



# INTRODUCTION

## **INDEPENDENT SEASON**

---

This early season of life starts when you take your first steps out on your own; graduating, starting your first job, and beginning to establish yourself in the working world. Develop plans for the future and save for retirement even though it may seem distant and out of reach.

- 1 Letter of Transmittal
- 5 Chairperson's Letter
- 6 Board of Trustees
- 7 Organizational Structure
- 7 Advisors and Consultants
- 8 Certificate of Achievement for Excellence in Financial Reporting

# Letter of Transmittal

## Uniform Retirement System for Justices and Judges

P.O. Box 53007  
Oklahoma City, Oklahoma 73152-3077

800.733.9008 toll-free  
405.848.5946 fax

November 27, 2019

To the Board of Trustees of the Oklahoma Public Employees Retirement System  
and Members of the Uniform Retirement System for Justices and Judges:

State law requires that, after July 1 and before December 1 of each year, the Uniform Retirement System for Justices and Judges (the System) publish an annual report that covers the operation of the System during the past fiscal year, including income, disbursements and the financial condition at the end of the fiscal year. This report is published, in part, to fulfill that requirement for the fiscal year ended June 30, 2019.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Eide Bailly LLP, Certified Public Accountants, has issued an unmodified opinion on the Uniform Retirement System for Justices and Judges' statement of fiduciary net position as of June 30, 2019, and the related statement of changes in fiduciary net position for the year then ended. The independent auditor's report is located at the front of the Financial Section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

### *Profile of the Plan*

The System is a single-employer public employee retirement plan, which is a defined benefit pension plan, covering all justices and judges of the Oklahoma Supreme Court, Court of Criminal Appeals, Workers' Compensation Court, Court of Appeals, and District Courts. The System is administered by the Oklahoma Public Employees Retirement System (OPERS) and its Board of Trustees (the Board). The employee and employer contribution rates 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.

Members qualify for full retirement benefits at their normal retirement age, defined as: (1) when the sum of the member's age and years of credited service equals 80 or (2) at age 65 with 8 years of judicial service, (age 67 with 8 years of judicial service if becoming a member on or after January 1, 2012), or (3) at age 60 with 10 years of judicial service (age 62 with 10 years of judicial service if becoming a member on or after January 1, 2012). Benefits are determined at 4% of the member's

## Letter of Transmittal (continued)

average salary, as defined, multiplied by the number of years of service, not to exceed 100% of the member's average monthly salary received as a justice or judge for the highest 36 months of compensation. Justices and judges retiring after September 1, 2005, may elect a maximum benefit with no survivor option or one of two actuarially reduced retirement benefits that provide for a lifetime benefit to be paid to the member's joint annuitant after the member's death. The original surviving spouse benefit for married judges who were members prior to September 1, 2005, continues to be available. All justices and judges pay a uniform contribution rate of 8%.

The System also administers the Health Insurance Subsidy Plan (HISP), a cost-sharing multiple-employer defined benefit other post-employment benefit (OPEB) plan that provides OPEB covering the same categories of employees covered by the pension plan. HISP provides a health insurance premium subsidy for retirees of the System who elect to maintain health insurance with the Oklahoma Employees Group Insurance Division (EGID). This subsidy continues until the retiree terminates health insurance coverage with EGID or other qualified plan, or until death. The subsidy is only for the retiree, not joint annuitants or beneficiaries.

The Board of Trustees of OPERS consists of fourteen appointed members, some by position and some by association. Those serving through position are a member of the Corporation Commission or the Commission's designee selected by the Commission, the Director of the Office of Management and Enterprise Services or the Director's designee, the State Insurance Commissioner or the Commissioner's designee, the Director of Human Capital Management of the Office of Management and Enterprise Services, a member of the Tax Commission selected by the Tax Commission, and the State Treasurer or the Treasurer's designee. Of the remaining members, three are appointed by the Governor, one is appointed by the Supreme Court, two are appointed by the Speaker of the House of Representatives and two are appointed by the President Pro Tempore of the Senate. Qualifications for certain of these appointees include a balance of individuals having experience in investment management, pension management, public fund management, the banking profession or a licensed attorney or a licensed accountant.

Each year, OPERS, along with other state agencies, is required to file a budget work program with the Office of Management and Enterprise Services. Administrative overhead expenses of URSJJ, including personnel and other supporting services costs, are paid for by OPERS and allocated to URSJJ based on an estimate of the cost of services provided. The allocated costs are charged to URSJJ and paid with funds provided through operations of URSJJ. The OPERS budget work program, which includes the costs related to URSJJ, is approved by the Board and includes a description of all funds available for expenditure and shows spending by major program category. URSJJ receives no state appropriations and is funded through employee and employer contributions and investment earnings.

Additionally in each even-numbered year, OPERS, along with other state agencies, must file a strategic plan covering five fiscal years beginning with the next odd-numbered fiscal year. The strategic plan includes a mission statement, the core values and behaviors inherent to operations, and a summary of goals and objectives to be achieved through specific projects outlined for the five-year period. The mission of the OPERS Board and staff is to provide and promote comprehensive, accountable and financially sound retirement services to Oklahoma's public servants in a professional, efficient and courteous manner. The core values and behaviors inherent to the agency's operations are honesty and integrity; excellence in customer experience; quality in service delivery; collaboration and community; and strategic perspective. The summary of goals and objectives outlined in the strategic plan are:

- Create an excellent customer experience for members
- Improve the stability, reliability and security of agency resources and data
- Empower employees and members through knowledge and resources
- Foster a culture of employee development and success

## Letter of Transmittal (continued)

### Investments

The standard for URSJJ in making investments is to exercise the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and unless under the circumstances it is clearly prudent not to do so. URSJJ's funds are invested solely in the best interest of the members and their beneficiaries with a goal of keeping administrative expenses as low as possible. The Board has established an investment policy and guidelines that identify asset allocation as the key determinant of return and diversification, both by and within asset classes, as the primary risk control element. Passive fund portfolios are considered to be suitable investment strategies, especially in highly efficient markets.

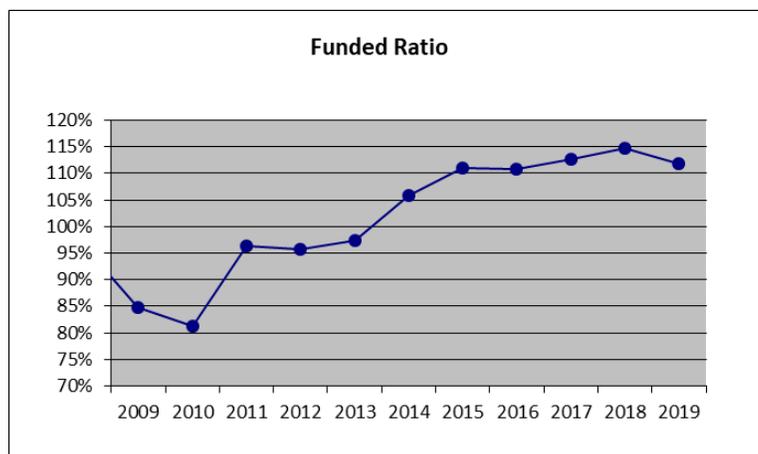
The Board engages outside investment managers to manage the various asset classes where URSJJ has exposure. At fiscal year end, the investment portfolio of URSJJ was actively managed by three fixed income managers and passively managed by another investment manager with holdings in one fixed income index fund, two domestic equity index funds and one international equity index fund.

Included in the Investment Section of this report are a summary of the Investment Portfolio by Type and Manager and a comparison of the above amounts to the target allocations, as shown in the Asset Comparison chart. For fiscal year 2019, investments provided a 6.2 percent rate of return. The annualized rate of return for URSJJ was 9.1 percent over the last three years and 6.0 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. It must also have a revenue source sufficient to keep up with future obligations. The funding objective for URSJJ 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 as of July 1, 2019 amounted to \$308.6 million and \$345.2 million, respectively.

The URSJJ funded ratio had been steadily declining from 2002 to 2010, falling below 100 percent for the first time at July 1, 2007 and declining further to 81.3 percent at July 1, 2010 before rebounding significantly to 96.3 percent at July 1, 2011 due to the removal of the cost-of-living-adjustment (COLA) assumption, and increased further to 114.8 as of July 1, 2018. The funded ratio was 148.2 percent at June 30, 2002. In part this overall decline was due to an employer contribution rate decrease in January 2001 and the lifting of the salary cap for benefit calculation for the past seven years. Effective July 1, 2005, in an effort to address the decline, the employer rate was increased 1.0 percent annually for two years, and at July 1, 2007



it was increased 1.5 percent annually up to 22.0 percent for fiscal years ending 2019 and thereafter. However, based on a projection model prepared by the URSJJ actuary, the scheduled increases in the statutory contribution rate are not expected to be sufficient to reach the actuarial contribution rate before the end of the amortization period of the unfunded actuarial accrued liability, even if all the actuarial assumptions are met in future years. The Legislature has provided a statutory requirement that retirement bills be analyzed for actuarial fiscal impact and contains adequate funding sources

## Letter of Transmittal (continued)

sufficient to pay the cost of the change. In the session ended May 2009 the Legislature designated \$6.0 million in the Supreme Court's Management Information System Fund to pay employer contributions to the Plan in fiscal year 2010. A detailed discussion of funding is provided in the Actuarial Section of this report.

### *Awards and Acknowledgements*

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Uniform Retirement System for Justices and Judges for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2018. This was the twenty-first year URSJJ has received this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report that satisfies both generally accepted accounting principles and applicable legal requirements.

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

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of OPERS. We wish to express our appreciation to all staff members who assisted and contributed to the preparation of this report. Credit also must be given to the Board of Trustees for their unfailing support for maintaining the highest standards of professionalism in the financial management of the Uniform Retirement System for Justices and Judges.

Respectfully submitted,

Joseph A. Fox  
Executive Director

Brian Wolf  
Chief Financial Officer and Director of Finance

# Chairperson's Letter

## **Uniform Retirement System for Justices and Judges**

P.O. Box 53007  
Oklahoma City, Oklahoma 73152-3007

800.733.7008 toll-free  
405.848.5946 fax

November 27, 2019

Dear Members:

On behalf of the Board of Trustees, I am pleased to present the Comprehensive Annual Financial Report for the Uniform Retirement System for Justices and Judges (URSJJ) for the fiscal year ending June 30, 2019.

This report is designed to provide a detailed look at the financial, investment and actuarial aspects of the System, which continues to be a strong retirement system.

You are encouraged to carefully review this report, as it contains a wealth of information about your retirement system. If you have questions or comments, please feel free to contact us. We can be reached at P.O. Box 53007, Oklahoma City, Oklahoma 73152-3007. Our telephone number is 405-858-6737 (or toll-free 1-800-733-9008).

I also want to thank the staff for their diligent work in preparing this report and their commitment to continually improve the administrative operations necessary to operate your retirement system.

Sincerely,

Dana Webb  
*Chairperson*

## Board of Trustees



**Dana Webb, Chair**  
Administrator,  
Human Capital Management,  
Office of Management and  
Enterprise Services



**Clark Jolley, Vice Chair**  
Member of Tax Commission  
selected by Commission



**Bob Anthony**  
Corporation Commissioner



**Jari Askins**  
Appointee, Supreme Court



**Quyen Do**  
Appointee, Speaker of the  
House of Representatives



**John Hastings**  
Appointee, Governor



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



**Brandy Manek**  
Designee, Director of the  
Office of Management and  
Enterprise Services



**Randy McDaniel**  
State Treasurer



**Grace McMillan**  
Appointee, Governor



**Glen Mulready**  
State Insurance Commissioner



**Edward Peterson**  
Appointee, President Pro  
Tempore of the Senate

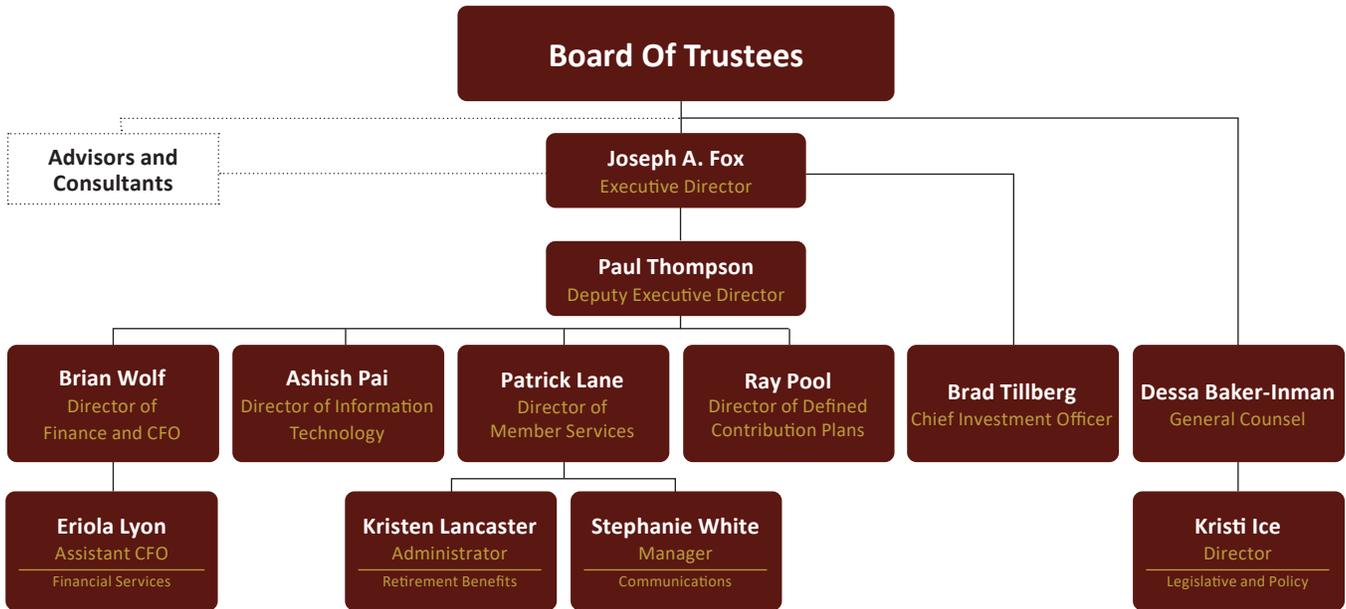


**Tracey Ritz**  
Appointee, Speaker of the  
House of Representatives



**Grant Soderberg**  
Appointee, Governor

# Organizational Structure



*Back Row (from left to right): Ashish Pai, Brad Tillberg, Eriola Lyon, Brian Wolf, Ray Pool, Kristen Lancaster, Stephanie White and Patrick Lane*  
*Front Row (from left to right): Dessa Baker, Joe Fox, Kristi Ice and Paul Thompson*

## Advisors and Consultants\*

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

**Investment Consultant**  
 Verus Advisory, Inc.  
 Seattle, Washington

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

**Independent Auditors**  
 Eide Bailly LLP  
 Oklahoma City, Oklahoma

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

\*The Schedules of Investment Expenses and Professional/Consultant Fees (pages 46 and 48, respectively) in the Financial Section and the Schedule of Stock Brokerage Commissions Paid (page 59) in the Investment Section provide more information regarding advisors and consultants.



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Uniform Retirement System  
for Justices and Judges, Oklahoma**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2018**

*Christopher P. Morill*

Executive Director/CEO