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. Normal retirement age under the Plan is 60 or Rule of 80.

Members become eligible to vest fully upon termination of employment after attaining six years of participating service as an elected official or the members' contributions may be withdrawn upon termination of employment.

**OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN**  
Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2002 and 2001

*Eligible Officers*

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 an eligible officer 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 an eligible officer or Rule of 80.

However, members who contributed prior to July 1, 1990 but do not qualify for normal retirement as an officer shall receive benefits computed at 2.5% of the final compensation for those full time years as an officer 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 an officer.

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 and the spouse is the named beneficiary, 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. 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, 2002 and 2001, totaled approximately \$3,758,000 and \$3,445,000, 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 \$1.2 million has been included in the calculation of the actuarial liability of the Plan at June 30, 2002 (\$1.1 million at June 30, 2001).

**OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN**  
Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2002 and 2001

For the years ended June 30, 2002 and 2001, the Plan remitted up to \$105 per month per eligible member receiving retirement benefits, excluding beneficiaries and surviving spouses, for health insurance premiums to the Oklahoma State and Education Employees Group Insurance Board, which administers various group health benefit plans for the State. The Plan is required by statute to remit this payment for eligible members but has no administrative functions related to the payment and no portion of the contribution amounts of either active members or state and local agencies is specifically identified by statute as relating to such payment. Accordingly, the provisions of GASB Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*, are deemed not to apply. The amount remitted for the years ended June 30, 2002 and 2001, for such premiums were approximately \$16,824,000 and \$16,828,000, respectively.

**(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*

State employees and agencies – For 2002 and 2001, State Agency employers contributed 10% on all salary. State employees contributed 3.0% on the first \$25,000 of salary and 3.5% on salary above \$25,000 for both years.

Participating county and local agencies – For 2002 and 2001, contributions totaled 13.5% 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 5% up to a maximum of 10%.

*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. Elected officials must select an employee contribution rate of 4.5%, 6.0%, 7.5%, 8.5%, 9.0% or 10%.

**OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN**  
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Notes to Financial Statements

June 30, 2002 and 2001

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 10%). 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.

*Eligible Officers*

For 2002 and 2001, eligible officers contributed 8% and their employer agency contributed 10% on all salary.

**(d) Participating Employers**

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

	<u>2002</u>	<u>2001</u>
State agencies	115	116
County governments	75	75
Local government towns and cities	28	28
Other local governmental units	<u>34</u>	<u>30</u>
Total	<u>252</u>	<u>249</u>

**(3) Cash and Investments**

At June 30, cash and short-term investments were composed of the following:

	<u>2002</u>	<u>2001</u>
Cash on deposit with the State	\$ 626,181	\$ 668,571
Short-term investments		
Bills and notes	61,761,065	46,000,000
Commercial paper	39,789,565	—
Investment fund, variable rate	47,751,656	74,127,423
Foreign currency deposits	<u>700,913</u>	<u>20,380,131</u>
Total cash and short-term investments	<u>\$ 150,629,380</u>	<u>\$ 141,176,125</u>

**OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN**  
Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2002 and 2001

Short-term bills and notes consist of U.S. Government Agency and corporate securities with short maturities, and commercial paper consists of corporate unsecured obligations with short maturities. The Plan's short-term investment fund consists 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 their respective investment in the funds.

Deposits with financial institutions are classified depending on whether they are insured or collateralized. Bank balances are classified in the following categories of credit risk: Category 1 includes deposits that are insured or collateralized with securities held by the Plan or by the agent in the Plan's name. Category 2 includes deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Plan's name. Category 3 includes deposits, which are uncollateralized, or deposits, which are collateralized and the related securities are held by the pledging financial institution or by its trust department or agent not in the Plan's name. At June 30, 2002 and 2001, cash on deposit with the State and the short-term bills and notes are considered Category 1, and the commercial paper, short-term investment fund and foreign currency deposits are considered Category 3.

At June 30, 2002, as a result of outstanding checks, the carrying amount of the Plan's cash deposits totaled \$626,181 and the bank balances totaled \$8,743,970. At June 30, 2001, as a result of outstanding checks, the carrying amount of the Plan's cash deposits totaled \$668,571 and the bank balances totaled \$9,049,714. The bank balances of deposits are fully insured or collateralized by the Office of the State Treasurer as required by the Oklahoma Statutes covering deposits of public funds. The carrying amounts of the short-term investments and foreign currency deposits were the same as the bank balances at June 30, 2002 and 2001.

The Plan's investments would generally be categorized into one of three separate credit risk categories. Category 1 includes investments that are insured or registered or are held by the Plan or its agent in the Plan's name. Category 2 includes uninsured and unregistered investments, which are held by the counterparties' trust departments or agents in the Plan's name. Category 3 includes uninsured and unregistered investments, held by the counterparties, or their trust departments or agents, but not in the Plan's name. A summary of the Plan's investments at June 30, 2002 and 2001, is as follows:

**OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN**  
Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2002 and 2001

	2002	2001
Category 1 Classification:		
Treasury bonds and notes	\$ 53,300,983	\$ 157,732,640
Government bonds and government mortgage-backed securities	646,351,852	742,034,845
Corporate bonds	531,496,247	505,378,101
Convertible bonds	82,669	7,183,750
Domestic stocks	422,270,538	747,612,947
International equities	266,102,710	233,716,660
Total Category 1	1,919,604,999	2,393,658,943
Category 3 Classification:		
Investments held by brokers-dealers under securities loans for non-cash collateral:		
Treasury bonds and notes	154,309,510	77,178,845
Government bonds and government mortgage-backed securities	25,214,671	7,898,623
Corporate bonds	2,330,011	342,301
Domestic stocks	381,152	1,236,110
International equities	768,502	103,011
Total Category 3	183,003,846	86,758,890
Not subject to classification:		
Investments held by brokers-dealers under securities loans for cash collateral:		
Treasury bonds and notes	327,715,027	376,574,965
Government bonds and government mortgage-backed securities	3,464,808	13,092,538
Corporate bonds	106,051,076	79,887,683
Domestic stocks	44,915,831	89,877,692
International equities	70,660,650	69,768,067
Securities lending collateral	573,935,175	656,802,811
Domestic equity index funds	1,334,530,107	1,144,066,690
Domestic equity commingled trust fund	141,575,214	178,958,628
International equity index funds	200,698,845	185,829,007
Emerging markets commingled trust fund	—	35,625,027
Emerging markets mutual fund	—	28,457,863
Real estate fund	—	37,774
Total not subject to classification	2,803,546,733	2,858,978,745
Total investments	\$ 4,906,155,578	\$ 5,339,396,578

**OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN**  
Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2002 and 2001

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 2002 and 2001, 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.

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, 2002 and 2001, the Plan has no credit risk exposure to borrowers because the amounts the Plan owes the borrowers exceed the amounts the borrowers owe the Plan. 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 the custodial agent's short-term investment pool and 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. At June 30, 2002 and 2001 the cash collateral investments had an average weighted maturity of 30 and 34 days, respectively, and the relationship between the maturities of the custodial agent's investment pool and the Plan's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Plan cannot determine. The Plan's non-cash collateral is represented by its allocated share of a pool administered by the agent for the Plan and other pool participants.

During 1996, the Plan informed the managers of its real estate investments of its intention to withdraw from such investments pursuant to the provisions of the applicable investment contracts, which set forth redemption payment terms at fair values in accordance with cash availability in the funds. During 2002, this liquidation was completed.

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. A cumulative unrealized translation gain at June 30, 2002 was approximately \$15 million, and a cumulative unrealized translation loss at June 30, 2001 was approximately \$33 million.

**OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN**  
Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2002 and 2001

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**OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN**  
Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2002 and 2001

The Plan invests in domestic equity index funds, a domestic equity commingled trust fund, an international equity index fund and, in 2001, two international emerging markets commingled or mutual funds. 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 market risk associated with any derivative investments held in these funds is not apparent. The degree of market 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.

No investments, other than U.S. Government bonds and instrumentalities, in any one organization represent 5% or more of plan net assets at June 30, 2002 and 2001, respectively.

**(4) 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 October 10, 2000 and was a favorable determination for the Oklahoma Public Employees Retirement System. 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.

**(5) Transfer of Contributions and Earnings**

On July 31, 2000, the Plan transferred \$37,681,952 to the qualifying participants' accounts in the Oklahoma State Employees Deferred Savings Incentive Plan an amount equal to the compounded earnings on excess contributions computed using the assumed actuarial earnings rate (7.5%) of the Plan. Excess contributions are those optional contributions made by state and local government employees on annual salaries above \$25,000 up to \$40,000 earned from 1987 through 1994. Qualifying participants are those who were active members on July 1, 1998 and who remained members either active or retired, on July 31, 2000 who had not otherwise withdrawn their excess contributions. The transfer was authorized by legislation in 1999 and subsequently approved by the federal taxing authorities. A final transfer of \$3,170 was made in 2002 representing residual funds not initially transferred.

**OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN**  
Administered by the Oklahoma Public Employees Retirement System

Notes to Financial Statements

June 30, 2002 and 2001

**(6) Plan Amendments**

The following is a summary of significant plan provision changes that were enacted by the State Legislature during the session ended in May 2002:

**(a) *Retiree Benefit Increase***

Beginning with the July 2002 benefit payments, any person who was receiving benefits from the Plan on June 30, 2001 and who continues to receive benefits on or after July 1, 2002, will receive a cost of living increase. The percentage increases are as follows:

Less than 25 years of service	5%
25-29 years of service	5-1/2%
30 years or more of service	6%

**(b) *Surviving Spouse Benefits***

Effective July 2002, the Plan is required to offer joint annuitant benefits to the surviving spouse of an active member who was eligible to retire or vest at the time of his or her death. Previously, this option was available only to the surviving spouse if he or she was the named beneficiary.

**OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN**  
Administered by the Oklahoma Public Employees Retirement System

Required Supplementary Information

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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))
7/1/93	\$ 2,211,582,618	\$ 2,601,586,867	\$ 390,004,249	85.0%	\$ 1,011,112,988	38.6%
7/1/94	2,394,610,775	3,028,802,077	634,191,302	79.1%	1,077,456,734	58.9%
7/1/95	2,614,375,864	3,214,094,907	599,719,043	81.3%	1,095,906,991	54.7%
7/1/96	2,893,339,691	3,318,226,436	424,886,745	87.2%	1,117,631,035	38.0%
7/1/97	3,270,947,820	3,594,630,911	323,683,091	91.0%	1,176,659,783	27.5%
7/1/98	3,732,849,134	4,116,569,826	383,720,692	90.7%	1,154,342,141	33.2%
7/1/99	4,261,624,240	5,179,784,869	918,160,629	82.3%	1,219,031,066	75.3%
7/1/00	4,785,555,333	5,694,725,385	909,170,052	84.0%	1,281,505,876	70.9%
7/1/01	5,110,226,650	6,190,228,108	1,080,001,458	82.6%	1,317,043,030	82.0%
7/1/02	5,299,781,730	6,639,720,469	1,339,939,099	79.8%	1,450,317,127	92.4%

**Schedule of Employer Contributions**

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
1993	\$ 119,450,505	94.3%
1994	99,800,260	111.8%
1995	131,860,203	90.1%
1996	131,266,084	103.1%
1997	110,887,284	122.1%
1998	95,973,977	149.7%
1999	107,171,639	139.2%
2000	161,793,250	77.8%
2001	169,642,126	77.3%
2002	187,991,746	74.3%

The employers' contribution rates are established by the Oklahoma Legislature and are based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates.

See accompanying independent auditors' report.

**OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN**  
Administered by the Oklahoma Public Employees Retirement System

Note to Schedule 1 Required Supplementary Information

June 30, 2002

**Actuarial Assumptions and Methods**

The information presented in the required supplemental schedule was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation date, July 1, 2002, 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 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 unfunded actuarial accrued liability.

*Asset Valuation Method*

For actuarial purposes, assets are determined equal to the prior year's actuarial value of assets plus cash flow (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 unfunded actuarial accrued liability for valuations as of July 1, 1998, and prior were amortized on a level dollar method over a 25-year closed period from July 1, 1987. For the July 1, 1999 and subsequent valuation, the amortization period was changed to 40 years from July 1, 1987 (25 years remaining as of July 1, 2002).

**OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN**  
Administered by the Oklahoma Public Employees Retirement System

Note to Schedule 1 Required Supplementary Information

June 30, 2002

As a result of the July 1, 1998 to June 30, 2001 experience analysis, the following changes were made to the actuarial assumptions for the July 1, 2002 valuation:

- The projected salary scale has been increased across all ages.
- The retirement rates were increased at a few specific ages.
- The withdrawal rates for employees with at least three years of service were increased.

The total effect of the changes was to increase the Plan's accrued liability by approximately \$176.2 million.

Significant actuarial assumptions employed by the actuary for fund purposes as of July 1, 2002, are as follows:

- Investment return – 7.5% compounded annually
- Salary increases – 5.1% to 9.0% per year (includes inflation of 3% and merit ranging from 2.1% to 6.0%)
- Mortality rates – Active participants and nondisabled pensioners – 1983 Group Annuity Mortality Table (disabled pensioners set forward 10 years)
- Post retirement benefit increases – 2% per year (two-thirds of inflation assumption)
- Post retirement health insurance premium – The Plan is required by statute to contribute up to \$105 per month or the Medicare Supplement Premium, if less, for eligible Plan members receiving retirement benefits who elect health insurance coverage through the Oklahoma State and Education Employee's Group Health Program, which administers various group health benefit plans.

The key items responsible for the decrease in the funded status at July 1, 2002, compared to July 1, 2001, are as follows:

- The increase in the accrued liability due to changes in plan provisions and actuarial assumptions.
- The return on actuarial assets of less than expected resulting in losses of approximately \$115.2 million.
- Liability gains resulting in an accrued liability of approximately \$157.8 million less than expected.

**OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN**  
Administered by the Oklahoma Public Employees Retirement System

Other Supplementary Information

Schedule of Investment Expenses

Years Ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Investment management fees:		
Fixed Income Managers:		
Loomis Sayles & Co., LP	\$ 61,540	\$ 370,689
Blackrock Financial Management, Inc.	1,148,495	1,047,973
Metropolitan West Asset Management	652,901	—
Hoisington Investment Management	460,262	478,746
Domestic Equity Managers:		
Aeltus Investment Management, Inc.	431,367	502,745
Barclays Global Investors	147,046	167,002
David L. Babson & Co. Inc.	70,033	493,780
Dimmensional Fund Advisors, Inc.	833,693	781,595
Dresdner RCM Global Investors, LLC	17,325	134,270
Loomis Sayles & Co., LP	523,857	184,702
Scudder Kemper Investments, Inc.	—	(20)
T. Rowe Price Associates	—	(64)
TCW Asset Management Company	369,713	2,964,945
Non-U.S. Equity:		
Barclays Global Investors	70,647	81,827
Capital Guardian Trust Company	808,233	1,050,415
Delaware International Advisors, Ltd.	622,220	—
Genesis Asset Managers Limited	—	179,911
Scudder Kemper Investments, Inc.	47,894	826,815
	<u>6,265,226</u>	<u>9,265,331</u>
Investment consultant fees:		
Strategic Investment Solutions, Inc.	152,392	177,856
Investment custodial fees:		
Bankers Trust Company	—	29
Northern Trust Company	144,614	144,738
	<u>144,614</u>	<u>144,738</u>
Total investment expenses	\$ <u>6,562,232</u>	\$ <u>9,587,954</u>

See accompanying independent auditors' report.

**OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN**  
Administered by the Oklahoma Public Employees Retirement System

Other Supplementary Information  
Schedule of Administrative Expenses  
Years Ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Staff salaries	\$ 1,973,677	\$ 1,730,948
Social Security	145,482	128,456
Retirement	209,470	180,832
Insurance	146,090	135,501
Temporary employees	51,152	105,669
Total personnel services	<u>2,525,871</u>	<u>2,281,406</u>
Actuarial	128,936	58,700
Audit	118,873	66,000
Tax consulting - legal	60,057	37,096
Total professional services	<u>307,866</u>	<u>161,796</u>
Printing	87,919	69,610
Telephone	36,981	32,503
Postage and mailing expenses	119,712	99,607
Travel	29,787	45,778
Total communication	<u>274,399</u>	<u>247,498</u>
Office space	141,936	138,261
Equipment leasing	32,090	27,752
Total rentals	<u>174,026</u>	<u>166,013</u>
Supplies	45,226	39,224
Maintenance	61,569	39,570
Depreciation	103,746	91,775
Other	121,332	123,250
Total miscellaneous	<u>331,873</u>	<u>293,819</u>
Total administrative expenses	<u>3,614,035</u>	<u>3,150,532</u>
Administrative expenses allocated		
Uniform Retirement System for Justices and Judges (URSJJ)	(89,461)	(74,025)
Oklahoma State Employees Deferred Compensation Plan (DCP)	(280,293)	(216,902)
Oklahoma State Employees Deferred Savings Incentive Plan (SIP)	(47,301)	(34,489)
Total administrative expenses allocated (see Note below)	<u>(417,055)</u>	<u>(325,416)</u>
Net administrative expenses	<u>\$ 3,196,980</u>	<u>\$ 2,825,116</u>

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 services provided by the Plan to the other funds.

**OKLAHOMA PUBLIC EMPLOYEES RETIREMENT PLAN**  
Administered by the Oklahoma Public Employees Retirement System

Other Supplementary Information  
Schedule of Professional/Consultant Fees  
Years Ended June 30, 2002 and 2001

<u>Professional/Consultant</u>	<u>Service</u>	<u>2002</u>	<u>2001</u>
Mercer Human Resource Consulting	Actuarial	\$ 128,936	\$ 58,700
Arthur Andersen LLP	External Auditor	68,000	66,000
Finley & Cook PLLC	Internal Auditor	50,873	—
Gable & Gotwals	Legal	54,958	—
Ice Miller Donadio and Ryan	Legal	5,099	37,096
		<u>\$ 307,866</u>	<u>\$ 161,796</u>

See accompanying independent auditors' report.

# INVESTMENT SECTION





Oklahoma Historical Society

**A threshing worker carries wheat  
in a field near the construction site of the  
State Capitol Building.**

# Investment Consultant's Report

## 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 4.7%.

Secondary goals are to outperform the asset allocation-weighted benchmark (47% US Equities, 14% Non-US Equities, and 39% Fixed Income) 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	6/30/02 ALLOCA- TION	LOW	TARGET	HIGH	% PASSIVE OR SEMI- PASSIVE
US LARGE CAP	33.7	35.0%	37.6%	41.0%	87.8%
US MID-SMALL CAP	9.2	5.4	9.4	11.0	49.5
FIXED INCOME	43.5	35.0	39.0	43.0	61.6
NON-US EQUITY	13.0	12.0	14.0	16.0	33.3
CASH	0.6	0.0	0.0	5.0	0.0

## **Review of Fiscal 2002 Investment Environment**

Fiscal year ended June 30, 2002 saw an investment climate that favored the US Value-style (-7.8%) equity markets on a relative basis, and ignored US Growth-style equities (-26.4%), a continuation of what occurred in the previous fiscal year. The total US equity market was down (-17.5%) for the 12-month period ending June 30, 2002. Non-US equity markets fared better (-8.2%) as the weakness of the dollar versus the European Currency Unit and the Japanese Yen helped mitigate the negative performance.

The US fixed income market produced above average historical results (+8.6%) for the second straight year.

Within the US equity market, stocks of small companies significantly outperformed large for the third straight year (-8.6% versus -17.9%). Value stocks outperformed growth by huge margins in large caps (-8.9% versus -26.5%) and by even greater margins in small caps (+8.5% versus -25.0%).

## **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, 2002 have been calculated using the return methodology endorsed by the Association for Investment Management and Research (AIMR). As shown in the following table, for the one-year time period ending June 30, 2002 the Domestic Equity and the Non-US Equity asset classes performed above their respective benchmarks and the Fixed Income asset class performed below its respective benchmark. The Domestic Equity asset class ranked at median while the Non-US Equity asset class was above median and the Fixed Income asset class ranked below median. Results in the Non-US Equity asset class hurt the Fund's overall results for annualized periods of three and five years. The US Equity area helped the overall portfolio's results for the annualized time period of three years and hurt overall results over the annualized time period of five years. Conversely, Fixed Income hurt the overall portfolio's results for the annualized time period of three years and helped overall results for the annualized time period of five years.

PERIODS ENDED 6/30/02	ONE YEAR	THREE YEARS	FIVE YEARS
<b>Domestic Equity</b> <i>Russell 3000</i> Rank	-16.0% -17.5% 50*	-6.4% -7.1% 59	+3.6% +3.9% 75
<b>Non-US Equity</b> <i>MSCI ACWI ex-US Free</i> Rank	-6.6% -8.2% 35	-6.5% -6.2% 85	-1.9% -1.6% 92
<b>Fixed Income</b> <i>Lehman Aggregate</i> Rank	+7.3% +8.6% 59	+7.7% +8.1% 55	+7.9% +7.6% 25
<b>Total Fund</b> <i>Policy Benchmark***</i> <i>Public Fund Median</i> Rank**	-5.1% -6.3% -4.7% 55	-0.6% -0.8% 0.6% 72	+5.0% +5.1% +6.0% 75

\* Ranking 1 is best, 100 is worst.

\*\* Rankings source - Deutsche Bank ICC Public Funds Universe

\*\*\*Policy Benchmark is 47% Russell 3000/ 39% Lehman Agg/  
14% MS ACWI ex-US Free

Prepared by: Strategic Investment Solutions  
Investment Consultants to the Plan

# Chief Investment Officer's Report

This past fiscal year was one filled with infamous events and great uncertainty. I share the thoughts of many that America will never be the same as it was before September 11, 2001. In this letter we will look back at the environment and events that helped to shape investment returns for the fiscal year ending June 30, 2002. I will present investment performance of major markets and the Fund for last year and for longer periods. Since asset allocation plays a dominant role in determining investment performance, we will review the Fund's asset allocation. I will also provide a brief summary of events since June 30, 2002, and the outlook that shapes our current thinking. Finally, I will summarize the investment philosophies and principles that have long guided and that continue to guide the management of the Fund.

## Economic Environment

**Continued Economic Weakness** - The 12-months ending June 30, 2002, was a period of continued slow economic growth. Real Gross Domestic Product grew by 2.2% which was higher than last year's revised rate of -0.1% but still much slower than growth rates of 4.9% and 3.9% for FY 2001 and FY 2000, respectively. Labor markets weakened as unemployment rose to 5.9%, up from last year's rate of 4.6%. Over the period corporate profits after tax fell by 12.4%. Business investments fell 6.3% for the fiscal year with each calendar quarter showing a decline from the preceding period. Consumer spending spurred on by low interest rates continued to keep the economy from shrinking. Inflation remained subdued.

**Bottoming Out?** - The 12 months ending June 30, 2002, were for the most part a continuation of trends which began during the prior fiscal year. During fiscal year 2002 the Fed continued to lower the Fed Funds rate. At the end of the last fiscal year the Fed Funds rate stood at 3.75%. Since that time the Fed has lowered rates 200 basis points in 5 steps to 1.75%. The last rate reduction by the Fed was on December 11, 2001. While it is at this time not yet evident that the Fed rate reductions have ended, we are sure that there is much less room left for further reductions. We also observe that economic weakness experienced so far has been very mild by historical standards.

Other notable features of the landscape during the past fiscal year included the following:

- The terrorist attacks of September 11th,
- Stock markets experience the worst bear market since the 1973-1974 bear market,
- In fixed income markets, the corporate sector is rocked by a number of high profile bankruptcies; U.S. Treasuries do well as investors seek a safe haven,
- Corporate scandals and evidence of Wall Street corruption going back into the bull market of the 1990s does great damage to investor confidence,
- Smaller value oriented equities and international emerging markets are the only broad equity sectors able to register positive returns for the 12 months ending June 30, 2002,
- Market volatility remains high due to increased uncertainty regarding the direction of the economy, the possibility of expanded military conflict and whether Fed actions can avert a full-blown recession.

## Investment Performance

**Continuation of the Trend** – In many ways the investment results of fiscal year 2002 were a continuation of the results from the prior year. Value investing continued to beat growth investing this year by wide margins. Growth investing continued to register dismal results as it had during fiscal year 2001. Small cap value was again the best performing major asset class. This year the broad U.S. equity market with its high component of large growth stocks fell once again. In a turnaround from last year, international equities outperformed U.S. equities boosting the 3 year annualized return above that of broad U.S. equities. Higher quality domestic fixed income investments did well as the Fed lowered rates. High yield bonds suffered badly as defaults and credit concerns haunted investors.

### **Investment Returns Through June 2002**

<b>US Equity</b>	<b>Asset Class</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>
Russell 3000	Broad US Equity	(17.3%)	(7.9%)	3.8%
S&P 500	Large Cap Equity	(18.0%)	(9.2%)	3.7%
Russell 1000 Growth	Large Cap Growth	(26.5%)	(16.2%)	(0.3%)
Russell 1000 Value	Large Cap Value	(9.0%)	(2.9%)	6.5%
Russell 2000	Small Cap Equity	(8.6%)	1.7%	4.4%
Russell 2000 Growth	Small Cap Growth	(25.0%)	(9.6%)	(2.0%)
Russell 2000 Value	Small Cap Value	8.5%	12.0%	9.7%
<b>Oklahoma Public Employees Retirement System</b>	<b>Broad US Equity</b>	<b>(16.0%)</b>	<b>(6.4%)</b>	<b>3.6%</b>

<b>US Fixed Income</b>	<b>Asset Class</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>
3 month Treasury Bills	Cash	2.7%	4.7%	4.8%
Lehman Aggregate	Domestic Fixed Income	8.6%	8.1%	7.6%
Salomon Corporate	Corporate Bonds	6.6%	7.4%	7.0%
Merrill Lynch High Yield Master II	High Yield Bonds	(4.4%)	(2.1%)	1.2%
<b>Oklahoma Public Employees Retirement System</b>	<b>Domestic Fixed Income</b>	<b>7.3%</b>	<b>7.7%</b>	<b>7.9%</b>

<b>International</b>	<b>Asset Class</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>
MSCI ACWI Free Ex-US	Broad Non-US Equity	(8.2%)	(6.2%)	(1.7%)
MSCI EAFE	Developed Non-US Equity	(9.2%)	(6.5%)	(1.3%)
MSCI Emerging Mkts. Free	Emerging Non-US Equity	1.3%	(6.3%)	(8.4%)
Lehman Global Ex-US Bond	Core Non-US Bonds	15.3%	2.6%	3.0%
<b>Oklahoma Public Employees Retirement System</b>	<b>International Equity</b>	<b>(6.6%)</b>	<b>(6.5%)</b>	<b>(1.9%)</b>

<b>Oklahoma Public Employees Retirement System</b>	<b>Total Fund</b>	<b>(5.1%)</b>	<b>(0.6%)</b>	<b>5.0%</b>
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*Source: Strategic Investment Solutions; Northern Trust*

## Asset Allocation

**Diversification reduces volatility** – Diversification is the investor's best defense against market volatility. Diversification, which controls risk, is achieved by allocating assets across various asset classes. The asset allocation of the Fund is shown below. Weak equity market returns have resulted in lower equity allocations and a domestic fixed income allocation slightly above its maximum as of the fiscal year end. The Board is currently engaged in an asset allocation study at the completion of which assets will be rebalanced according to policy.

<b>Asset Allocation</b>				
<b>Asset Class</b>	<b>Min</b>	<b>06/30/02</b>	<b>Target</b>	<b>Max</b>
Cash	0%	1%	0%	5%
Domestic Fixed Income	35%	44%	39%	43%
US Equity	42%	43%	47%	52%
International Equity	12%	13%	14%	16%
<b>Total Fund</b>		<b>100%</b>	<b>100%</b>	

### **Recent Events and Outlook**

**Continued Uncertainty** – Since the fiscal year end the outlook remains murky. Various questions regarding a potential war with Iraq, the potential for additional revelations of corporate misdeeds and whether the consumer will keep the economy afloat especially during the critical holiday season loom large on the minds of investors. Capital markets remain nervous amid a high level of uncertainty. The economy is deemed fragile as layoffs continue and the corporate profit growth is difficult to come by. Many analysts publicly voice concern over the possibility of a double-dip recession and even deflation.

**Looking Ahead** – Given what can accurately be described as a brutal bear market in equities, one might ask, “When will it end?” History teaches that the end of bear markets, and bull markets for that matter, are only evident with benefit of hindsight. It’s easy to look back at March of 2000 and say that was clearly the end of the last great bull market and the beginning of the current bear market. At the time, however, such clarity certainly did not exist. Market turning points are exceedingly difficult if not impossible to predict. We leave market timing to speculators who focus on short term investment horizons. Instead as very long term investors we continue to adhere to the following philosophies and principles believing that by so doing we stand the best chance of achieving long term investment success.

### **Investment Philosophies and Guiding Principles**

Listed below are the beliefs that guide our stewardship of the Fund.

- A pension fund has the longest of investment horizons and therefore rightly focuses on factors that impact long-term results.
- Asset allocation is the key factor determining long-term returns.
- Disciplined re-balancing towards 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 inefficient markets.

By adhering to these long standing principles we expect continued success in the prudent management of the assets of the Fund. Thank you for allowing me the opportunity to present my perspective. I look forward to visiting with you again next year.

Sincerely,



Kirk D. Stebbins, CFA  
Chief Investment Officer

## Largest Holdings

The Plan's ten largest fixed income and stock holdings at June 30, 2002, 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 6.875% due 8-15-2025	\$ 49,385,000	\$ 56,912,756
U. S. Treasury Bonds Zero Coupon Principal Strips due 11-15-2021	153,474,000	48,553,035
U.S. Treasury Bonds 5.375% due 2-15-2031	48,080,000	47,080,898
U.S. Treasury Bonds 8.000% due 11-15-2021	36,295,000	46,432,556
U. S. Treasury Bonds Zero Coupon Principal Strips due 5-15-2021	137,321,000	44,670,521
FHLMC Gold TBA Pool 5.500% due 7-1-2017	35,000,000	34,814,062
FNMA Pool 5.500% due 12-1-2013	31,696,351	32,254,207
U.S. Treasury Bonds 10.375% due 11-15-2012	23,060,000	29,636,481
U.S. Treasury Bonds 6.125% due 8-15-2029	27,644,000	29,366,221
U.S. Treasury Notes 6.500% due 11-15-2026	26,390,000	29,193,146

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

Security	Shares	Fair Value
Progressive Corp. OH Common Stock	509,350	\$ 29,465,897
Microsoft Corp. Common Stock	338,800	18,532,360
Wal-Mart Stores Inc. Common Stock	239,450	13,172,144
Dell Computer Corp Common Stock	473,150	12,368,141
General Electric Company Common Stock	358,550	10,415,878
Maxim Integrated Products Inc. Common Stock	267,850	10,266,691
Pfizer Inc. Common Stock	262,325	9,181,375
Siebel Systems Inc. Common Stock	641,530	9,122,557
Home Depot Inc. Common Stock	245,250	9,008,032
Applied Materials Inc. Common Stock	473,000	8,996,460

### Investments in Funds (By Fair Value)

Fund	Units	Fair Value
BGI Equity Index Fund A	3,071,263	\$ 783,797,974
BGI Russell 1000 Value Index Fund	9,395,090	346,995,289
BGI Mid Cap Equity Index Fund	17,497,854	203,736,844
BGI EAFE Equity Index Fund	2,174,702	200,698,845
Dimensional Fund Advisors Small Cap Value Trust Fund	265,969	141,575,214

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

## Investment Portfolio by Type and Manager

At June 30, 2002, the investment portfolio of OPERS was allocated by type and style as follows:

<u>Investment Type and Manager</u>	<u>Style</u>	<u>Fair Value</u> (000's)	<u>Percent of Total Fair Value</u>
Fixed Income:			
Hoisington Investment Management	Interest Rate Anticipation	\$ 290,333	6.5%
Blackrock Financial Management, Inc.	Enhanced Index	1,203,392	26.8%
Metropolitan West Asset Management	Active Fixed Income	<u>458,948</u>	<u>10.2%</u>
Total Fixed Income		1,952,673	43.5%
Large Cap Domestic Equity:			
TCW Asset Management Company	Growth	184,171	4.1%
Aeltus Investment Management, Inc.	Enhanced Index	191,476	4.3%
Barclays Global Investors	Index Fund – Russell 1000 Value	346,995	7.8%
Barclays Global Investors	Index Fund- S&P 500	<u>783,798</u>	<u>17.5%</u>
Total Large Cap Domestic Equity		1,506,440	33.7%
Mid Cap Domestic Equity:			
Barclays Global Investors	Index Fund – S&P 400	203,737	4.5%
Small Cap Domestic Equity:			
Loomis Sayles & Company	Growth	67,094	1.5%
Dimensional Fund Advisors, Inc.	Commingled Trust Fund - Value	<u>141,575</u>	<u>3.2%</u>
Total Small Cap Domestic Equity		208,669	4.7%
Non-US Equity:			
Barclays Global Investors	Index Fund – EAFE	200,699	4.5%
Capital Guardian Trust Company	Core	179,394	4.0%
Delaware International Advisers, Ltd.	Core	<u>201,734</u>	<u>4.5%</u>
		581,827	13.0%
Short-term Investment Funds	Operating Cash	<u>28,877</u>	<u>0.6%</u>
Total Managed Investments		4,482,223	100.0%
Securities Lending Collateral		573,935	
Cash on Deposit with State		<u>626</u>	
Total Investments and Cash and Short-Term Investments		<u>\$5,056,784</u>	
Statement of Plan Net Assets			
Cash and short-term investments		\$ 150,629	
Investments		<u>4,906,155</u>	
Total Investment and Cash and Short-Term Investments		<u>\$5,056,784</u>	

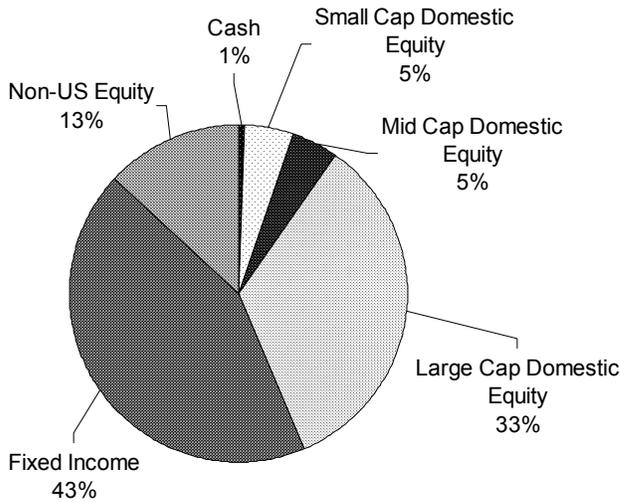
\* Manager fair values include their respective cash and short-term investments

# Asset Comparison

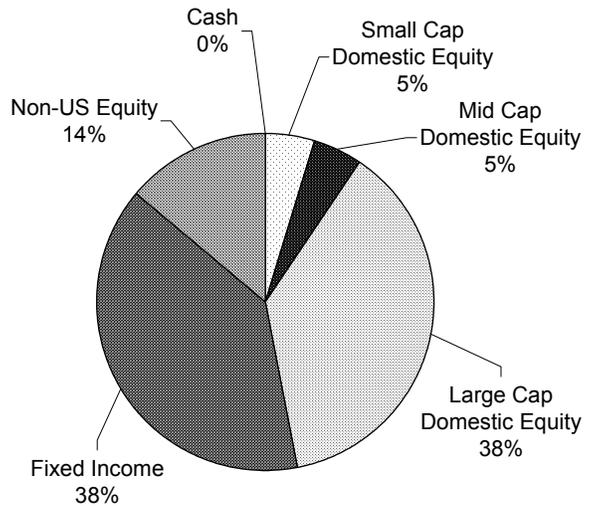
A comparison of the actual investment distribution at June 30, 2002, and 2001, based on the net investment manager holdings, including accrued income, payables and receivables, compared to the target allocation and previous year's allocation is as follows:

**2002**

**2002 Asset Mix**

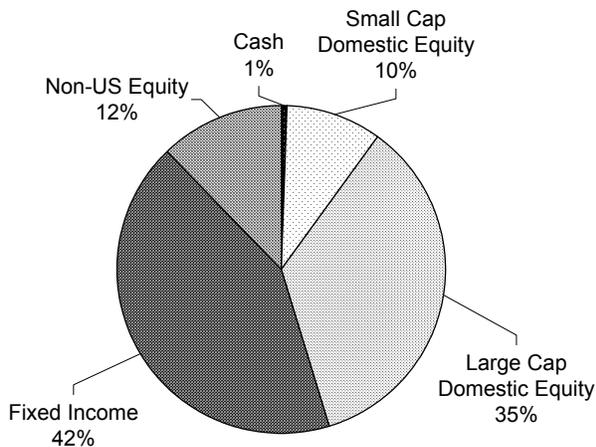


**Target Policy Mix**

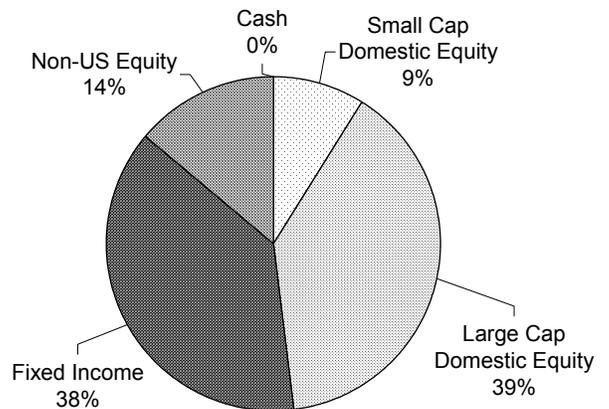


**2001**

**2001 Asset Mix**



**Target Policy Mix**



## Schedule of Stock Brokerage Commissions Paid

Year ended June 30, 2002

<u>Brokerage Firm</u>	<u>Shares Traded</u>	<u>Dollar Volume of Trades</u>	<u>Commission</u>	
			<u>Dollar Amount</u>	<u>Per Share</u>
Lynch Jones & Ryan	6,664,333	\$ 236,967,532	\$ 386,580	0.058
Salomon Brothers NY	130,463,629	190,239,003	293,250	0.002
Morgan Stanley & Co. Inc.	2,412,051	75,623,129	76,137	0.032
Goldman Sachs & Company	2,666,292	78,334,332	72,394	0.027
Goldman Sachs & Company NY	2,359,144	21,007,004	41,849	0.018
Merrill Lynch Pierce Fenner & Smith	1,125,584	39,226,796	41,741	0.037
First Boston Corporation	790,950	20,283,052	39,034	0.049
Lehman Brothers Inc.	692,230	15,591,390	35,192	0.051
Smith Barney Inc.	625,800	17,090,213	33,745	0.054
Merrill Lynch International	1,998,432	16,339,258	32,149	0.016
CFSB Limited London	6,828,547	13,289,324	29,504	0.004
Investment Technology Group Inc.	1,440,681	38,304,629	28,952	0.020
Kleinwort Benson Secs. London	1,354,173	12,581,863	28,447	0.021
Capital Institutional Svc.	471,500	15,001,792	25,810	0.055
Citation Group	452,255	13,744,937	24,486	0.054
Deutsche Bank Alex Brown Inc.	458,700	12,722,495	24,068	0.052
J. P. Morgan Securities	440,205	10,733,336	22,396	0.051
Morgan Stanley Int. London	673,453	9,847,359	20,417	0.030
Merrill Lynch Inc	2,093,475	6,894,320	20,385	0.010
Thomas Weisel Partners LLC	387,050	6,059,919	19,353	0.050
Other	<u>179,500,191</u>	<u>287,615,316</u>	<u>550,861</u>	0.003
<b>Total</b>	<u><b>343,898,675</b></u>	<u><b>\$ 1,137,496,999</b></u>	<u><b>\$ 1,846,750</b></u>	0.005

*Excludes zero commission trades.*

**ACTUARIAL**  
SECTION





Oklahoma Historical Society

**Oklahoma State Capitol Building under construction in 1916 in Oklahoma City.**

# MERCER

Human Resource Consulting

3500 JPMorgan Chase Tower  
2200 Ross Avenue  
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214 220 3500 Fax 214 220 6200  
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October 30, 2002

Board of Trustees  
Oklahoma Public Employees Retirement System  
P.O. Box 53007  
Oklahoma City, Oklahoma 73152

Subject:  
**2002 Certification of Actuarial Valuation**

Dear Members of the Board:

We certify that the information presented herein and in the July 1, 2002 Actuarial Valuation Report is accurate and shows fairly the actuarial position of the Oklahoma Public Employees Retirement System (OPERS) as of July 1, 2002.

The actuarial valuation was based on participant data submitted by the OPERS staff, which we examined for reasonableness. The financial information used in the valuation was provided to us by the System's independent public accountants.

Actuarial valuations to determine the funding requirements of the System are performed annually. The most recent actuarial valuation was done as of July 1, 2002.

The System's required contribution rates are established which, over time, will gradually decrease as a percent of payroll if assumptions are met and the required rate is contributed. The required contribution rate has been determined to provide for (1) the normal cost developed as a level percentage of payroll, plus (2) a level dollar amortization of the unfunded actuarial accrued liability over 40 years from July 1, 1987, plus (3) budgeted administrative expenses. The State's current contribution rate is 10.0% of covered payroll. As of July 1, 2002, the required contribution rate is 16.1%. The State's current contribution is not sufficient to fund the contribution developed under Government Accounting Standards Number 25.

The actuarial assumptions and methods used in the valuation were adopted by the Board, based upon our recommendations. The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit and Note Disclosures for Defined Contribution Plans*.

We prepared all of the schedules shown in the Actuarial Section of the System's Annual Report. We also provided the Schedule of Funding Progress and Schedule of Employer Contributions, which appear in the Financial Section of the System's Annual Report.

In addition to these results, 11 O.S. 2001, Section 50-105.4, Section H requires disclosure of valuation results under specified assumptions. This information is provided elsewhere.

Sincerely,



Brent A. Hradek, FSA, EA



Stephen T. McElhaney, FSA, EA

## 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 1983 Group Annuity Mortality Table 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. The portion of the individual pay increase assumption attributable to inflation is 3 percent.
6. Benefits are expected to increase by 66.7% of the assumed rate of inflation as a result of future ad-hoc cost-of-living increases.
7. An individual entry-age actuarial cost method of valuation was used in determining age and service allowance actuarial liabilities and normal cost. Actuarial gains and losses reduce or increase the unfunded liability and are amortized over the remaining amortization period.
8. The actuarial value of assets is based on a five-year moving average of expected actuarial values and market values. A preliminary expected actuarial 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 7.5% interest. 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 plan year. Twenty percent (20%) of any 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 plan 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.
9. The data about persons now covered was furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the actuary.
10. The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (M.A.A.A.).

# Summary of Actuarial Assumptions and Methods

(CONTINUED)

11. The actuarial assumptions and methods used in the valuation were adopted by the Board, based upon recommendations by the actuary. The assumptions and methods used for the July 1, 2002 valuation were adopted by the Board for the July 1, 2002 valuation based on plan experience from July 1, 1998 through June 30, 2001.
  
12. Each year, plan experience is compared with the actuarial assumptions used for valuation purposes. The actuarial assumptions changed since July 1, 2001 are:
  - The projected salary scale has been increased across all ages.
  - The retirement rates were increased at a few specific ages.
  - The disability rates for males were lowered for most ages.
  - The withdrawal rates for employees with at least three years of service were increased.

## Schedule 1 Withdrawal From Active Employment Before Age & Service Retirement and Individual Pay Increase Assumptions

<u>Sample Ages</u>	<u>Withdrawal After Five-Year Select Period</u>	<u>Percent Increase in Individual's Pay During Next Year</u>
25	10.72%	8.4%
30	8.81	7.1
35	7.42	6.2
40	5.87	5.9
45	4.68	5.6
50	3.98	5.2
55	3.03	5.1

## Schedule 2A Percent of Eligible Active Members Retiring Within Next Year Those Eligible for Rule of 80 (or Rule of 90)

<u>Retirement Ages</u>	<u>Percent</u>	<u>Retirement Ages</u>	<u>Percent</u>
50	10.0%	61	20.0%
51	10.0	62	40.0
52	10.0	63	22.0
53	10.0	64	25.0
54	10.0	65	40.0
55	10.0	66	25.0
56	10.0	67	23.0
57	11.0	68	22.0
58	12.0	69	21.0
59	13.0	70	100.0
60	14.0		

**Schedule 2B**  
**Percent of Eligible Active Members Retiring Within Next Year**  
**Those Not Eligible for Rule of 80 (or Rule of 90) and**  
**Department of Corrections Members With Less Than 20 Years of Service**

<u>Retirement Ages</u>	<u>Percent</u>	<u>Retirement Ages</u>	<u>Percent</u>
55	7.0%	63	22.0%
56	6.0	64	25.0
57	7.0	65	40.0
58	7.0	66	25.0
59	7.0	67	23.0
60	9.0	68	22.0
61	20.0	69	21.0
62	40.0	70	100.0

**Schedule 2C**  
**Percent of Eligible Active Members Retiring Within Next Year**  
**Department of Corrections Members With More Than 20 Years of Service**

<u>Service</u>	<u>Percent</u>
20-21	25%
21-30	15
30+	100

## Schedule of Active Member Valuation Data

<u>Valuation Date</u>	<u>Number</u>	<u>Annual Payroll<sup>1</sup></u>	<u>Annual Average Pay</u>	<u>% Increase In Average Pay</u>
July 1, 2002	44,292	\$1,450,317,127	\$ 32,745	8.64%
July 1, 2001	43,696	\$1,317,043,030	\$ 30,141	2.94
July 1, 2000	43,775	\$1,281,505,876	\$ 29,279	5.96
July 1, 1999	44,116	\$1,219,031,066	\$ 27,633	3.84
July 1, 1998	43,379	\$1,154,342,141	\$ 26,611	0.53
July 1, 1997	44,570	\$1,179,728,464	\$ 26,470	4.08
July 1, 1996	44,125	\$1,122,183,864	\$ 25,432	1.58
July 1, 1995	43,987	\$1,101,256,680	\$ 25,036	3.08
July 1, 1994	44,853	\$1,089,323,295	\$ 24,287	2.14
July 1, 1993	45,622	\$1,084,773,899	\$ 23,777	2.18
July 1, 1992	47,410	\$1,103,214,275	\$ 23,270	3.54
July 1, 1991	47,543	\$1,068,550,019	\$ 22,475	4.89
July 1, 1990	46,306	\$ 992,241,468	\$ 21,428	4.24
July 1, 1989	44,674	\$ 918,306,232	\$ 20,556	8.72

<sup>1</sup> The Annual Payroll shown above differs from the Covered Payroll shown in the Financial Section. The Annual Payroll reflects total compensation paid during the plan year. The Covered Payroll reflects compensation up to the maximum compensation levels on which employee and employer contributions are based.

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

<u>Year Ended</u>	<u>Added to Rolls</u>		<u>Removed from Rolls</u>		<u>Rolls – End of Year</u>		<u>% Increase in</u>	<u>Average Annual Allowances</u>
	<u>No.</u>	<u>Annual Allowances</u>	<u>No.</u>	<u>Annual Allowances</u>	<u>No.</u>	<u>Annual Allowances</u>	<u>Annual Allowances</u>	
June 30, 2002	1,308	\$17,512,521	715	\$ 6,241,483	21,452	\$253,395,228	10.11%	\$ 11,812
June 30, 2001	1,309	\$16,663,109	752	\$ 6,718,226	20,863	\$230,121,114	4.66	\$ 11,030
June 30, 2000	1,344	\$15,679,120	671	\$ 5,324,291	20,306	\$219,877,693	9.63	\$ 10,828
June 30, 1999	1,303	\$13,425,106	629	\$ 5,311,921	19,633	\$200,555,038	4.88	\$ 10,215
June 30, 1998	1,296	\$13,107,129	669	\$ 4,617,640	18,959	\$191,226,984	15.64	\$ 10,086
June 30, 1997	1,219	\$13,140,234	630	\$ 5,209,799	18,332	\$165,361,419	5.04	\$ 9,020
June 30, 1996	1,154	\$10,792,811	618	\$ 3,734,220	17,743	\$157,430,984	4.69	\$ 8,873
June 30, 1995	1,139	\$ 9,714,883	514	\$ 3,322,193	17,207	\$150,372,393	4.44	\$ 8,739
June 30, 1994	1,201	\$15,922,280	522	\$ 3,081,956	16,582	\$143,979,703	9.79	\$ 8,683
June 30, 1993	1,049	\$10,019,494	507	\$ 3,183,179	15,903	\$131,139,379	5.50	\$ 8,246
June 30, 1992	1,087	\$10,624,784	500	\$ 3,061,680	15,361	\$124,303,064	6.62	\$ 8,092

# Analysis of Financial Experience

**Gains & Losses in Accrued Liabilities During the Year Ended June 30, 2002  
Resulting from Differences Between Assumed Experience & Actual Experience**

Type of Activity	Gain (or Loss) for Year 2002
1. <b>Age &amp; Service Retirements.</b> If members retire at older ages or with greater benefits than assumed, there is a gain. If they retire at younger ages or have higher average pays, a loss occurs.	\$ 140,552,000
2. <b>Disability Retirements.</b> If disability claims are less than assumed, there is a gain. If more claims, a loss.	\$ 13,264,000
3. <b>Death Benefits.</b> If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	\$ 64,179,000
4. <b>Withdrawal from Employment.</b> If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	\$ (30,717,000)
5. <b>Pay Increases.</b> If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	\$ (71,066,000)
6. <b>New Entrants.</b> All new entrants to the plan create a loss.	\$ (29,286,000)
7. <b>Other.</b> Miscellaneous gains and losses resulting from data adjustments, employee transfers, valuation methods, etc.	\$ 70,866,000
8. <b>Gain (or Loss) During Year From Financial Experience</b>	\$ (115,151,000)
9. <b>Non-Recurring Items.</b> Adjustments for plan amendments, etc.	\$ (100,204,000)
10. <b>Assumption Changes.</b>	\$ (176,174,000)
11. <b>Composite Gain (or Loss) During Year</b>	\$ (233,737,000)

# Summary of Plan Provisions

<b>Effective Date:</b>	The plan became effective January 1, 1964. The plan year is July 1 to June 30.
<b>Employees Included:</b>	<p>All permanent employees of the State of Oklahoma, legislated agencies, and any other employer such as county, county hospital, city, or trust in which a municipality is the primary beneficiary, are eligible to join if:</p> <ul style="list-style-type: none"><li>• the employee is not eligible for or participating in another state retirement system, except Social Security and not participating in the U.S. Civil Service Retirement System,</li><li>• 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).</li></ul> <p>Membership is mandatory for new eligible employees on the first of the month following employment.</p>
<b>Employee and Employer Contributions:</b>	3% for pay under \$25,000 and 3.5% over \$25,000 for State employees and 10.0% for employers for the 2002-2003 year. Local employees, elected officials and Department of Corrections employees contribute at varying rates.
<b>Final Average Compensation:</b>	Generally, the highest annual average of any three years within the last ten years of participating service.
<b>Retirement Date:</b>	
Normal:	Age 62 (age 60 for elected officials), 80 age/service points if hired before July 1, 1992, 90 age/service points if hired after July 1, 1992. 20 years of service for certain members covered by the Department of Corrections Hazardous Duty Provisions and certain Oklahoma Military Department firefighters.
Early:	Age 55 with 10 years of service.
<b>Normal Retirement Benefit:</b>	General formula is 2% of final average compensation multiplied by service.
<b>Disability Benefit:</b>	After eight years of service, provided the Member qualifies for federal Social Security disability benefits. Payable immediately without actuarial reduction.
<b>In-Service Death Benefit:</b>	<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.</p> <p>For elected officials, it is 50% of the benefit that would have been paid the Member had he retired and elected the Joint and 50% survivor option.</p>

# Summary of Plan Provisions

(CONTINUED)

<b>Post-Retirement Death Benefit:</b>	\$5,000 lump-sum.
<b>Forms of Payment:</b>	Life annuity, joint and 50% survivor annuity, joint and 100% survivor annuity, life annuity with a minimum of 120 monthly payments.
<b>Post-Retirement Medical Insurance Premium:</b>	Effective July 1, 2000, 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.
<b>Plan Provisions Changed Since July 1, 2001:</b>	<p>House Bill 2124 provides an increase in benefits, or COLA, for any person receiving benefits from OPERS on June 30, 2001 and who continue to receive benefits on or after July 1, 2002. This increase will be payable beginning with the July 1, 2002 benefit payment and will be 5% for those persons receiving a benefit based upon less than 25 years of service; 5½% for persons receiving a benefit based on at least 25 years of service and less than 30 years of service, and 6% for those persons receiving a benefit based on at least 30 years of service.</p> <p>The 401(a)(17) salary limit was increased from \$170,000 to \$200,000.</p> <p>Senate Bill 405 changes the retirement benefits and the retirement eligibility requirements for Oklahoma Military Department (OMD) firefighters. OMD firefighters who begin employment July 1, 2002 and after will be entitled to a 2½% computation factor. They will also be eligible for full benefits after 20 years as a firefighter. Their employee contribution rate will be 8%. Current OMD firefighters will have the option to participate in the new provisions by making an irrevocable election before December 31, 2002 to base their future benefits on the new statutes if they contribute 8% of pay in the future. They may also increase their computation factor for past OMD firefighter service by paying the actuarial cost of the increase.</p>

## 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 checking OPERS funding progress. In a short-term solvency test, the retirement plan'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 plan based on total actuarial accrued liabilities (1+2+3) provides an indication of how well the plan is funded.

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

Actuarial Accrued Liabilities and Valuation Assets (in thousands)						Portion of Actuarial Accrued Liabilities 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 Accrued Actuarial Liabilities
7-1-93	155,862	1,255,607	1,190,118	2,601,587	2,211,583	100	100	67.2	85.0
7-1-94	172,724	1,375,847	1,480,231	3,028,802	2,394,611	100	100	57.2 <sup>2</sup>	79.1 <sup>3</sup>
7-1-95	189,499	1,470,733	1,553,863	3,214,095	2,614,376	100	100	61.4	81.3
7-1-96	202,509	1,547,484	1,568,233	3,318,226	2,893,340	100	100	72.9	87.2
7-1-97	216,000	1,617,983	1,760,648	3,594,631	3,270,948	100	100	81.6	91.0
7-1-98	232,699	1,978,246	1,905,625	4,116,570	3,732,849	100	100	79.9	90.7
7-1-99	254,787	2,455,786	2,469,212	5,179,785	4,261,624	100	100	62.8	82.3 <sup>3</sup>
7-1-00	277,697	2,723,695	2,693,333	5,694,725	4,785,555	100	100	66.2	84.0
7-1-01	285,434	3,068,730	2,836,064	6,190,228	5,110,227	100	100	61.9	82.6
7-1-02	314,610	3,114,272	3,210,838	6,639,720	5,299,781	100	100	58.3	79.8

<sup>1</sup> Actuarial value of assets based on the smoothing technique adopted by Board. The June 30, 2002, market value of net assets available for benefits was approximately \$4,485,546,000.

<sup>2</sup> Decreases in percentages due to plan provision changes authorized by 1994 Legislative action.

<sup>3</sup> Decrease from prior year is mostly due to the addition of a 2% annual ad-hoc COLA assumption.



**STATISTICAL**  
SECTION





Oklahoma Historical Society

**Construction continues on the  
State Capitol Building  
on March, 2, 1917.**

## Schedule of Revenue by Source

<b>Year Ending June 30</b>	<b>Member Contributions</b>	<b>Employer Contributions</b>			<b>Investment Income (a)</b>	<b>Total</b>
		<b>Dollars</b>	<b>% of Annual Covered Payroll</b>			
2002	\$ 50,750,779	\$ 139,614,903	10.60	\$ (250,831,849)	\$ (60,466,167)	
2001	47,323,569	131,200,423	10.24	(311,550,807)	(133,026,815)	
2000	45,057,894	125,803,575	10.32	476,529,982	647,391,451	
1999	43,926,338	149,221,715	12.93	411,771,139	604,919,192	
1998	40,733,996	143,699,100	12.21	689,661,465	874,094,561	
1997	35,065,157	135,398,023	12.11	590,621,553	761,084,733	
1996	28,760,749	123,394,882	11.26	416,850,932	569,006,563	
1995	29,202,934	118,786,354	11.02	389,255,790	537,245,078	
1994	29,113,352	111,615,426	11.04	250,756,324	391,485,102	
1993	28,816,149	112,654,847	10.88	128,885,707	270,356,703	

## Schedule of Expenses by Source

<b>Year Ending June 30</b>	<b>Benefit Payments</b>	<b>Administrative Expenses</b>	<b>Refunds</b>	<b>Other (b)</b>	<b>Total</b>
2002	\$ 257,938,411	\$ 3,196,980	\$ 8,145,894	\$ 3,170	\$ 269,284,455
2001	247,076,546	2,825,116	9,868,568	37,681,952	297,452,182
2000	222,746,667	2,478,971	7,588,290	-	232,813,928
1999	211,519,489	2,637,341	9,232,301	-	223,389,131
1998	181,860,179	3,279,144	6,868,646	-	192,007,969
1997	166,444,374	2,049,333	6,640,430	-	175,134,137
1996	159,327,539	2,111,476	6,072,222	-	167,511,237
1995	152,327,223	2,107,563	5,639,341	-	160,074,127
1994	140,780,790	1,862,570	4,709,756	3,219,370	150,572,486
1993	132,464,583	1,747,546	3,335,837	10,907,011	148,454,977

(a) In fiscal year 1996, OPERS adopted GASB Statement No. 25, which among other provisions, required that investments be reported at fair value. The effect of implementing this pronouncement was reflected for reporting purposes for the plan year ending June 30, 1995, requiring a restatement of net plan assets at June 30, 1994. Accordingly, investment income, beginning with the fiscal year ended June 30, 1995, reflects both realized and unrealized investment gains and losses. In years prior to this date, investments were reported at cost and the investment income reported for those periods reflects only realized gains and losses.

(b) Other for years prior to 1995 represents the impairment of investment in real estate funds recorded under the cost basis of accounting.

Other for 2002 and 2001 represents the transfer of contributions and earnings to eligible members.

## Schedule of Retired Members by Type of Benefit

June 30, 2002

Amount of Monthly Benefit	Number of Retirees	Type of Retirement**					Option Selected #			
		1	2	3	4	5	Opt. 1	Opt. 2	Opt. 3	Opt. 4
\$ 1 - 1,000	13,262	8,206	2,596	1,412	945	103	8,850	2,732	1,518	162
1,001 - 2,000	6,074	5,485	197	254	138	-	3,786	1,180	989	119
2,001 - 3,000	1,721	1,657	4	57	3	-	839	409	422	51
3,001 - 4,000	320	307	2	11	-	-	151	70	91	8
4,001 - 5,000	62	62	-	-	-	-	31	19	11	1
Over - 5,000	<u>13</u>	<u>13</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5</u>	<u>4</u>	<u>4</u>	<u>-</u>
Totals	<u>21,452</u>	<u>15,730</u>	<u>2,799</u>	<u>1,734</u>	<u>1,086</u>	<u>103</u>	<u>13,662</u>	<u>4,414</u>	<u>3,035</u>	<u>341</u>

### \*\*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 ten year period.

### Deferred Members

At June 30, 2002, there are 5,392 former members with deferred future benefits.

## Schedule of Average Benefit Payments

Retirement Effective Dates <u>July 1, 1992 to June 30, 2002</u>	Years of Credited Service						
	<u>0 to 5</u>	<u>6 to 10</u>	<u>11 to 15</u>	<u>16 to 20</u>	<u>21 to 25</u>	<u>26 to 30</u>	<u>31+</u>
Period 7/1/92 to 6/30/93							
Average Monthly Benefit	\$ 162	\$ 339	\$ 523	\$ 741	\$ 1,192	\$ 1,588	\$ 2,169
Average Final Average Salary	\$ 1,211	\$ 1,593	\$ 1,746	\$ 1,779	\$ 1,997	\$ 2,244	\$ 2,717
Number of Active Retirees	2	136	219	137	143	133	138
Period 7/1/93 to 6/30/94							
Average Monthly Benefit	\$ 177	\$ 312	\$ 494	\$ 767	\$ 1,153	\$ 1,432	\$ 2,130
Average Final Average Salary	\$ 1,406	\$ 1,575	\$ 1,737	\$ 1,976	\$ 2,163	\$ 2,203	\$ 2,825
Number of Active Retirees	1	130	267	176	174	141	185
Period 7/1/94 to 6/30/95							
Average Monthly Benefit	\$ 181	\$ 332	\$ 488	\$ 750	\$ 1,100	\$ 1,470	\$ 1,997
Average Final Average Salary	\$ 1,467	\$ 1,680	\$ 1,717	\$ 1,885	\$ 2,173	\$ 2,284	\$ 2,707
Number of Active Retirees	1	169	272	179	158	132	116
Period 7/1/95 to 6/30/96							
Average Monthly Benefit	\$ 119	\$ 307	\$ 481	\$ 700	\$ 1,118	\$ 1,546	\$ 2,072
Average Final Average Salary	\$ 986	\$ 1,642	\$ 1,834	\$ 1,977	\$ 2,241	\$ 2,510	\$ 2,730
Number of Active Retirees	1	134	248	187	186	130	143
Period 7/1/96 to 6/30/97							
Average Monthly Benefit	\$ 128	\$ 371	\$ 536	\$ 748	\$ 1,094	\$ 1,529	\$ 2,044
Average Final Average Salary	\$ 1,144	\$ 1,870	\$ 1,910	\$ 2,016	\$ 2,218	\$ 2,431	\$ 2,785
Number of Active Retirees	2	194	260	197	203	149	152
Period 7/1/97 to 6/30/98							
Average Monthly Benefit	\$ 209	\$ 307	\$ 469	\$ 746	\$ 1,141	\$ 1,546	\$ 1,978
Average Final Average Salary	\$ 2,087	\$ 1,793	\$ 1,990	\$ 2,138	\$ 2,346	\$ 2,741	\$ 2,930
Number of Active Retirees	1	219	230	264	225	151	154
Period 7/1/98 to 6/30/99							
Average Monthly Benefit	\$ -	\$ 346	\$ 532	\$ 811	\$ 1,226	\$ 1,707	\$ 2,303
Average Final Average Salary	\$ -	\$ 1,863	\$ 2,072	\$ 2,235	\$ 2,434	\$ 2,789	\$ 3,092
Number of Active Retirees	-	194	281	244	198	190	153
Period 7/1/99 to 6/30/00							
Average Monthly Benefit	\$ 65	\$ 334	\$ 506	\$ 749	\$ 1,123	\$ 1,580	\$ 2,293
Average Final Average Salary	\$ 1,305	\$ 1,959	\$ 2,218	\$ 2,205	\$ 2,463	\$ 2,758	\$ 3,188
Number of Active Retirees	8	178	261	257	214	235	160
Period 7/1/00 to 6/30/01							
Average Monthly Benefit	\$ 114	\$ 384	\$ 561	\$ 832	\$ 1,273	\$ 1,694	\$ 2,394
Average Final Average Salary	\$ 1,136	\$ 2,174	\$ 2,253	\$ 2,411	\$ 2,677	\$ 3,016	\$ 3,735
Number of Active Retirees	4	174	241	246	244	212	150
Period 7/1/01 to 6/30/02							
Average Monthly Benefit	\$ 88	\$ 319	\$ 544	\$ 805	\$ 1,235	\$ 1,639	\$ 2,334
Average Final Average Salary	\$ 1,253	\$ 2,013	\$ 2,358	\$ 2,537	\$ 2,753	\$ 3,013	\$ 3,344
Number of Active Retirees	2	135	267	229	232	237	168

*Note: Average monthly benefit amounts reflect the impact of the cost of living adjustments which became effective for July 2002 benefit payments.*

# Participating Employers

## State Agencies

ABLE Commission	Health, Department of	Pardon & Parole Board
Accountancy, Board of Public	Health Care Authority	Peanut Commission
Agriculture, Department of	Historical Society	Personnel Management, Office of
Architects, Board of Governors	Horse Racing Commission	Pharmacy, Board of
Arts Council, State	House of Representatives	Physicians Manpower Training Commission
Attorney General's Office	Housing Finance Agency	Police Pension and Retirement
Auditor & Inspector	Human Rights Commission	Psychologists Examiners, Board of
Banking Department	Human Services, Department of	Public Safety, Department of
Boll Weevil Eradication Org.	Indian Affairs Commission	Public Employees Retirement System
Finance, State Office of	Indigent Defense System	Quartz Mountain Arts & Conference Center
Campaign Compliance Comm.	Industrial Finance Authority	Real Estate Commission
Capital Complex Centennial Commemoration, Oklahoma	Insurance Department, State	Rehabilitation, Department of
Central Services, Department of	Insurance Fund, State	Science & Technology, Center for Advancement of
Children & Youth, Commission on	Investigation, State Bureau of	Secretary of State, Office of the
Chiropractic Examiners, Board of	Juvenile Affairs, Office of	Securities Commission
Civil Emergency Management	Labor, Department of	Space Industry Development Authority
Conservation Commission	Land Office, Commissioners of the	Speech Pathology & Audiology Board
Consumer Credit, Department of	Law Enforcement Education & Traning, Council on	State Senate
Commerce, Department of	Law Enforcement Retirement System	State & Education Employees Group Insurance Board
Corporation Commission	Legislative Service Bureau	Supreme & District Courts
Corrections, Department of	Libraries, Department of	Tax Commission
Cosmetology, Board of	Lieutenant Governor, Office of	Teacher Preparation, Commission
Council on Judicial Complaints	Liquefied Petroleum Gas Admin.	Transportation, Department of
Court of Criminal Appeals	Marginally Producing Oil & Gas Wells, Commission on	Treasurers Office, State
Davis Gun Museum	McCarty Center for Handicapped Children, J.D.	Tourism & Recreation Department
Dentistry, Board of	Medical Licensure Board	Turnpike Authority
District Attorneys Council	Medicolegal Investigations, Board of	Used Motor Vehicles & Parts Commission
District Courts	Mental Health, Department of	University Health Sciences Center
Educational Television Authority	Merit Protection Commission	University Hospitals Authority
Election Board, State	Military Department	Veterans Affairs, Department of
Embalmers & Funeral Directors, Board of	Mines, Department of	Veterinary Medical Examiners, State Board of
Employees Benefits Council	Motor Vehicle Commission	Waters Resources Board
Employment Security Commission	Municipal Power Authority	Wheat Commission
Energy, Office of the Secretary of	Narcotics & DDC, Bureau of	Will Rogers Memorial Comm.
Engineers & Surveyors, Board of	Nursing, Board of	Workers' Compensation Court
Environmental Quality, Department of	Nursing Home Admin., Board of Examiners for	
Fire Marshall Commission, State	Ordnance Works Authority	
Firefighters Pension & Retirement Board	Optometry Board	
Governor's Office	Osteopathic Examiners, State Board	
Grand River Dam Authority		
Handicapped Concerns, Office of		

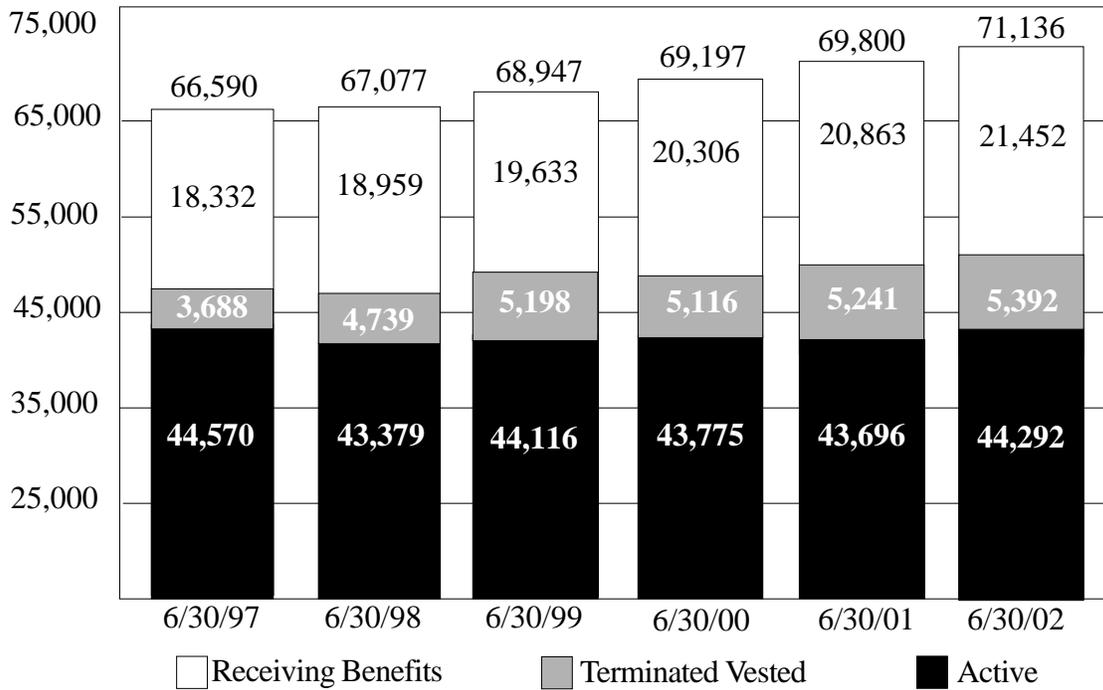
# Participating Employers

## County & Local Government

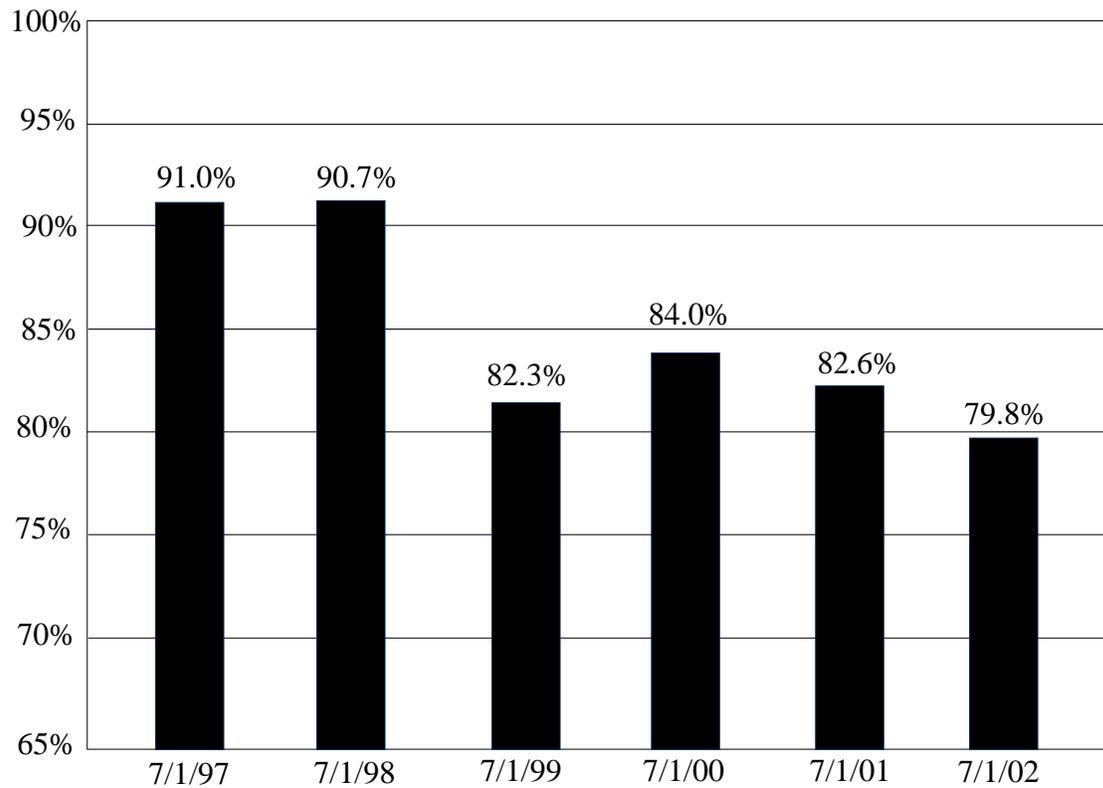
Adair County	Greer County Special Ambulance Service	Murray County
Alfalfa County	Grove, City of	Muskogee County
Arnett, Town of	Harmon County	Muskogee County EMS
Assn. of South Central OK Gov.	Harper County	Noble County
Atoka County	Haskell County	Nowata County
Atoka County Rural Water District	Heavener, City of	Okarche, City of
Beaver, City of	Heavener Utility Authority	Okfuskee County
Beaver County	Hinton, Town of	OK Environmental Mgmt Auth.
Beaver County Memorial Hospital	Holdenville, City of	Okmulgee County
Beckham County	Hughes County	Okmulgee County Criminal Justice Authority
Bixby, City of	Hugo, City of	Osage County
Bixby Public Works	Idabel Housing Authority	Ottawa County
Blaine County	Jackson County	Pawnee County
Bryan County	Jefferson County	Payne County
Caddo County	Jefferson County Detention Center	Pittsburgh County
Canadian County	Johnston County	Pittsburgh County Rural Water District
Carter County	Johnston County Rural Water Dist.	Pontotoc County
Cherokee County	Kay County	Poteau Valley Improvement Auth.
Cheyenne, City of	Ketchum, City of	Pottawatomie County
Choctaw County	Kethcum Public Works	Pushmataha County
Choctaw County Ambulance	Kiamichi Econ. Dev. Dist. of OK	Rogers County
Cimmaron County	Kingfisher, City of	Roger Mills County
Cleveland County	Kingfisher County	Rush Springs, Town of
Coal County	Kiowa County	Ryan, City of
Comanche County	Latimer County	Seminole County
Commerce, City of	LeFlore County	Sentinel, Town of
Consolidated Rural Water Dist. #1	LeFlore County EMS	Sequoyah County
Cotton County	LeFlore County Rural Water & Sewer	Sequoyah County Rural Water Dist. #7
Craig County	LeFlore County Rural Water Dist. #3	Shattuck, City of
Craig County General Hospital	Lincoln County	Southwestern OK Dev. Authority
Creek County	Logan County	Stephens County
Creek County Rural Water Dist. #5	Love County	Stigler, City of
Custer County	Major County	Tahlequah, City of
Cyril, Town of	Major County EMS	Texas County
Delaware County	Mangum, City of	Tillman County
Dewey County	Marshall County	Tillman County Rural Water Dist.
Eastern Oklahoma District Library	Mayes County	Tri-County Rural Water District
Ellis County	Mayes County Rural Water Dist. #3	Vici, Town of
Fairfax, Town of	McClain County	Wagoner County
Fort Supply, Town of	McCurtain County	Washington County
Garfield County	McCurtain County EMS	Washita County
Garvin County	McIntosh County	Watonga Housing Authority
Grady County	Midwestern OK Dev. Authority	Wewoka, City of
Grady County EMS	Mountain View, City of	Wilson, City of
Grandfield, City of		Woods County
Grant County		Woodward County
Greer County		

## Demographics and Actuarial Accrued Liability Status Charts

Demographics Chart



Actuarial Accrued Liability Status Chart



## Schedule of Benefit Payments and Refunds by Type

Fiscal Year Ended June 30, 2002

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 Source** included elsewhere in this Statistical Section.

Fiscal Year	Service and Disability Benefits	Beneficiary Death Benefits	Refunds And Withdrawals	Transfers To Other Systems	Total Benefit Payments And Refunds
2002	\$254,165,279	\$3,773,133	\$5,590,156	\$2,555,737	\$266,084,305
2001	243,632,046	3,444,500	7,118,962	2,749,606	256,945,114
2000	219,087,263	3,659,404	6,182,939	1,405,351	230,334,957
1999	208,784,505	2,734,984	7,683,667	1,548,634	220,751,790
1998	179,103,296	2,756,883	5,127,314	1,741,332	188,728,825
1997	163,881,693	2,562,681	5,351,913	1,288,517	173,084,804
1996	156,260,520	2,709,628	4,966,174	1,463,439	165,399,761
1995	149,656,198	2,380,880	4,507,179	1,422,307	157,966,564
1994	138,143,772	2,417,265	3,784,942	1,144,567	145,490,546
1993	129,945,841	2,297,544	3,557,035	-	135,800,420

## Member Statistics

Inactive Members as of July 1, 2002	No.	Amount of Annual Benefit <sup>1</sup>
<b>Members Receiving Benefits</b>		
▪ Retired	18,529	\$ 231,146,858
▪ Joint Annuitants and Surviving Spouses	1,837	13,835,510
▪ Disabled	1,086	8,412,860
<b>Total</b>	<b>21,452</b>	<b>\$ 253,395,228</b>
<b>Members with Deferred Benefits</b>		
▪ Vested Terminated	4,147	\$ 30,159,498
▪ Assumed Deferred Vested Members <sup>2</sup>	1,245	9,588,533
<b>Total</b>	<b>5,392</b>	<b>\$ 39,748,031</b>

Statistics for Active Members	No.	Average		
		Age	Service	Earnings
<b>As of July 1, 2001</b>				
▪ Continuing	38,113	46.0	11.7	\$ 32,059
▪ New	5,583	38.3	2.1	\$ 17,051
<b>Total</b>	<b>43,696</b>	<b>45.0</b>	<b>10.5</b>	<b>\$ 30,141</b>
<b>As of July 1, 2002</b>				
▪ Continuing	38,618	46.3	11.7	\$ 34,122
▪ New	5,674	37.7	1.7	\$ 23,368
<b>Total</b>	<b>44,292</b>	<b>45.2</b>	<b>10.4</b>	<b>\$ 32,745</b>

<sup>1</sup> Does not include monthly medical insurance premium.

<sup>2</sup> Estimated benefits

# Summary of Retirees, Beneficiaries and Disabled Members

(Annual Benefits)

Attained Age	Retirees		Joint Annuitants & Surviving Spouses		Disabled Members		Current Payment Total	
	No.	Benefit	No.	Benefit	No.	Benefit	No.	Benefit
Under 51	40	\$ 780,418	52	\$ 373,748	148	\$ 1,119,195	240	\$ 2,273,361
51	44	968,300	5	26,743	38	329,465	87	1,324,508
52	61	1,474,838	13	124,923	43	342,843	117	1,942,604
53	129	2,842,539	13	144,228	48	464,236	190	3,451,003
54	144	3,237,961	24	246,771	48	397,222	216	3,881,954
55	207	4,170,108	15	160,833	50	462,748	272	4,793,689
56	245	4,186,427	23	180,492	54	433,412	322	4,800,331
57	243	4,217,090	24	174,957	38	300,816	305	4,692,863
58	306	5,094,383	28	203,041	55	355,336	389	5,652,760
59	415	7,111,040	34	285,457	61	480,258	510	7,876,755
60	385	6,555,895	43	288,059	59	515,473	487	7,359,427
61	451	7,413,971	41	385,239	52	366,710	544	8,165,920
62	528	8,132,896	38	308,626	60	457,403	626	8,898,925
63	691	9,646,199	51	420,218	44	318,955	786	10,385,372
64	704	9,309,421	56	418,687	47	327,742	807	10,055,850
65	733	9,694,002	44	378,982	39	312,586	816	10,385,570
66	779	9,676,316	44	419,799	30	180,887	853	10,277,002
67	835	10,122,891	68	510,962	28	179,796	931	10,813,649
68	862	10,500,837	76	517,556	32	254,110	970	11,272,503
69	752	9,264,994	62	496,831	29	216,247	843	9,978,072
70	792	9,413,684	63	455,009	22	162,292	877	10,030,985
71	760	8,789,741	58	515,150	18	128,311	836	9,433,202
72	724	8,446,496	66	489,532	22	144,861	812	9,080,889
73	720	8,420,622	69	563,201	14	116,540	803	9,100,363
74	669	7,069,626	73	531,019	6	38,876	748	7,639,521
75	625	7,253,169	84	713,882	0	0	709	7,967,051
76	641	7,058,835	70	504,088	0	0	711	7,562,923
77	574	6,104,083	72	616,683	0	0	646	6,720,766
78	555	5,836,671	67	491,689	0	0	622	6,328,360
79	547	5,969,730	51	386,736	1	6,540	599	6,363,006
80	435	4,764,088	53	368,028	0	0	488	5,132,116
81	491	5,164,950	49	324,897	0	0	540	5,489,847
82	368	3,783,216	52	293,320	0	0	420	4,076,536
83	308	2,929,622	44	273,599	0	0	352	3,203,221
84	311	2,787,810	31	176,950	0	0	342	2,964,760
85	255	2,378,345	26	129,507	0	0	281	2,507,852
86	232	2,066,853	25	164,292	0	0	257	2,231,145
87	159	1,358,425	26	193,560	0	0	185	1,551,985
88	172	1,519,751	22	125,038	0	0	194	1,644,789
89	162	1,397,505	22	94,390	0	0	184	1,491,895
90	130	1,179,972	19	117,021	0	0	149	1,296,993
Over 90	345	3,053,138	41	241,767	0	0	386	3,294,905
<b>Total</b>	<b>18,529</b>	<b>\$ 231,146,858</b>	<b>1,837</b>	<b>\$ 13,835,510</b>	<b>1,086</b>	<b>\$ 8,412,860</b>	<b>21,452</b>	<b>\$ 253,395,228</b>

# Summary of Terminated Vested Members

(Annual Benefits)

Attained Age	Members With Deferred Benefits	
	No.	Benefit
Under 41	767	\$ 4,224,556
41	152	1,051,995
42	175	1,176,105
43	204	1,516,743
44	209	1,678,852
45	248	1,884,014
46	268	2,176,009
47	252	1,993,842
48	282	2,462,573
49	275	2,586,192
50	265	2,374,325
51	260	2,208,698
52	288	2,462,755
53	276	2,232,626
54	304	2,382,839
55	265	1,939,068
56	215	1,377,767
57	139	952,814
58	145	873,594
59	130	782,192
60	110	583,383
61	81	453,529
62	46	197,988
63	9	41,346
64	9	40,258
65	3	7,859
66	3	11,399
67	3	11,269
68	1	184
69	3	17,544
70	1	1,510
Over 70	4	44,203
<b>Total</b>	<b>5,392</b>	<b>\$ 39,748,031</b>



# ADDENDUM





Oklahoma Historical Society

**The State Capitol Building's rotunda  
soon after completion.**

# MERCER

Human Resource Consulting

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October 30, 2002

Board of Trustees  
Oklahoma Public Employees Retirement System  
P.O. Box 53007  
Oklahoma City, Oklahoma 73152

Subject:  
2002 Certification of Pro-forma Financial Information

Dear Members of the Board:

We have calculated pro-forma financial information for the Oklahoma Public Employees Retirement System as of July 1, 2002 using assumptions and methods specified in 11 O.S. 2001, Section 50-105.4, Section H.

The results of this pro-forma information have been prepared for the sole purpose of meeting this statutory requirement based on the following prescribed assumptions:

Interest rate: 7.5%  
COLA assumption: 2.0%  
Mortality: RP 2000 Mortality Table for Employees, Healthy Retirees and Disabled Retirees with Mortality Projected Forward from 2000 using Scale AA.  
Amortization period: 30 years, open period  
Sources of all contributions and revenues, including dedicated tax fee revenue and federal monies

All other assumptions, methodologies, and plan provisions used are consistent with those used in the July 1, 2002 valuation. These assumptions, methodologies, and plan provisions are described elsewhere.

All calculations were based on participant data submitted by the OPERS staff, which we examined for reasonableness. The financial information used for these calculations was provided to us by the System's independent auditors.

We certify that the pro-forma financial information presented herein is accurate and shows the actuarial position of the Oklahoma Public Employees Retirement System as of July 1, 2002 under the specified assumptions.

Actuarial valuations to determine the funding requirements of the System are performed annually. The most recent actuarial valuation was done as of July 1, 2002.

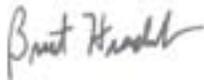
The pro-forma financial information is not consistent with the July 1, 2002 valuation. The July 1, 2002 valuation results were determined in accordance with generally accepted actuarial principles and procedures, and are in compliance with the Actuarial Standards Board Actuarial Standard of Practice No. 27-Selection of Economic Assumptions for Measuring Pension Obligations, except as noted below. The results shown in this section are not based on the assumptions and methodologies adopted by the Board of Trustees. For those results, see the July 1, 2002 actuarial valuation.

The System's required contribution rates are established which, over time, will gradually decrease as a percent of payroll if assumptions are met and the required rate is contributed. The required contribution rate has been determined to provide for (1) the normal cost developed as a level percentage of payroll, plus (2) an amortization of the unfunded actuarial accrued liability over 30 years, plus (3) budgeted administrative expenses. The State's current contribution rate is 10.0% of covered payroll. As of July 1, 2002, the required contribution rate using the specified assumptions would be 17.1%. The State's current contribution is not sufficient to fund the contribution developed under the assumptions and methods used for the pro-forma financial information.

Other than the assumptions described above, the actuarial assumptions and methods used in the valuation were adopted by the Board, based upon our recommendations. The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit and Note Disclosures for Defined Contribution Plans*.

We prepared the Summary of Valuation Results Under Prescribed Assumptions.

Sincerely,



Brent A. Hradek, FSA, EA



Stephen T. McElhaney, FSA, EA

## Summary of Valuation Results Under Prescribed Assumptions

	Actuarial Valuation as of July 1, 2002	
	Amount	% of Covered Comp.
<b>Summary of Contribution Requirements</b>		
1. Annual Covered Compensation for Members Included in Valuation	\$1,450,317,127	N/A
2. Total Normal Cost Mid-year	\$ 171,127,796	11.8%
3. Unfunded Actuarial Accrued Liability	\$1,511,737,068	104.2%
4. Amortization of Unfunded Actuarial Accrued Liability over 30 Years	\$ 123,535,507	8.5%
5. Budgeted Expenses Provided by the System	\$ 5,113,760	0.4%
6. Total Required Contribution (2. + 4. + 5.)	\$ 299,777,063	20.7%
7. Estimated Member Contribution	\$ 51,969,167	3.6%
8. Required Employer Contributions (not less than \$0) (6.-7.)	\$ 247,807,896	17.1%
9. Previous Year's Actual Contribution		
a. Member	\$ 50,750,779	3.9% <sup>1</sup>
b. Employer	\$ 139,614,903	10.6% <sup>1</sup>
c. Total	\$ 190,365,682	14.5% <sup>1</sup>

Summary of Costs	Actuarial Valuation as of July 1, 2002
Required Employer Contribution for Current Year	\$ 247,807,896
Actual Employer Contributions Received in Prior Year	\$ 139,614,903

Funded Status	
Actuarial Accrued Liability	\$ 6,811,518,438
Actuarial Value of Assets	\$ 5,299,781,370
Unfunded Actuarial Accrued Liability	\$ 1,511,737,068

Market Value of Assets and Additional Liabilities	
Market Value of Assets	\$ 4,485,546,116
Present Value of Projected Plan Benefits	\$ 8,121,397,729

<sup>1</sup> Percent of previous year's annual compensation for active Members (\$1,317,043,030 at July 1, 2001).





Oklahoma architect Solomon Layton created this drawing of the proposed State Capitol in 1910.