# SEASONS

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND JUNE 30, 2018
A COMPONENT UNIT OF THE STATE OF OKLAHOMA

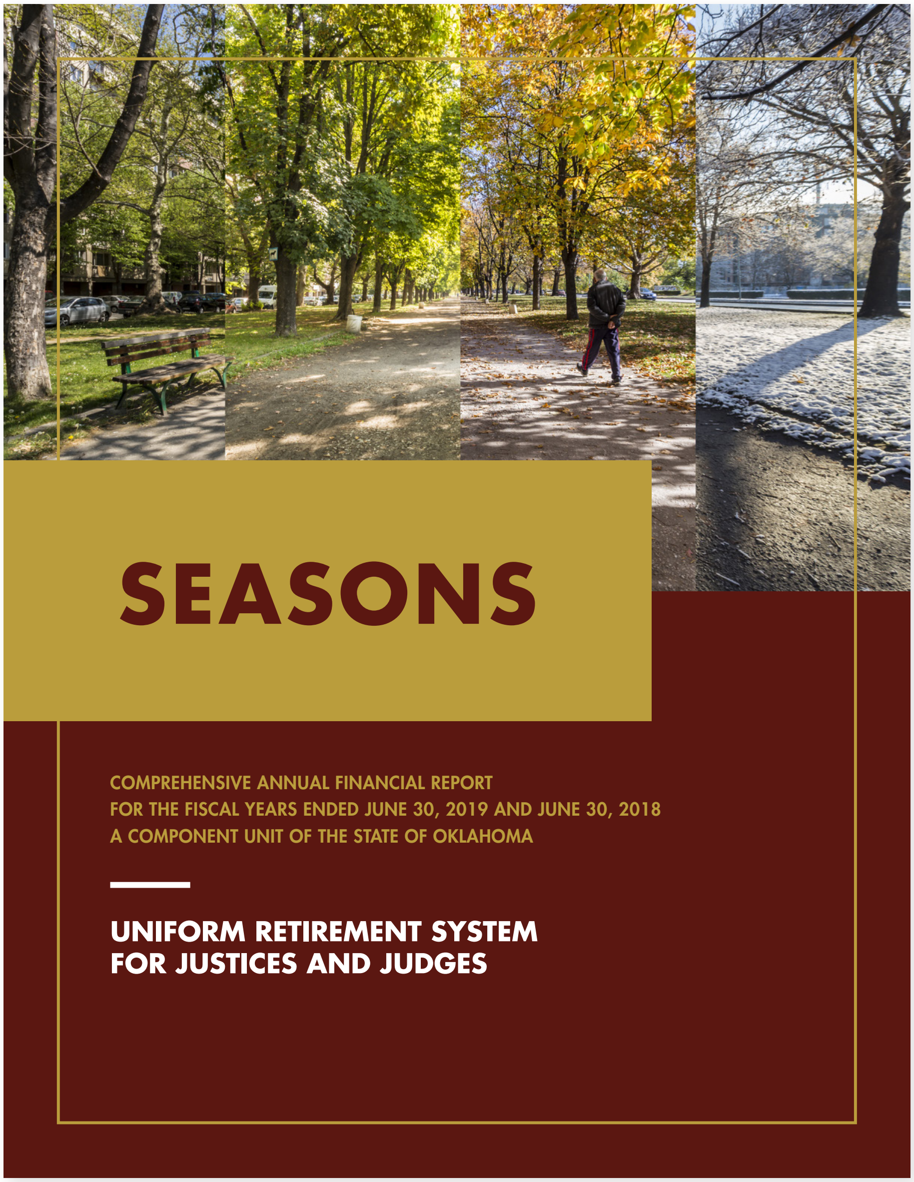
## UNIFORM RETIREMENT SYSTEM FOR JUSTICES AND JUDGES

# SEASONS

Like the seasons of the year, people and organizations transform to improve and to be ready for the next phase. Changing seasons illustrate the undeniable transition from one stage of life to another. It is a call to alter our perspectives. Whether starting a first job, receiving a promotion, moving into retirement, or enjoying the freedom of retirement years, the changing of the seasons is a cue to reflect and plan for a rewarding financial future.

Seasons bring to mind transformation and demonstrate progress through the year. The weather shifts, the leaves turn, and life's circumstances change from year to year. This constant adjustment is a reminder to reflect on the past and look forward to the future.

Through each changing season the URSJJ always has and will continue to be a partner assisting you with your retirement goals no matter your season in life. The Comprehensive Annual Financial Report (CAFR) is an opportunity to look back on our performance over the last season and demonstrate how we are working toward a financially secure retirement system.




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

*This publication is issued by the Oklahoma Public Employees Retirement System as authorized by its Executive Director. Copies have not been printed but are available through the agency website. An electronic version of this publication has been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.*

2019 Comprehensive Annual Financial Report

# Table of Contents

## Introductory Section



## Financial Section



## Investment Section



## Actuarial Section



## Statistical Section

# 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.

# 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*

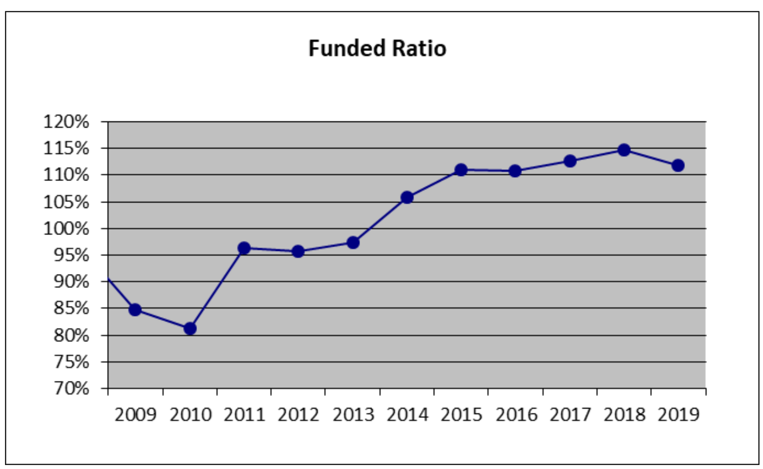
The standard for URSJJ in making investments is to exercise the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and unless under the 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).

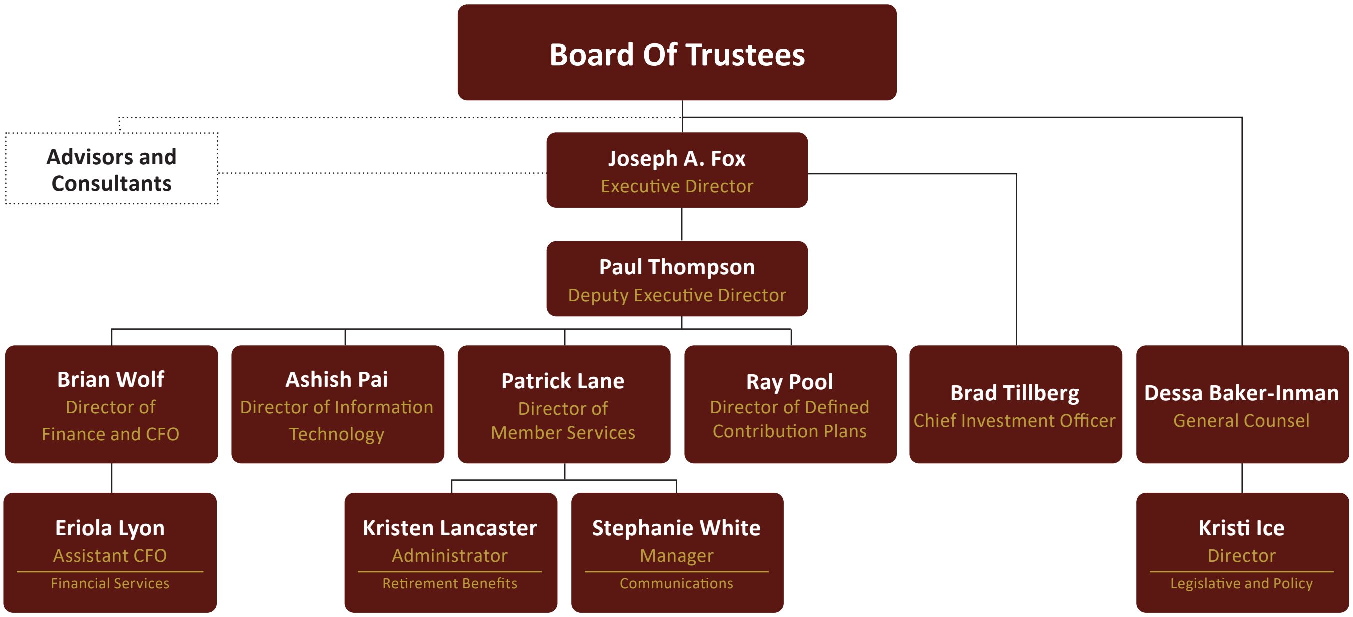
I also want to thank the staff for their diligent work in preparing this report and their commitment to continually improve the administrative operations necessary to operate your retirement system.

Sincerely,

Dana Webb
*Chairperson*

# Board of Trustees

# 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

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

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

**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. Morrill

Executive Director/CEO

# FINANCIAL

## GROWING SEASON

The growing season is full of opportunities and challenges as you forge ahead in your career and begin to understand your financially sound future. Plan and save for the future by taking action during this season of life. The financial investments and decisions you make now will help build life-long goals.



### FINANCIAL STATEMENTS:



### REQUIRED SUPPLEMENTARY INFORMATION:



### SUPPLEMENTARY INFORMATION:

CPAs & BUSINESS ADVISORS

To the Board of Trustees
Uniform Retirement System for Justices and Judges
Oklahoma City, Oklahoma

**Report on the Financial Statements**
We have audited the accompanying financial statements of the Uniform Retirement System for Justices and Judges (the System, a component unit of the State of Oklahoma, which comprise the statements of fiduciary net position as of June 30, 2019 and 2018, and the related statements of changes in fiduciary net position, for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Uniform Retirement System for Justices and Judges, as of June 30, 2019 and 2018, and the respective statements of changes in fiduciary net position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1, the financial statements of the Uniform Retirement System for Justices and Judges, are intended to present the fiduciary net position, and the changes in fiduciary net position of only that portion of the System. They do not purport to, and do not, present fairly the fiduciary net position of other Plans governed by the System Board of Trustees, as of June 30, 2019 and 2018, and the changes in its fiduciary net position for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

*Other Information*
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements as a whole. The other supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements.

The other supplementary information accompanying financial information listed as other supplementary information, as referenced in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying financial information listed as supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Eide Bailly LLP

Oklahoma City, Oklahoma
November 19, 2019

# Management's Discussion and Analysis
## (Unaudited)

As management of the Uniform Retirement System for Justices and Judges (the System) we offer readers of the System's financial statements this narrative overview and analysis of the financial activities of the System for the fiscal years ended June 30, 2019, 2018 and 2017.

### Financial Highlights

- The net position restricted for pension and health insurance subsidy plan (HISP) totaled approximately $347.5 million at June 30, 2019, compared to $338.0 million at June 30, 2018. The net position restricted for pension/HISP benefits is available for payment of monthly retirement benefits and other qualified distributions to the System's participants. The increase of $9.5 million and increase of $16.8 million of the respective years have resulted primarily from the changes in the fair value of the System's investments.
- At June 30, 2019, the total number of members participating in the System was 587, compared to 551 at June 30, 2018. The total number of retirees increased to 300 for June 30, 2019 compared 272 for June 30, 2018.

### Overview of the Financial Statements

The System is a single-employer defined benefit pension plan. The System covers all Justices and Judges of the Oklahoma Supreme Court, Court of Criminal Appeals, Workers' Compensation Court, Court of Appeals, and District Courts. Benefits are determined at 4% of the average monthly compensation received as a justice or judge based on the highest thirty-six months of compensation multiplied by the number of years of credited service, not to exceed 100% of the retiree's average monthly salary received as a justice and judge for the highest thirty-six months of compensation. Normal retirement ages under the System are 62 with 10 years of judicial service, 67 with 8 years of judicial service, or when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80). Members become eligible to vest fully upon termination of employment after attaining eight years of service as a justice or judge, or the members' contributions may be withdrawn upon termination of employment.

The System also includes a single-employer defined benefit public employee other post-employment benefit plan. This plan is called the Health Insurance Subsidy Plan (HISP), and it 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) or other qualified insurance plan provided by the employer. 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 System's financial statements are comprised of Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position for both pensions and HISP, and Notes to Financial Statements. Also included is certain required supplementary information and supplementary information for both pensions and HISP.

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

The *Statements of Fiduciary Net Position* present information on the System's assets, liabilities and the resulting *net position restricted for pensions and HISP.* This statement reflects the System's investments, at fair value, along with cash and cash equivalents, receivables, and other assets and liabilities.

# Management's Discussion and Analysis (continued)
(Unaudited)

The *Statements of Changes in Fiduciary Net Position* present information showing how the System's net position restricted for pensions and HISP changed during the years ended June 30, 2019 and 2018. 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* presents a schedule of changes in the net pension asset, schedule of pension employer contributions, schedules of money-weighted rate of return on pension plan investments, schedule of changes in the net HISP asset, schedule of HISP employer contributions, and schedules of money-weighted rate of return on HISP investments. Schedules of certain expenses and fees paid are presented as *supplementary information*.

## Financial Analysis

The following are the condensed Schedules of Fiduciary Net Position and Changes in Fiduciary Net Position for the Uniform Retirement System for Justices and Judges for the fiscal years ended June 30, 2019, and 2018.

**Condensed Schedules of Fiduciary Net Position**

| ($ millions) | 2019 | | | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Pension | HISP | Combined | Pension | HISP | Combined | Pension | HISP | Combined |
| **Assets:** | | | | | | | | | |
| Cash and cash equivalents | $ 4.3 | $ - | $ 4.3 | $ 8.1 | $ 0.1 | $ 8.2 | $ 5.9 | $ 0.1 | $ 6.0 |
| Receivables | 10.3 | 0.1 | 10.4 | 7.7 | 0.1 | 7.8 | 10.9 | 0.1 | 11.0 |
| Investments | 342.2 | 3.3 | 345.5 | 338.0 | 3.1 | 341.1 | 322.4 | 2.9 | 325.3 |
| Securities lending collateral | 12.4 | 0.1 | 12.5 | 14.3 | 0.1 | 14.4 | 16.2 | 0.1 | 16.3 |
| Total assets | 369.2 | 3.5 | 372.7 | 368.1 | 3.4 | 371.5 | 355.4 | 3.2 | 358.6 |
| **Liabilities:** | | | | | | | | | |
| Other liabilities | 12.6 | 0.1 | 12.7 | 18.9 | 0.2 | 19.1 | 20.9 | 0.2 | 21.1 |
| Securities lending collateral | 12.4 | 0.1 | 12.5 | 14.3 | 0.1 | 14.4 | 16.2 | 0.1 | 16.3 |
| Total liabilities | 25.0 | 0.2 | 25.2 | 33.2 | 0.3 | 33.5 | 37.1 | 0.3 | 37.4 |
| Ending fiduciary net position | $ 344.2 | $ 3.3 | $ 347.5 | $ 334.9 | $ 3.1 | $ 338.0 | $ 318.3 | $ 2.9 | $ 321.2 |

**Condensed Schedules of Changes in Fiduciary Net Position**

| ($ millions) | 2019 | | | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Pension | HISP | Combined | Pension | HISP | Combined | Pension | HISP | Combined |
| Member contributions | $ 2.7 | $ - | $ 2.7 | $ 2.6 | $ - | $ 2.6 | $ 2.7 | $ - | $ 2.7 |
| Participating court employers | 7.1 | 0.2 | 7.3 | 6.5 | 0.2 | 6.7 | 6.0 | 0.2 | 6.2 |
| Net investment income | 20.1 | 0.2 | 20.3 | 26.2 | 0.2 | 26.4 | 36.3 | 0.3 | 36.6 |
| Total additions | 29.9 | 0.4 | 30.3 | 35.3 | 0.4 | 35.7 | 45.0 | 0.5 | 45.5 |
| Retirement, death and survivor benefits | 20.4 | 0.2 | 20.6 | 18.5 | 0.2 | 18.7 | 17.6 | 0.2 | 17.8 |
| Refunds and withdrawals | - | - | - | - | - | - | 0.1 | - | 0.1 |
| Administrative expenses | 0.2 | - | 0.2 | 0.2 | - | 0.2 | 0.2 | - | 0.2 |
| Total deductions | 20.6 | 0.2 | 20.8 | 18.7 | 0.2 | 18.9 | 17.9 | 0.2 | 18.1 |
| Net increase in fiduciary net position | 9.3 | 0.2 | 9.5 | 16.6 | 0.2 | 16.8 | 27.1 | 0.3 | 27.4 |
| Beginning of year | 334.9 | 3.1 | 338.0 | 318.3 | 2.9 | 321.2 | 291.2 | 2.6 | 293.8 |
| End of year | $ 344.2 | $ 3.3 | $ 347.5 | $ 334.9 | $ 3.1 | $ 338.0 | $ 318.3 | $ 2.9 | $ 321.2 |

For the year ended June 30, 2019, fiduciary net position increased $9.5 million, or 2.8%. Total assets increased by $1.2 million, or 0.3%, due to an increase of 1.3% in investments, an increase of 33.3% in receivables partially offset by a decrease of 13.2% in securities lending collateral. The System achieved a money-weighted rate of return of 6.1% compared to the prior year of 8.4% resulting in the majority of the increase in fiduciary net position. Total liabilities decreased 24.8% primarily due to an 33.7% decrease in pending purchases of securities and a 13.2% decrease in securities lending collateral.

Fiscal year 2019 showed a $5.4 million decrease in total additions and a $1.9 million increase in total deductions. Compared to the prior year, additions decreased 15.1 % due to a decrease in the fair value of investments of $6.5 million. The 10.1% increase in total deductions was primarily due to a 10.2% increase in retirement benefits. Administrative costs were 9.3% more when compared to the prior year due to IT consulting services that were new in FY2019.

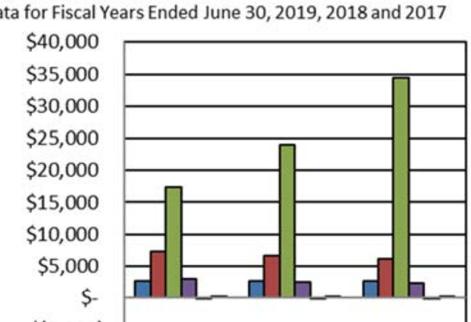
For the year ended June 30, 2018, fiduciary net position increased $16.8 million, or 5.2%. Total assets increased by $12.9 million, or 3.6%, due to an increase of 4.9% in investments, an increase of 36.7% in cash and cash equivalents partially offset by a decrease of 11.7% in securities lending collateral. The System achieved a money-weighted rate of return of 8.4% compared to the prior year of 12.7% resulting in the majority of the increase in fiduciary net position. Total liabilities decreased 10.4% primarily due to an 11.7% decrease in securities lending collateral and a 9.6% decrease in pending purchases of securities.

Fiscal year 2018 showed a $9.8 million decrease in total additions and a $0.8 million increase in total deductions. Compared to the prior year, additions decreased 21.5% due to a decrease in the fair value of investments of $10.4 million. The 4.4% increase in total deductions was primarily due to a 5.1% increase in retirement benefits. Administrative costs were 0.7% more when compared to the prior year due to a 2.0% increase in the allocation percentage.

## Additions to Fiduciary Net Position

For the year ended June 30, 2019, additions to fiduciary net position decreased $5.4 million, or 15.1%, from the prior year. The significant decrease in the appreciation in the fair value of investments from prior year of $6.1 million is reflective of the softening market, compared to fiscal year 2018. Interest income increased $0.4 million and securities lending income decreased 50.0%. Contributions increased $0.7 million, or 7.6%, because of the statutory increase in the contribution percentage for participating court employers.

**Additions to Fiduciary Net Position**
Comparative Data for Fiscal Years Ended June 30, 2019, 2018 and 2017
($ thousands)



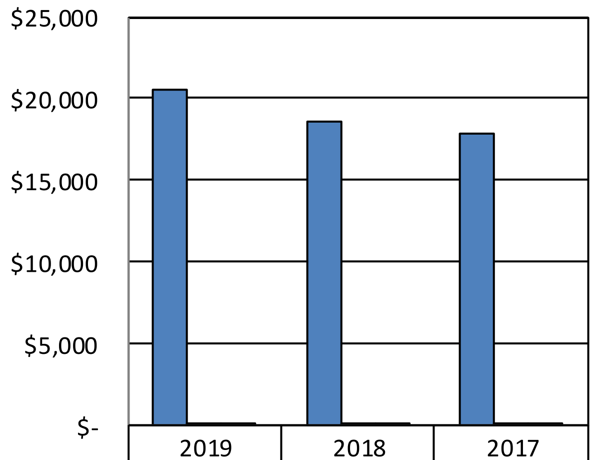

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Member contributions | $2,667 | $2,608 | $2,664 |
| Court employer contributions | 7,333 | 6,684 | 6,191 |
| Net appreciation | 17,451 | 23,989 | 34,368 |
| Interest, dividends, and other investment income | 2,965 | 2,556 | 2,355 |
| Investment expenses | (135) | (155) | (134) |
| Securities lending income | 25 | 50 | 55 |

For the year ended June 30, 2018, additions to fiduciary net position decreased $9.8 million, or 21.5%, from the prior year. The significant decrease in the appreciation in the fair value of investments from prior year of $10.4 million is reflective of the softening market, compared to fiscal year 2017. Interest income increased $0.2 million and securities lending income decreased 8.2%. Contributions increased $0.4 million, or 4.9%, because of the statutory increase in the contribution percentage for participating court employers.

## Deductions to Fiduciary Net Position

For the year ended June 30, 2019, total deductions increased $1.9 million, or 10.1%, from the prior year. Retirement, death, and survivor benefits increased $1.9 million, or 10.2%, and the average benefit increased 5.5% compared to the prior year due to a 10.3% increase in the number of retirees. Refunds and withdrawals increased 26.9% from the prior year because the total amount withdrawn is dependent on contribution amounts of the specific members electing to withdraw contributions each year. Administrative costs increased 9.3% when compared to the prior year due to new IT consulting cost for FY19.

**Deductions to Fiduciary Net Position**
Comparative Data for Fiscal Years Ended June 30, 2019, 2018 and 2017
($ thousands)




| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Retirement, death and survivor benefits | $20,581 | $18,643 | $17,827 |
| Refunds and withdrawals | 66 | 52 | 89 |
| Administrative expenses | 170 | 156 | 155 |

For the year ended June 30, 2018, total deductions increased $0.8 million, or 4.4%, from the prior year. Retirement, death, and survivor benefits increased $0.8 million, or 4.6%, and the average benefit increased 1.2% compared to the prior year due to a 2.6% increase in the number of retirees. Refunds and withdrawals decreased 41.6% from the prior year because the total amount withdrawn is dependent on contribution amounts of the specific members electing to withdraw contributions each year. Administrative costs increased 0.6% when compared to the prior year due to an increase in the allocation rate of 2.0%.

## Investments

The investment portfolio is reported in the chart below by the asset class of the investment managers' portfolios which includes the cash equivalents in those portfolios. In April 2017, the System's Board voted to modify the policy asset allocation to increase exposure to international equity and reduce exposure to U.S. equity. A summary of the System's cash equivalents and investments for fiscal years ended June 30, 2019 and 2018 is as follows:

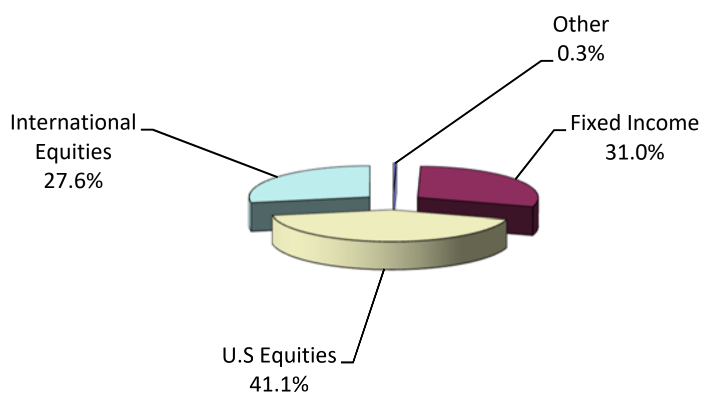
**Cash Equivalents and Investments**
($ millions)

| | June 30 | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| Fixed income | $ 110.0 | $ 110.7 | $ 110.0 |
| U.S. equities | 142.8 | 142.7 | 131.9 |
| International equities | 95.9 | 94.4 | 88.6 |
| Other | 1.1 | 1.4 | 0.8 |
| Total managed investments | 349.8 | 349.2 | 331.3 |
| Cash equivalents on deposit with State | 0.1 | 0.1 | 0.1 |
| Securities lending collateral | 12.5 | 14.4 | 12.5 |
| Total cash, cash equivalents, and investments | $ 362.4 | $ 363.7 | $ 343.9 |

The 2019 decrease in the System's managed investments is due mainly in the decrease in securities lending collateral. The System's overall return for the year ended June 30, 2019 was 6.2%. Equity index funds correlated closely with market trends with U.S. and international equities showing returns of 7.75% and 1.58%, respectively. Fixed income showed a return of 8.41%. An amount of $10.35 million of U.S. equities was used to supplement the cash requirements of monthly retiree benefit payments. The change in securities lending collateral is dependent on the securities loaned by the System's master custodian at year end.

As of June 30, 2019, the distribution of the System's investments including accrued income and pending trades was as follows:

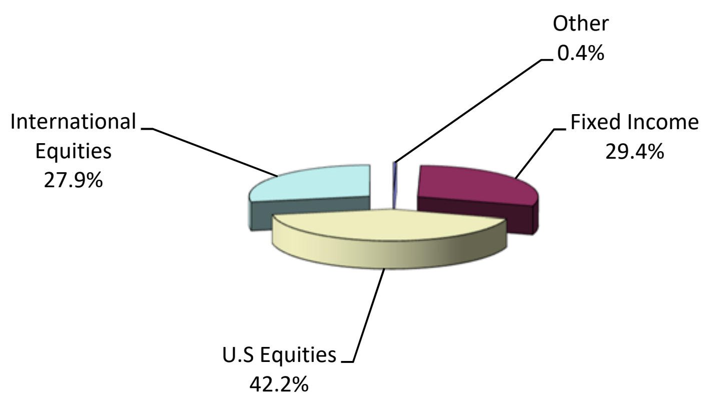
**2019**



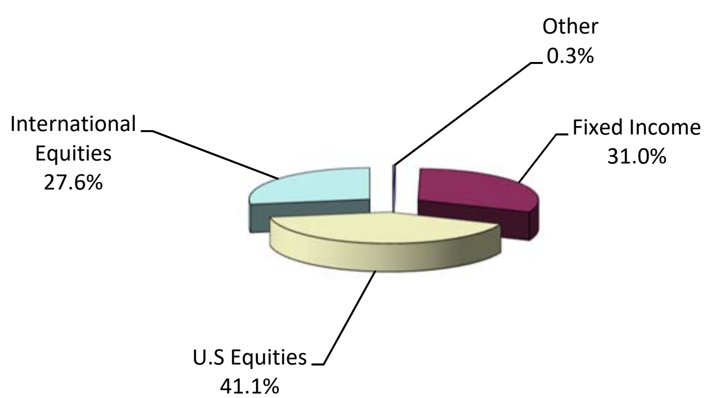
The 2018 increase in the System's managed investments is reflective of the increase in domestic and international equity markets for the year. The System's overall return for the year ended June 30, 2018 was 8.4%. Equity index funds correlated closely with market trends with U.S. and international equities showing returns of 15.1% and 7.6%, respectively. Fixed income showed a return of 0.3%. An amount of $8.7 million of U.S. equities and $0.9 million of international equities was used to supplement the cash requirements of monthly retiree benefit payments. The change in securities lending collateral is dependent on the securities loaned by the System's master custodian at year end.

As of June 30, 2018 and 2017 the distribution of the System's investments including accrued income and pending trades was as follows:

**2018**




**2017**



## Economic Factors

### Ratio of Fiduciary Net Position to Total Pension Liability and to Total HISP Liability

The ratio of fiduciary net position to the total pension liability was as follows:

| | June 30, | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| Total pension liability | $ 305,801,494 | $ 290,379,164 | $ 282,837,412 |
| Plan fiduciary net position | $ 344,205,778 | $ 334,896,669 | $ 318,262,645 |
| Ratio of fiduciary net position to total pension liability | 112.56% | 115.33% | 112.52% |

The ratio of fiduciary net position to the total HISP liability was as follows:

| | June 30, | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| Total HISP liability | $ 2,813,691 | $ 2,724,325 | $ 2,699,494 |
| Plan fiduciary net position | $ 3,317,718 | $ 3,138,717 | $ 2,891,232 |
| Ratio of fiduciary net position to total HISP liability | 117.91% | 115.21% | 107.10% |

## Plan Amendment

## Other

The actuarial assumptions used in the July 1, 2019, valuation are based on the results of the most recent actuarial experience study, which covered the three-year period ending June 30, 2016.

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

## Requests for Information

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

# Statements of Fiduciary Net Position

As of June 30, 2019

| | Pension Plan | Health Insurance Subsidy Plan | Combined |
|---|---|---|---|
| **Assets** | | | |
| Cash equivalents | $ 4,273,548 | $ 48,710 | $ 4,322,258 |
| Receivables: | | | |
| Member contributions | - | - | - |
| Participating court employers | 5,172 | 50 | 5,222 |
| Due from brokers for securities sold | 9,804,443 | 94,286 | 9,898,729 |
| Accrued interest and dividends | 542,601 | 5,218 | 547,819 |
| Total receivables | 10,352,216 | 99,554 | 10,451,770 |
| Investments, at fair value: | | | |
| Short-term investments | 562,531 | 5,410 | 567,941 |
| Government obligations | 73,347,906 | 705,361 | 74,053,267 |
| Corporate bonds | 31,829,116 | 306,089 | 32,135,205 |
| Domestic equities | 141,471,665 | 1,360,483 | 142,832,148 |
| International equities | 94,991,576 | 913,500 | 95,905,076 |
| Securities lending collateral | 12,386,691 | 119,118 | 12,505,809 |
| Total investments | 354,589,485 | 3,409,961 | 357,999,446 |
| Total assets | 369,215,249 | 3,558,225 | 372,773,474 |
| **Liabilities** | | | |
| Due to brokers and investment managers | 12,622,780 | 121,389 | 12,744,169 |
| Securities lending collateral | 12,386,691 | 119,118 | 12,505,809 |
| Total liabilities | 25,009,471 | 240,507 | 25,249,978 |
| Net position restricted for pension/HISP benefits | $ 344,205,778 | $ 3,317,718 | $ 347,523,496 |

See accompanying notes to financial statements.

# Statements of Fiduciary Net Position

As of June 30, 2018

| | Pension Plan | Health Insurance Subsidy Plan | Combined |
|---|---|---|---|
| **Assets** | | | |
| Cash equivalents | $ 8,112,907 | $ 54,986 | $ 8,167,893 |
| Receivables: | | | |
| Member contributions | 4,898 | - | 4,898 |
| Participating court employers | 12,433 | 118 | 12,551 |
| Due from brokers for securities sold | 7,236,037 | 68,285 | 7,304,322 |
| Accrued interest and dividends | 485,589 | 4,582 | 490,171 |
| Total receivables | 7,738,957 | 72,985 | 7,811,942 |
| Investments, at fair value: | | | |
| Short-term investments | 2,342,531 | 22,106 | 2,364,637 |
| Government obligations | 70,548,283 | 665,746 | 71,214,029 |
| Corporate bonds | 30,229,519 | 285,269 | 30,514,788 |
| Domestic equities | 141,342,979 | 1,333,818 | 142,676,797 |
| International equities | 93,534,206 | 882,659 | 94,416,865 |
| Securities lending collateral | 14,266,150 | 134,626 | 14,400,776 |
| Total investments | 352,263,668 | 3,324,224 | 355,587,892 |
| Total assets | 368,115,532 | 3,452,195 | 371,567,727 |
| **Liabilities** | | | |
| Due to brokers and investment managers | 18,952,713 | 178,852 | 19,131,565 |
| Securities lending collateral | 14,266,150 | 134,626 | 14,400,776 |
| Total liabilities | 33,218,863 | 313,478 | 33,532,341 |
| Net position restricted for pension/HISP benefits | $ 334,896,669 | $ 3,138,717 | $ 338,035,386 |

See accompanying notes to financial statements.

# Statements of Changes in Fiduciary Net Position

For the Year Ended June 30, 2019

| | Pension Plan | Health Insurance Subsidy Plan | Combined |
|---|---|---|---|
| **Additions** | | | |
| Contributions: | | | |
| Members | $ 2,666,542 | $ - | $ 2,666,542 |
| Participating court employers | 7,145,803 | 187,200 | 7,333,003 |
| Total contributions | 9,812,345 | 187,200 | 9,999,545 |
| Investment income: | | | |
| From investing activities: | | | |
| Net appreciation in fair value of investments | 17,288,259 | 162,198 | 17,450,457 |
| Interest | 2,935,828 | 28,874 | 2,964,702 |
| Total investment income | 20,224,087 | 191,072 | 20,415,159 |
| Less – Investment expenses | (134,170) | (1,259) | (135,429) |
| Income from investing activities | 20,089,917 | 189,813 | 20,279,730 |
| From securities lending activities: | | | |
| Securities lending income | 362,450 | 3,400 | 365,850 |
| Securities lending expenses: | | | |
| Borrower rebates | (333,262) | (3,127) | (336,389) |
| Management fees | (4,026) | (38) | (4,064) |
| Income from securities lending activities | 25,162 | 235 | 25,397 |
| Net investment income | 20,115,079 | 190,048 | 20,305,127 |
| Total additions | 29,927,424 | 377,248 | 30,304,672 |
| **Deductions** | | | |
| Retirement, death and survivor benefits | 20,384,196 | 196,665 | 20,580,861 |
| Refunds and withdrawals | 65,548 | - | 65,548 |
| Administrative expenses | 168,571 | 1,582 | 170,153 |
| Total deductions | 20,618,315 | 198,247 | 20,816,562 |
| Net increase in net position | 9,309,109 | 179,001 | 9,488,110 |
| **Net position restricted for pension/HISP benefits** | | | |
| Beginning of year | 334,896,669 | 3,138,717 | 338,035,386 |
| End of year | $ 344,205,778 | $ 3,317,718 | $ 347,523,496 |

See accompanying notes to financial statements.

# Statements of Changes in Fiduciary Net Position

For the Year Ended June 30, 2018

| | Pension Plan | Health Insurance Subsidy Plan | Combined |
|---|---|---|---|
| **Additions** | | | |
| Contributions: | | | |
| Members | $ 2,608,284 | $ - | $ 2,608,284 |
| Participating court employers | 6,504,275 | 180,000 | 6,684,275 |
| Total contributions | 9,112,559 | 180,000 | 9,292,559 |
| Investment income: | | | |
| From investing activities: | | | |
| Net appreciation in fair value of investments | 23,761,714 | 226,790 | 23,988,504 |
| Interest | 2,531,114 | 25,021 | 2,556,135 |
| Total investment income | 26,292,828 | 251,811 | 26,544,639 |
| Less – Investment expenses | (153,748) | (1,467) | (155,215) |
| Income from investing activities | 26,139,080 | 250,344 | 26,389,424 |
| From securities lending activities: | | | |
| Securities lending income | 318,225 | 3,037 | 321,262 |
| Securities lending expenses: | | | |
| Borrower rebates | (260,544) | (2,487) | (263,031) |
| Management fees | (8,024) | (77) | (8,101) |
| Income from securities lending activities | 49,657 | 473 | 50,130 |
| Net investment income | 26,188,737 | 250,817 | 26,439,554 |
| Total additions | 35,301,296 | 430,817 | 35,732,113 |
| **Deductions** | | | |
| Retirement, death and survivor benefits | 18,461,040 | 181,860 | 18,642,900 |
| Refunds and withdrawals | 52,038 | - | 52,038 |
| Administrative expenses | 154,194 | 1,472 | 155,666 |
| Total deductions | 18,667,272 | 183,332 | 18,850,604 |
| Net increase in net position | 16,634,024 | 247,485 | 16,881,509 |
| **Net position restricted for pension/HISP benefits** | | | |
| Beginning of year | 318,262,645 | 2,891,232 | 321,153,877 |
| End of year | $ 334,896,669 | $ 3,138,717 | $ 338,035,386 |

See accompanying notes to financial statements.

# Notes to Financial Statements

June 30, 2019 and 2018

## (1) Reporting Entity

The Uniform Retirement System for Justices and Judges (the System) is a defined benefit cost-sharing single employer plan consisting of a retirement plan and a health insurance subsidy plan (HISP) both held in irrevocable trusts. The System, together with other similar fiduciary pension trust funds of the state of Oklahoma (the State), is a component unit of the State. The System is administered by the Oklahoma Public Employees Retirement System (OPERS). As set forth in Title 20 of the Oklahoma Statutes, at Section 1108, a portion of the administrative overhead expenses, including personnel and other supporting services costs, which are paid for by a separate retirement fund also administered by OPERS, are allocated to the System. The allocation is based on OPERS' estimate of the cost of services provided to the System by the separate fund. Allocated costs are charged to the System and paid with funds provided through operations of the System.

## (2) Summary of Significant Accounting Policies

The following are the significant accounting policies followed by the System.

### *(a) Basis of Accounting*

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

*(b)* ***Investments*** – The System's investments are presented at fair value. Purchases and sales are recorded at the trade date. At month end, there may be certain pending trades that were initiated by managers but not confirmed and, therefore, are not included in the fair value of investments.

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

System investments are reported at fair value, which is the price that would be received if the investments were sold in an orderly transaction between a willing buyer and a willing seller. Short-term investments include bills and notes and commercial paper. Short-term investments, domestic debt securities, and equity securities are reported at fair value, as determined by the System's custodial agent, generally based on pricing services or prices quoted by independent brokers. The fair value of the pro rata share of units owned by the System in index and commingled trust funds is determined by the respective fund trustees based on quoted sales prices of the underlying securities.

Cash equivalents include investments in money market funds and investment pools and are reported at amortized cost.

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

# Notes to Financial Statements (continued)

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

***(c) Use of Estimates***

Management of the System has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with U.S. generally accepted accounting principles (GAAP), note disclosure and required supplementary information (RSI). Actual results could differ from these estimates.

***(d) Risk and Uncertainties – Actuarial Assumptions***

Contributions to the System and the actuarial information included in Note (6) Net Pension Asset, Net OPEB Asset and Actuarial Information and the RSI 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.

***(e) Composition of Board of Trustees***

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

## (3) System Descriptions and Contribution Information

The following brief description of the System is provided for general information purposes only. Participants should refer to Title 20 of the Oklahoma Statutes, Sections 1101 through 1111, for more complete information.

***(a) General***

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 also administers the Health Insurance Subsidy Plan, a cost-sharing multiple-employer defined benefit OPEB plan that provides OPEB covering the same categories of employees covered by the System.

# Notes to Financial Statements (continued)

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

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

| | 2019 | 2018 |
|---|---|---|
| Inactive members or their beneficiaries currently receiving benefits* | 300 | 272 |
| Inactive members entitled to but not yet receiving benefits | 18 | 14 |
| Active members | 269 | 265 |
| Total | 587 | 551 |

*Of the inactive members or their beneficiaries currently receiving benefits, 166 are retirees and beneficiaries in the Health Insurance Subsidy Plan (HISP) as of June 30, 2019 and 2018. The Plan also includes 17 and 19 nonvested terminated members entitled to a refund of their member contributions as of June 30, 2019 and 2018, respectively.

## *(b) Benefits*

*Pensions*

Benefits are determined at 4% of the member's average monthly compensation for covered active service over the highest thirty-six months of compensation as a justice or judge times the total years of service in the System not to exceed 100% of the retiree's average monthly salary received as a justice or judge for the highest thirty-six months of compensation.

Normal retirement ages under the System are as follows:

For participants who became members prior to January 1, 2012:

- When the sum of at least 8 years of credited years and age equals or exceeds 80 (Rule of 80)
- Age 65 with 8 years of judicial service
- Age 60 with 10 years of judicial service

For participants who became members on or after January 1, 2012:

- Age 67 with 8 years of judicial service
- Age 62 with 10 years of judicial service

Members are eligible to vest fully upon termination of judicial service after accumulating eight years of judicial service, or the member's contributions may be withdrawn at the time such member ceases to be a justice or judge of a court within the System. Disability retirement benefits are available for members who have attained age 55 and have 15 years of continuous judicial service and are determined to be disabled by the Court of the Judiciary. The benefits are calculated in the same manner as the normal retirement benefit. The Court of the Judiciary may override these requirements if it is determined that any judge or justice is no longer capable of performing regular duties.

Upon the death of an active member, the System will pay to the designated beneficiary the active member's accumulated employee contributions. However, if the deceased member contributed to survivor benefits, an eligible spouse of the member may choose to vest the member's service (8 years required) until the spouse is eligible to receive monthly survivor benefits as defined by the System.

# Notes to Financial Statements (continued)

Upon the death of a retired member, the System 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 estate or beneficiary. Death benefits paid for the year ended June 30, 2019 and 2018 totaled approximately $10,000 and $47,500, respectively.

Surviving spouse benefits are paid to a member's spouse, provided the member makes the required contributions and the spouse qualifies under the System provisions. These payments are made monthly over the remaining life of the spouse. If the member has ten years of service and the death is determined by the Workers' Compensation Court to be employment related, the benefit is payable immediately to the spouse. Members must have eight years of credited service before their spouses are eligible for normal survivor benefits. The benefit payment is equal to 50% up to 65% of the normal retirement benefit if certain contributions and other criteria are met. Effective September 1, 2005, survivor benefits are also available to the retiree's designated joint annuitant according to the option elected by the member. The first option gives the member a reduced lifetime annuity with 50% of the amount paid to the member's survivor at the member's death. The second option pays the member an even further reduced annuity with the same amount paid to the survivor after the member's death.

*Health Insurance Subsidy 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) or other qualified insurance plan provided by the employer. 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.

Benefits are established and may be amended by the State Legislature from time to time.

***(c) Contributions***

The contribution requirements of the System are an established rate determined by the Oklahoma Legislature and are based on a comparison to an actuarial calculation which is performed to determine the adequacy of the contribution rate. An actuarially determined portion of the total contributions to the System are set aside to finance the cost of the benefits of the HISP in accordance with provisions of the Internal Revenue Code.

The contribution rate of all justices and judges is 8% of a member's monthly salary. The member may elect a maximum benefit with no survivor option or one of two types of actuarially reduced retirement benefits that provide for a lifetime benefit to be paid to the member's joint annuitant after the member's death. This election is available for any judge or justice without regard to marital status. Prior to September 2005, the basic member contributions were 5% of a member's monthly salary. Each member of the System who was married provided for spousal survivor benefits and contributed at the rate of 8% unless the member's spouse agreed to waive spousal benefits. Participating court employers are required to contribute monthly a percentage of the gross salaries of the active members of the System. The percentages established by the Oklahoma Legislature for the year ended June 30, 2018 was 20.5% of member payroll. Only employers contribute to the HISP.

Effective for the fiscal year ended June 30, 2019, the employer contribution rate increased to 22% of payroll.

Prior to July 2009, the Board was authorized to adjust the contribution rate to prevent a funded ratio of the System of less than 100%. Effective July 1, 2009, the statutory responsibility of the Board was modified to adjust the employer contribution rate to prevent a funded ratio below the target of "at or near" ninety percent. In May 2010, legislation was enacted to remove the authority of the Board to adjust the employer contribution rate..

# Notes to Financial Statements (continued)

## (4) Cash Equivalents

Cash equivalents represent short-term investment funds held by the Office of the State Treasurer (State Treasurer) and the System's custodial agent.

At June 30, cash equivalents were:

| | 2019 | 2018 |
|---|---|---|
| Cash equivalents | | |
| State Treasurer | $ 83,884 | $ 114,374 |
| Custodial agent | 4,238,374 | 8,053,519 |
| Total cash and cash equivalents | $ 4,322,258 | $ 8,167,893 |

Cash is deposited to *OK INVEST*, an internal investment pool of the State Treasurer with holdings limited to obligations of the U.S. Government, its agencies and instrumentalities, agency senior debt and mortgage-backed pass-through securities, tri-party repurchase agreements, money market mutual funds, collateralized certificates of deposit, commercial paper, obligations of state and local governments, and State of Israel Bonds. Participants are limited to qualifying agencies and funds within the State's reporting entity, and each participant maintains an interest in the underlying investments of *OK INVEST* and shares the risk of loss on the fund in proportion to the respective investment in the fund. The custodial agent cash equivalents consist of temporary investments in commingled trust funds of the System's custodial agent. The fund is composed of high-grade money market instruments with short maturities. Each participant in the fund shares the risk of loss on the fund in proportion to the respective investment in the fund.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agency but not in the depositor-government's name. At June 30, 2019 and 2018, the cash equivalents in *OK INVEST* and the System's custodial agent cash equivalents were not exposed to custodial credit risk because their existence cannot be evidenced by securities that exist in physical or book entry form.

## (5) Investments

### *(a) General*

Investments are pooled for administrative purposes and then allocated to the pension plan and HISP based on actuarial data, inflows and outflows. The OPERS Statement of Investment Policy states that the Board believes that System assets should be managed in a fashion that reflects the System's unique liabilities and funding resources, incorporating accepted investment theory and reliable empirical evidence. Specifically, the Board has adopted the following principles:

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

# Notes to Financial Statements (continued)

The investment policy, guidelines, and objectives which govern the investment of System assets shall be developed and adopted by the Board of Trustees at a regularly scheduled public Board meeting, at least annually, prior to August 1 of each year. Changes to the investment policy may be made, as necessary, at any public meeting of the Board of Trustees, in compliance with the Open Meeting Act. During 2015, the investment policy was modified to allow investments in certain real estate-related assets.

The asset allocation guidelines established by policy at June 30, 2019 and 2018, were U.S. equities – 41%, international equities – 27%, and domestic fixed income – 32%. The guidelines also establish minimum and maximum percentages for each asset class allocation, and when allocations move outside these limits, portfolios are rebalanced.

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

| | 2019 | 2018 |
|---|---|---|
| U.S. Treasury notes/bonds | $ 39,070,475 | $ 36,773,789 |
| U.S. TIPS index fund | 10,949,128 | 10,428,399 |
| Government agencies | 168,853 | 169,933 |
| Government mortgage-backed securities | 22,908,231 | 22,692,854 |
| Foreign bonds | 565,104 | 723,306 |
| Municipal bonds | 391,476 | 551,016 |
| Corporate bonds | 24,725,704 | 26,186,899 |
| Asset-backed securities | 4,430,985 | 4,406,250 |
| Commercial mortgage-backed securities | 1,980,500 | 1,502,655 |
| Non government backed collateralized mortgage obligations | 1,565,957 | 658,353 |
| U.S. equity index funds | 142,832,148 | 142,676,797 |
| International equity index fund | 95,905,076 | 94,416,865 |
| Securities lending collateral | 12,505,809 | 14,400,776 |
| Total investments | $ 357,999,446 | $ 355,587,892 |

The System participates in fixed income and international and domestic equity index funds managed by BlackRock Institutional Trust Company, N.A. (BTC). BTC, a subsidiary of BlackRock, Inc., is a national banking association and operates as a limited purpose trust company. Its primary regulator is the Office of the Comptroller of the Currency (OCC), the agency of the U.S. Treasury Department that regulates United States national banks. Each fund is a collective fund which is a group trust and an entity separate from BTC, other funds, and the investing participants. BTC is trustee of each of the collective fund trusts and holds legal title to each trust's assets for the exclusive benefit of the System. The fair value of the System's position in the pool is the same as the value of the pool shares. In 2019 and 2018, the System invested in a fixed income index fund, two domestic equity index funds, and an international equity index fund. The System shares the risk of loss in these funds with other participants in proportion to its respective investment. Because the System does not own any specific identifiable investment securities of these funds, the risk associated with any derivative investments held in these funds is not apparent. The degree of risk depends on the underlying portfolios of the funds, which were selected by the System in accordance with its investment policy guidelines including risk assessment.

### *(b) Securities Lending*

The System's investment policy provides for its participation in a securities lending program. The program is administered by the System's master custodian, and there are no restrictions on the amount of loans that can be made. During 2019 and 2018, the types of securities loaned were primarily U.S. Government and corporate bonds. Certain securities of the System are loaned to participating brokers, who must provide collateral in the form of cash, U.S. Treasury or Government Agency securities, or letters of credit issued by approved banks.

# Notes to Financial Statements (continued)

Under the terms of the securities lending agreement, collateral is required to be provided in the amount of 102% of the fair value of U.S. securities loaned and 105% of the fair value of non-U.S. securities loaned. At June 30, 2019 and 2018, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The market value of the cash and non-cash collateral received in 2019 was $12,505,809 and $3,765,225 and $14,400,776 and $2,990,026, in 2018 respectively. The master custodian provides for full indemnification to the System 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 System for income of the securities while on loan. The loan premium paid by the borrower of the securities is apportioned between the System 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.

| Securities On Loan | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| Collateralized by Cash Collateral | $ 12,259,935 | 77 | % | $ 14,075,861 | 83 | % |
| Collateralized by non- Cash Collateral | 3,689,771 | 23 | | 2,908,106 | 17 | |
| **Total** | $ 15,949,706 | 100 | % | $ 16,983,967 | 100 | % |

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 System'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, 2019 and 2018, the cash collateral investments had an average weighted maturity of 16 and 18 days, respectively, and the relationship between the maturities of the custodial agent's investment pool and the System's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the System cannot determine. The System's non-cash collateral is represented by its allocated share of a pool administered by the agent for the System and other pool participants.

### *(c) Credit Risk*

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

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

The *Constrained Core* manager will invest in a broadly diversified portfolio with characteristics similar to a broad fixed income market index, such as the Barclays Capital Aggregate Bond Index. The total portfolio minimum quality should be single-A as rated by a nationally recognized statistical rating organization (NRSRO). The portfolio should primarily consist of investment grade securities, with a minimum quality rating for any issue of triple-B rating by at least one NRSRO. In the event that a credit rating is downgraded below this minimum, the investment manager shall immediately notify OPERS staff and provide an evaluation and recommended course of action.

# Notes to Financial Statements (continued)

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

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

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

At June 30, 2019, the domestic fixed income portfolio consisted of a constrained core fixed income portfolio, a core plus fixed income portfolio, a rate anticipator portfolio, and a passive U.S. TIPS index fund. All components met the stated policy restrictions, except the core fixed income portfolio, which held $114,280 of the portfolio in issues rated below triple-B minus, and the core plus fixed income portfolio, which held $432,836 in issues rated below single-B. At June 30, 2018, the domestic fixed income portfolio consisted of a constrained core fixed income portfolio, a core plus fixed income portfolio, a rate anticipator portfolio, and a passive U.S. TIPS index fund. All components met the stated policy restrictions, except the core fixed income portfolio, which held $194,437 of the portfolio in issues rated below triple-B minus, and the core plus fixed income portfolio, which held $27,370 in issues rated below single-B.

Investments issued by or explicitly guaranteed by the U.S. Government are not considered to have credit risk. At June 30, 2019, the System held 37.2% of fixed income investments that were not considered to have credit risk and 10.3% in a U.S. TIPS index fund made up of explicitly guaranteed U.S. Treasury Inflation-Protected Securities. At June 30, 2018, the System held 36.9% of fixed income investments that were not considered to have credit risk and 10.0% in a U.S. TIPS index fund made up of explicitly guaranteed U.S. Treasury Inflation-Protected Securities.

The System’s exposure to credit risk at June 30, 2019 is presented below, in thousands, by investment category as rated by an NRSRO.

| | Triple-A | Double-A | Single-A | Triple-B | Double-B | Single-B | Triple-C | Not Rated or Rating Not Available | Total |
|---|---|---|---|---|---|---|---|---|---|
| Government agencies | $ - | $ - | $ - | $ 136 | $ - | $ - | $ - | $ - | $ 136 |
| Foreign government bonds | - | - | 21 | 544 | - | - | - | - | 565 |
| Municipal bonds | 57 | 226 | 5 | 103 | - | - | - | - | 391 |
| Corporate bonds | 164 | 863 | 8,196 | 14,343 | 399 | 168 | 24 | 568 | 24,725 |
| Asset-backed securities | 2,697 | 803 | 586 | | 104 | 108 | 134 | | 4,432 |
| Commercial mortgage-backed securities | 1,864 | - | - | 100 | 17 | - | - | - | 1,981 |
| Non government backed collateralized mortgage obligations | 555 | 383 | 51 | 276 | 301 | - | - | - | 1,566 |
| Total fixed income securities exposed to credit risk | $ 5,337 | $ 2,275 | $ 8,859 | $ 15,502 | $ 821 | $ 276 | $ 158 | $ 568 | $ 33,796 |
| Percent of total fixed income portfolio | 5.0% | 2.2% | 8.3% | 14.5% | 0.8% | 0.3% | 0.1% | 0.5% | 31.7% |

# Notes to Financial Statements (continued)

The System's exposure to credit risk at June 30, 2018 is presented below, in thousands, by investment category as rated by an NRSRO.

| | Triple-A | Double-A | Single-A | Triple-B | Double-B | Single-B | Triple-C | Not Rated or Rating Not Available | Total |
|---|---|---|---|---|---|---|---|---|---|
| Foreign government bonds | $ - | $ - | $ 229 | $ 494 | $ - | $ - | $ - | $ - | $ 723 |
| Municipal bonds | 144 | 307 | - | 100 | - | - | - | - | 551 |
| Corporate bonds | 157 | 1,905 | 8,973 | 12,006 | 1,260 | 328 | 27 | 1,531 | 26,187 |
| Asset-backed securities | 3,601 | 185 | 232 | 352 | 36 | - | - | - | 4,406 |
| Commercial mortgage-backed securities | 1,404 | - | - | 99 | - | - | - | - | 1,503 |
| Non government backed collateralized mortgage obligations | 312 | 96 | 64 | 108 | 78 | - | - | - | 658 |
| Total fixed income securities exposed to credit risk | $ 5,618 | $ 2,493 | $ 9,498 | $ 13,159 | $ 1,374 | $ 328 | $ 27 | $ 1,531 | $ 34,028 |
| Percent of total fixed income portfolio | 5.4% | 2.4% | 9.1% | 12.6% | 1.3% | 0.3% | 0.0% | 1.5% | 32.6% |

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

| Credit Rating | 2019 | 2018 |
|---|---|---|
| Double-A | 100.0 | 100.0 |
| | 100.0 % | 100.0 % |

## *(d) Concentration of Credit Risk*

Investments can be exposed to concentration of credit risk if significant amounts are invested in any one issuer. The System's investment policy states that portfolios managed on behalf of the System should not hold more than 5% of the outstanding securities of any single issuer. As of June 30, 2019 and 2018, the System did not have 5% or more of its total investments in any single issuer.

## *(e) Interest Rate Risk*

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

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

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

# Notes to Financial Statements (continued)

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Fair Value | Effective duration in years | Fair Value | Effective duration in years |
| U.S. Treasury notes/bonds | $ 39,070,474 | 12.3 | $ 36,773,789 | 11.7 |
| U.S. TIPS index fund | 10,949,128 | 7.5 | 10,428,399 | 7.7 |
| Government agencies | 168,853 | 7.2 | 169,933 | 3.0 |
| Government mortgage-backed securities | 22,908,231 | 4.2 | 22,692,854 | 5.2 |
| Foreign bonds | 565,104 | 9.6 | 723,306 | 9.5 |
| Municipal bonds | 391,476 | 5 | 551,016 | 5.6 |
| Corporate bonds | 24,725,704 | 6.2 | 26,186,899 | 5.4 |
| Asset-backed securities | 4,430,985 | 1.2 | 4,406,250 | 1.1 |
| Commercial mortgage-backed securities | 1,980,500 | 4.9 | 1,502,655 | 4.3 |
| Non government backed collateralized mortgage obligations | 1,565,957 | 1.3 | 658,353 | 2.0 |
| Total fixed income | $ 106,756,412 | | $ 104,093,454 | |
| Portfolio duration | | 7.9 | | 7.6 |

Some investments' sensitivity to changing interest rates may derive from prepayment options embedded in an investment. Asset-backed securities, mortgage-backed securities, and collateralized mortgage obligations are pass-through securities that represent pooled debt obligations repackaged as securities that pass income and principal from debtors through the intermediary to investors. Asset-backed securities are bonds or notes backed by loan paper or accounts receivable originated by banks, credit card companies, or other providers of credit and often enhanced by a bank letter of credit or by insurance coverage provided by an institution other than the issuer. At June 30, 2019 and 2018, the System held $4,430,985 and $4,406,250, respectively, in asset-backed securities.

Mortgage-backed securities are securities backed by mortgages issued by public and private institutions. At June 30, 2019 and 2018, the System held $22,908,231 and $22,692,854, respectively, in government mortgage-backed securities issued by the Federal Home Loan Mortgage Corporation (FHLMC), Government National Mortgage Association (GNMA), and Federal National Mortgage Association (FNMA) as well as $1,980,500 and $1,502,655, respectively, in commercial mortgage-backed securities.

Collateralized mortgage obligations (CMOs) are mortgage-backed bonds that allocate mortgage cash flows (interest and principal) into different maturity classes, called tranches. This is accomplished by dedicating mortgage cash flows to specific tranches and paying each tranche off, in turn by prespecified rules. In return for a lower yield, CMOs provide investors with increased security about the life of their investment compared to purchasing a pass-through mortgage-backed security. If mortgage rates drop (rise) sharply, prepayment rates will increase (decrease), and CMO tranches may be repaid before (after) the expected maturity. At June 30, 2019 and 2018, the System held $1,565,957 and $658,353, respectively in non-government backed CMOs.

# Notes to Financial Statements (continued)

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

| Maturities (in days) | 2019 | 2018 |
|---|---|---|
| 0 - 14 | 35.5 % | 29.1 % |
| 15 - 30 | 4.3 | 12.5 |
| 31 - 60 | 16.8 | 15.2 |
| 61 - 90 | 22.8 | 17.0 |
| 91 - 180 | 12.3 | 11.9 |
| 181 - 364 | 7.0 | 11.1 |
| 365 - 730 | 1.3 | 3.2 |
| | 100.0 % | 100.0 % |

### *(f) Rate of Return*

For the year ended June 30, 2019 and 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 6.11% and 8.35%, respectively, and the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expenses, was 6.06% and 8.68% respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### *(g) Fair Value Measurement*

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The inputs to the three levels of the fair value hierarchy are described as follows:

**Level 1:** Quoted prices in active markets for identical assets or liabilities
**Level 2:** Significant other observable inputs, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets in markets that are not active and other market corroborated inputs
**Level 3:** Significant unobservable inputs

Debt securities classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor.

# Notes to Financial Statements (continued)

Assets measured at fair value and net asset value at June 30, 2019 are as follows:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| **Investments by Fair Value Level** | **6/30/2019** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| **Cash Equivalents by Fair Value Level** | | | | |
| Short-term investment fund | $ 4,238,374 | $ - | $ 4,238,374 | $ - |
| **Investments by Fair Value Level** | | | | |
| U.S. Treasury notes/bonds | $ 39,070,475 | $ - | $ 39,070,475 | $ - |
| Government agencies | 168,853 | - | 168,853 | - |
| Government mortgage-backed securities | 22,908,231 | - | 22,908,231 | - |
| Foreign bonds | 565,104 | - | 565,104 | - |
| Municipal bonds | 391,476 | - | 391,476 | - |
| Corporate bonds | 24,725,704 | - | 24,725,704 | - |
| Asset-backed securities | 4,430,985 | - | 4,430,985 | - |
| Commercial mortgage-backed securities | 1,980,500 | - | 1,980,500 | - |
| Non government backed collateralized mortgage obligations | 1,565,957 | - | 1,565,957 | - |
| Total Investments by Fair Value Level | $ 95,807,285 | $ - | $ 95,807,285 | $ - |
| **Investments Measured at the Net Asset Value (NAV)** | | | | |
| U.S. TIPS index fund | $ 10,949,128 | | | |
| International equity index fund | 95,905,076 | | | |
| U.S. equity index funds | 142,832,148 | | | |
| Total Investments Measured at the NAV | 249,686,352 | | | |
| Securities lending collateral | 12,505,809 | | | |
| Total Investments | $ 357,999,446 | | | |

# Notes to Financial Statements (continued)

Assets measured at fair value and net asset value at June 30, 2018 are as follows:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| **Investments by Fair Value Level** | **6/30/2018** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| **Cash Equivalents by Fair Value Level** | | | | |
| Short-term investment fund | $ 8,053,519 | $ - | $ 8,053,519 | $ - |
| **Investments by Fair Value Level** | | | | |
| U.S. Treasury notes/bonds | $ 36,773,789 | $ - | $ 36,773,789 | $ - |
| Government agencies | 169,933 | - | 169,933 | - |
| Government mortgage-backed securities | 22,692,854 | - | 22,692,854 | - |
| Foreign bonds | 723,306 | - | 723,306 | - |
| Municipal bonds | 551,016 | - | 551,016 | - |
| Corporate bonds | 26,186,899 | - | 26,186,899 | - |
| Asset-backed securities | 4,406,250 | - | 4,406,250 | - |
| Commercial mortgage-backed securities | 1,502,655 | - | 1,502,655 | - |
| Non government backed collateralized mortgage obligations | 658,353 | - | 658,353 | - |
| Total Investments by Fair Value Level | $ 93,665,055 | $ - | $ 93,665,055 | $ - |
| **Investments Measured at the Net Asset Value (NAV)** | | | | |
| U.S. TIPS index fund | $ 10,428,399 | | | |
| International equity index fund | 94,416,865 | | | |
| U.S. equity index funds | 142,676,797 | | | |
| Total Investments Measured at the NAV | 247,522,061 | | | |
| Securities lending collateral | 14,400,776 | | | |
| Total Investments | $ 355,587,892 | | | |

There have been no significant changes in valuation techniques during the fiscal years ended June 30, 2019 and 2018.

Certain investments that do not have a readily determinable fair value are measured at NAV (or its equivalent), such as member units or an ownership interest. NAV per share is calculated as of the System's year-end in a manner consistent with the Financial Accounting Standards Board's measurement principles for investment companies. The valuation method for investments measured at the NAV per share (or its equivalent) is presented in the table below.

| **Investments Measured at the Net Asset Value** | **6/30/2019** | **6/30/2018** | **Redemption Frequency** | **Redemption Notice Period** |
|---|---|---|---|---|
| U.S. TIPS index fund (1) | $ 10,949,128 | $ 10,428,399 | Daily | 2 days |
| International equity index fund (2) | 95,905,076 | $ 94,416,865 | Daily | 2 days |
| U.S. equity index funds (3) | 142,832,148 | $ 142,676,797 | Daily | 1 day |
| | $ 249,686,352 | $ 247,522,061 | | |

(1) **U.S. TIPS index fund** – The US Treasury Inflation Protected Securities fund is an index fund that establishes an objective of delivering investment performance approximating the rate of return for outstanding US Treasury inflation protected securities with a maturity of one year or greater. The investment is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

# Notes to Financial Statements (continued)

(2) **International Equity Index Fund** – The International equity fund consists of an index fund that is designed to track various segments of non-US equity markets. That index fund is the ACWI ex-US Index Fund. The index fund is invested and reinvested in portfolios of non-US developed and emerging markets equity securities, with the objective of approximating the capitalization-weighted return of each respective market segment for publicly traded equity securities. The investment is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

(3) **U.S. Equity Index Funds** – The US equity funds consist of index funds that are designed to track various segments of US equity markets. Those index funds include the Russell 1000 Index Fund and the Russell 2000 Index Fund. The index funds are invested and reinvested in portfolios of US equity securities, with the objective of approximating the capitalization-weighted return of each respective market segment for publicly traded equity securities. The investment is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

The System had no unfunded commitments related to investments measured at NAV as of June 30, 2019 and 2018.

## (6) Net Pension Asset, Net OPEB Asset and Actuarial Information

### *(a) Net Pension Asset and Net OPEB Asset*

The components of the net pension asset of the employer at June 30 were as follows:

| | 2019 | 2018 |
|---|---|---|
| Total pension liability | $ 305,801,494 | $ 290,379,164 |
| Plan fiduciary net position | $ 344,205,778 | $ 334,896,669 |
| Employer's net pension asset | $ (38,404,284) | $ (44,517,505) |
| Plan fiduciary net position as a percentage of the total pension liability | 112.56% | 115.33% |

The components of the net OPEB asset of the employer at June 30 were as follows:

| | 2019 | 2018 |
|---|---|---|
| Total OPEB liability | $ 2,813,691 | $ 2,724,325 |
| OPEB plan fiduciary net position | $ 3,317,718 | $ 3,138,717 |
| Employer's net OPEB asset | $ (504,027) | $ (414,392) |
| Plan fiduciary net position as a percentage of the total OPEB liability | 117.91% | 115.21% |

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

The total pension liability and total OPEB liability as of June 30, 2019 and 2018, were determined based on actuarial valuations prepared as of July 1, 2019 and July 1, 2018, using the following actuarial assumptions:

- Salary increases – 3.75% per year, including inflation
- Post-retirement benefit increases – No increases assumed
- Investment return – 7.00%, compounded annually net of investment expense, and including inflation
- Assumed inflation rate – 2.75%
- Payroll growth – 3.5% per year

# Notes to Financial Statements (continued)

- Actuarial cost method—Entry age
- Mortality Rates – RP-2014 Blue Collar Active/Retiree Healthy Mortality Table with base rates projected to 2025 using scale MP-2016, set back one year

The actuarial assumptions used in the July 1, 2019 and July 1, 2018 valuations are based on the results of the most recent actuarial experience study, which covered the three-year period ending June 30, 2016. The experience study report is dated April 13, 2017.

The long-term expected rate of return on pension plan investments and OPEB plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The HISP represents a subsidy that is capped at $105 per month per retiree.

The target asset allocation and best estimates of arithmetic real rates of return for each major class, as used in the June 30, 2016 experience study, are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| U.S. Large Cap Equity | 38.0% | 3.8% |
| U.S. Small Cap Equity | 6.0% | 4.9% |
| Non-US Equity | 24.0% | 9.2% |
| U.S. Fixed | 32.0% | 1.4% |
| Total | 100.0% | |

## *(c) Discount rate*

The discount rate used to measure the total pension liability and the total OPEB liability was 7.00% for 2019 and 2018. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employer will be made at the current contribution rate as set out in state statute. Based on those assumptions, the pension plan's fiduciary net position and the OPEB plan's fiduciary net position were to be available to make all projected future benefit payments of current System members. Therefore, the long-term expected rate of return on pension plan and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total OPEB liability. The discount rate determined does not use a municipal bond rate.

**Sensitivity of the net pension asset and the net OPEB asset to changes in the discount rate**

The following presents the net pension liability or asset of the employer calculated using the discount rate of 7.00% for 2019 and 2018, as well as what the System's net pension liability or asset would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

| | June 30, 2019 | | | June 30, 2018 | | |
|---|---|---|---|---|---|---|
| | 1% Decrease (6.00%) | Current Discount Rate (7.00%) | 1% Increase (8.00%) | 1% Decrease (6.00%) | Current Discount Rate (7.00%) | 1% Increase (8.00%) |
| Net pension asset | $ (10,565,510) | $ (38,417,466) | $ (62,609,784) | $ (17,603,364) | $ (44,517,505) | $ (67,901,821) |

# Notes to Financial Statements (continued)

The following presents the net HISP liability or asset of the employer calculated using the discount rate of 7.00% for 2019 and 2018, as well as what the System's net HISP liability or asset would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

| | June 30, 2019 | | | June 30, 2018 | | |
|---|---|---|---|---|---|---|
| | 1% Decrease (6.00%) | Current Discount Rate (7.00%) | 1% Increase (8.00%) | 1% Decrease (6.00%) | Current Discount Rate (7.00%) | 1% Increase (8.00%) |
| Net HISP liability (asset) | $ (272,683) | $ (504,151) | $ (707,553) | $ (188,240) | $ (414,392) | $ (613,498) |

Due to the structure of the HISP, healthcare cost trend rate sensitivity analysis is not meaningful.

## (7) Federal Income Tax Status

Pursuant to a determination by the IRS, the System 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 28, 2014 and was a favorable determination for the Uniform Retirement System for Justices and Judges. The System has been amended since receiving the determination letter; however, the System administrator believes that the System 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.

## (8) New Accounting Pronouncements

The following GASB statements were implemented during the fiscal year:

GASB Statement No. 83, *Asset Retirement Obligations*, requires a liability to be recognized if a government is subjected to a law, regulation, court judgment or similar requiring a liability, or funding of a liability. The provisions of the Standard did not apply to the System.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* redefined the word 'debt' for disclosure purposes and requires recognition of direct borrowings and direct placements. The provisions of the Standard did not have a material effect on the System's current disclosure.

Fiscal Year Ended June 30, 2020 (and beyond):

GASB Statement No. 84, *Fiduciary Activities*, clarifies fiduciary relationships and reporting. The System is analyzing the effect of this Statement.

GASB Statement No. 87*, Leases*, changes reporting of nearly all leasing arrangements for lessors and lessees. The System is analyzing the effect of this Statement.

GASB Statement No. 89, *Accounting for Interest Cost before the End of a Construction Period*, removes the GAAP related to capitalization of interest costs. The Standard will likely not apply as the System has not issued in the past, and currently does not issue debt for construction of capital assets.

# Notes to Financial Statements (continued)

GASB Statement No. 90, *Majority Equity Interests*, clarifies reporting of when a government has a majority equity position in another entity, which may result in the equity method of reporting or a component unit relationship. This Statement will likely not apply as the System is precluded by State statute from holding a majority equity position in another entity.

GASB Statement No. 91, *Conduit Debt Obligations*, clarifies the reporting of conduit debt. The Standard will not apply to the System as the System does not issue such obligations, nor is it a party to such obligations.

# Required Supplementary Information

(Unaudited)

June 30, 2019

**Schedule 1**

## Schedule of Changes in the Net Pension Asset ($ in Thousands)

| Year Ended June 30, | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| **Total Pension Liability** | | | | | | |
| Service cost | $ 9,003 | $ 8,897 | $ 10,085 | $ 9,689 | $ 9,602 | $ 9,489 |
| Interest | 19,623 | 19,162 | 19,229 | 19,341 | 18,812 | 18,529 |
| Difference between expected and actual experience | 7,246 | (2,004) | (6,664) | (7,480) | (4,598) | (7,597) |
| Changes of assumptions | - | - | 3,979 | 5,843 | - | (1,046) |
| Benefit payments | (20,384) | (18,462) | (17,648) | (17,198) | (16,093) | (14,940) |
| Refunds of contributions | (66) | (52) | (89) | (161) | (111) | (57) |
| **Net change in total pension liability** | 15,422 | 7,541 | 8,892 | 10,034 | 7,612 | 4,378 |
| **Total pension liability - beginning** | 290,379 | 282,838 | 276,434 | 266,400 | 258,788 | 254,409 |
| **Adoption of GASB 74** | - | - | (2,488) | - | - | - |
| **Total pension liability - ending (a)** | $ 305,801 | $ 290,379 | $ 282,838 | $ 276,434 | $ 266,400 | $ 258,787 |
| **Plan Fiduciary Net Position** | | | | | | |
| Contributions - employer | $ 7,146 | $ 6,504 | $ 6,013 | $ 5,832 | $ 5,295 | $ 4,611 |
| Contributions - member | 2,666 | 2,608 | 2,664 | 2,666 | 2,706 | 2,544 |
| Net investment income | 20,115 | 26,189 | 36,312 | 1,441 | 8,174 | 46,212 |
| Benefit payments | (20,384) | (18,461) | (17,648) | (17,198) | (16,093) | (14,940) |
| Administrative expense | (169) | (154) | (153) | (149) | (144) | (132) |
| Refunds of contributions | (65) | (52) | (89) | (161) | (111) | (57) |
| **Net change in plan fiduciary net position** | 9,309 | 16,634 | 27,099 | (7,569) | (173) | 38,238 |
| **Plan fiduciary net position - beginning** | 334,897 | 318,263 | 293,727 | 301,296 | 301,469 | 263,231 |
| **Adoption of GASB 74** | - | - | (2,563) | - | - | - |
| **Plan fiduciary net position - ending (b)** | 344,206 | 334,897 | 318,263 | 293,727 | 301,296 | 301,469 |
| **Net pension asset - ending (a) - (b)** | $ (38,405) | $ (44,518) | $ (35,425) | $ (17,293) | $ (34,896) | $ (42,682) |

## Schedule of the Net Pension Asset ($ in Thousands)

| Year Ended June 30, | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| Total pension liability | $ 305,801 | $ 290,379 | $ 282,838 | $ 276,434 | $ 266,400 | $ 258,787 |
| Plan fiduciary net position | 344,206 | 334,897 | 318,263 | 293,727 | 301,296 | 301,469 |
| Net pension asset | $ (38,405) | $ (44,518) | $ (35,425) | $ (17,293) | $ (34,896) | $ (42,682) |
| Ratio of plan fiduciary net position to total pension liability | 112.56% | 115.33% | 112.52% | 106.26% | 113.10% | 116.49% |
| Covered payroll | $ 33,839 | $ 33,359 | $ 34,811 | $ 34,537 | $ 34,282 | $ 34,326 |
| Net pension asset as a % of covered payroll | -113.49% | -133.45% | -101.76% | -50.07% | -101.79% | -124.34% |

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the information included is for those years for which information is available.

*2016 and prior columns have not been restated for the effect of the adoption of GASB Statement No. 74

Discount Rate as of 2019 and 2018 was 7.00%

# Required Supplementary Information

**Schedule of Pension Employer Contributions** ($ in Thousands)

(Unaudited)

June 30, 2019

**Schedule 2**

| Year Ended June 30, | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| Actuarially determined employer contribution | $ 352 | $ 1,638 | $ 3,626 | $ 3,454 | $ 4,897 | $ 7,215 |
| Actual employer contributions | 7,146 | 6,504 | 6,013 | 5,832 | 5,295 | 4,611 |
| Annul contribution deficiency (excess) | $ (6,794) | $ (4,866) | $ (2,387) | $ (2,378) | $ (398) | $ 2,604 |
| Covered payroll | $ 33,839 | $ 33,359 | $ 34,811 | $ 34,537 | $ 34,282 | $ 34,326 |
| Actual contributions as a % of covered payroll | 21.12% | 19.50% | 17.27% | 16.89% | 15.45% | 13.43% |

* Covered payroll beginning in 2017 is for the defined benefit plan members only. Note: 2017 was the first year to exclude the health insurance subsidy.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the information included is for those years for which information is available.

**Notes to Schedule**

Valuation date:

Actuarially determined contributions are calculated as of the beginning of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

| | |
|---|---|
| Actuarial cost method | Entry age |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 9 years |
| Asset valuation method | 5-year smoothed market |
| Inflation | 2.75% for 2019, 2018 and 2017, 3.00% for 2016 and 2015 |
| Salary increase | 3.75% for 2019, 3.75% for 2018 and 2017, 5.00% for 2016 and 2015, including inflation |
| Investment rate of return | 7.00% for 2019, 7.00% for 2018 and 2017, 7.25% for 2016 and 7.50% for 2015, compounded annually, net of investment expense and including inflation |
| Retirement age | Age 67 with eight years of judicial service or age 62 with 10 years of judicial service for judges taking office on or after January 1, 2012. Age 65 with eight years of judicial service or age 60 with 10 years of judicial service for judges taking office prior to January 1, 2012. |
| Mortality | For 2019 and 2018, active participants and nondisabled pensioners – RP-2014 Mortality Table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years). For 2016 and 2015, RP-2000 Combined Active/Retired Healthy Mortality Table projected to 2010, set back one year |

# Required Supplementary Information

**Schedule of Money-Weighted Rate of Return on Pension Plan Investments**

(Unaudited)

June 30, 2019

**Schedule 3**

| **Annual money-weighted rate of return, net of investment expense** | |
|---|---|
| Year ended June 30, 2019 | 6.11% |
| Year ended June 30, 2018 | 8.35% |
| Year ended June 30, 2017 | 12.68% |
| Year ended June 30, 2016 | 0.49% |
| Year ended June 30, 2015 | 2.75% |
| Year ended June 30, 2014 | 17.83% |

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the information included is for those years for which information is available.

# Required Supplementary Information

(Unaudited)

June 30, 2019

**Schedule 4**

## **Schedule of Changes in the Net HISP Asset** ($ in Thousands)

| Year Ended June 30, | 2019 | 2018 | 2017 |
|---|---|---|---|
| **Total HISP Liability** | | | |
| Service cost | $ 115 | $ 112 | $ 122 |
| Interest | 183 | 183 | 174 |
| Difference between expected and actual experience | (11) | (88) | (13) |
| Changes of assumptions | - | - | 107 |
| Benefit payments | (197) | (182) | (179) |
| **Net change in total HISP liability** | 90 | 25 | 211 |
| **Total HISP liability - beginning** | 2,724 | 2,699 | 2,488 |
| **Total HISP liability - ending (a)** | $ 2,814 | $ 2,724 | $ 2,699 |
| **Plan Fiduciary Net Position** | | | |
| Contributions - employer | $ 187 | $ 180 | $ 178 |
| Net investment income | 190 | 251 | 330 |
| Benefit payments | (197) | (182) | (179) |
| Administrative expense | (1) | (1) | (1) |
| **Net change in plan fiduciary net position** | 179 | 248 | 328 |
| **Plan fiduciary net position - beginning** | 3,139 | 2,891 | 2,563 |
| **Plan fiduciary net position - ending (b)** | 3,318 | 3,139 | 2,891 |
| **Net HISP asset - ending (a) - (b)** | $ (504) | $ (415) | $ (192) |

## **Schedule of the Net HISP Asset** ($ in Thousands)

| Year Ended June 30, | 2019 | 2018 | 2017 |
|---|---|---|---|
| Total HISP liability | $ 2,814 | $ 2,724 | $ 2,699 |
| Plan fiduciary net position | 3,318 | 3,139 | 2,891 |
| Net HISP asset | $ (504) | $ (415) | $ (192) |
| Ratio of plan fiduciary net position to total HISP liability | 117.92% | 115.21% | 107.10% |
| Covered payroll* | N/A | N/A | N/A |
| Net HISP asset as a percentage of covered payroll | N/A | N/A | N/A |

*Covered Payroll is not meaningful to formulate a ratio of net HISP liability as a percentage of covered payroll. Contributions are only received from employers.

Discount Rate as of June 30, 2019 and 2018 was 7.00%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the information included is for those years for which information is available.

# Required Supplementary Information

## **Schedule of HISP Employer Contributions** ($ in Thousands)

(Unaudited)

June 30, 2019

**Schedule 5**

| Year Ended June 30, | 2019 | 2018 | 2017 |
|---|---|---|---|
| Actuarially determined employer contribution | $ 3 | $ 15 | $ 35 |
| Actual employer contributions | 187 | 180 | 178 |
| Annul contribution deficiency (excess) | $ (184) | $ (165) | $ (143) |
| Covered payroll* | N/A | N/A | N/A |
| Actual contributions as a % of covered payroll | N/A | N/A | N/A |

*Covered Payroll is not meaningful to formulate a ratio of net HISP asset as a percentage of covered payroll. Contributions are only received from employers.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the information included is for those years for which information is available.

**Notes to Schedule**

Valuation date:

Actuarially determined contributions are calculated as of the beginning of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

| | |
|---|---|
| Actuarial cost method | Entry age |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 9 years |
| Asset valuation method | 5-year smoothed market |
| Inflation | 2.75% |
| Salary increase | 3.75%, including inflation |
| Investment rate of return | 7.00%, compounded annually, net of investment expense and including inflation |
| Retirement age | Age 67 with eight years of judicial service or age 62 with 10 years of judicial service for judges taking office on or after January 1, 2012. Age 65 with eight years of judicial service or age 60 with 10 years of judicial service for judges taking office prior to January 1, 2012. |
| Mortality | Active participants and nondisabled pensioners – RP-2014 Mortality Table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years) |

# Required Supplementary Information

**Schedule of Money-Weighted Rate of Return on HISP Investments**

(Unaudited)

June 30, 2019

**Schedule 6**

| Annual money-weighted rate of return, net of investment expense | |
|---|---|
| Year ended June 30, 2019 | 6.06% |
| Year ended June 30, 2018 | 8.68% |
| Year ended June 30, 2017 | 12.89% |

# Supplementary Information

**Schedule of Investment Expenses**

Year Ended June 30, 2019 and 2018

**Schedule 7**

| | 2019 | 2018 |
|---|---|---|
| **Investment management fees** | | |
| Fixed Income Managers: | | |
| BlackRock Financial Management, Inc. | $ 40,882 | $ 40,319 |
| Hoisington Investment Management | 15,752 | 15,671 |
| Metropolitan West Asset Management, LLC | 28,184 | 27,867 |
| U.S. Equity Managers: | | |
| BlackRock Institutional Trust Company, N.A. | 16,620 | 16,378 |
| International Equity Managers: | | |
| BlackRock Institutional Trust Company, N.A. | 19,551 | 40,892 |
| Total investment management fees | 120,989 | 141,127 |
| **Investment consultant fees** | | |
| Verus Advisory, Inc. | 7,198 | 7,161 |
| **Investment custodial fees** | | |
| Northern Trust Company | 1,350 | 1,345 |
| **Other investment related expenses** | 5,892 | 5,582 |
| Total investment expenses | $ 135,429 | $ 155,215 |

## Schedule of Administrative Expenses
Year Ended June 30, 2019 and 2019
**Schedule 8**

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Professional / consultant services | $ | 17,097 | $ | 8,623 |
| Allocated administrative expenses (see note below) | | 153,056 | | 147,043 |
| | $ | 170,153 | $ | 155,666 |

**Note to Schedule of Administrative Expenses**

Administrative overhead expenses, including personnel and other supporting services costs, which are paid for by the Oklahoma Public Employees Retirement System (OPERS), are allocated to the Uniform Retirement System for Justices and Judges and two other retirement funds also administered by OPERS. The allocation is based on OPERS' estimate of the cost of service provided by the Plan to all the funds it administers.

# Supplementary Information

## Schedule of Professional/Consultant Fees

Years Ended June 30, 2019 and 2018

**Schedule 9**

| Professional/Consultant | Service | 2019 | 2018 |
|---|---|---|---|
| Cavanaugh Macdonald Consulting, Inc. | Actuarial | $ 2,725 | $ 2,294 |
| Arledge & Associates | External Auditor | 958 | 901 |
| Eide Bailly LLP | External Auditor | 1,838 | 1,788 |
| Finley & Cook, PLLC | Internal Auditor | 4,887 | 3,640 |
| Gartner Inc. | IT Consulting | 3,729 | - |
| ImageNet | IT Consulting | 2,665 | - |
| OMES-Communications | IT Consulting | 295 | - |
| | | $ 17,097 | $ 8,623 |

# INVESTMENT

## ESTABLISHED SEASON

By this season, you are established in your career and have set good saving habits. Your accumulation of knowledge and rich experiences are a reminder of a life lived to its fullest. Living within your means will create the freedom to pursue life-long dreams in the retirement season.

Verus

# Investment Consultant's Report

### Investment Objectives

The primary financial objective for Uniform Retirement System for Justices and Judges (URSJJ) is to earn a long-term return sufficient to avoid deterioration in funded status. The System's actuary estimates this return requirement to be 7.0% while its investment consultant estimates the return requirement to be 6.0% for the fiscal year ended June 30, 2019. It is important to note that Verus uses a 10-year investment horizon whereas actuarial consultants use a much longer time horizon in developing forecasts, typically 30 years.

The secondary goals for URSJJ are to outperform the asset allocation-weighted benchmark and target a median ranking in the universe of large 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 | 6/30/19 ALLOCATION | LOW | TARGET | HIGH | % PASSIVE OR SEMI-PASSIVE |
|---|---|---|---|---|---|
| **U.S. EQUITY** | 41.1% | 34.4% | 40.0% | 45.6% | 100.0% |
| **FIXED INCOME** | 31.0% | 27.5% | 32.0% | 36.5% | 58.9% |
| **INT'L EQUITY** | 27.6% | 25.0% | 28.0% | 31.0% | 100.0% |
| **CASH** | 0.3% | 0.0% | 0.0% | 0.0% | 0.0% |

## Review of Fiscal Year 2019 Investment Environment

### U.S. Equity

U.S. equities delivered strong returns over the trailing 1-year period ending in June; the S&P 500 Index returned +10.4%, weathering a healthy degree of volatility along the way. Last December, trade uncertainty and a decision from the Federal Reserve to hike interest rates helped to spark a -19.8% decline in the S&P 500 Index from previous peak levels, just shy of the -20.0% drawdown that indicates a technical bear market. Year-to-date, U.S. large-cap equities have led global equity markets higher, and the S&P 500 Index advanced +18.5%, nearly recovering from the selloff at the end of 2018.

In recent decades, equity and bond markets have benefited from Federal Reserve support during periods of market stress. In late 2018 and the first half of 2019 some weakness appeared in the U.S. economy and markets grew shaky. During this time the Fed stepped in, indicating much easier monetary policy, which has boosted asset prices. Many investors have expressed concern regarding the level of the current (cycle-high) fed funds range relative to past business cycle highs. This has left many to ask how impactful further central bank easing might be as U.S. interest rates approach zero.

A variety of secular trends have helped cultivate a supportive environment for U.S. stocks. Technological advances, lower interest rates, and falling corporate tax rates have all helped to boost corporate profit margins to record highs. As earnings expectations moderate, these margins may be increasingly scrutinized by investors. Per FactSet, the estimated year-over-year revenue and earnings growth for the S&P 500 Index in the second quarter are +3.7% and -3.0% respectively. At the end of the first quarter, expectations called for revenue and earnings growth of +4.5% and -0.5%, respectively, indicating that analysts' expectations fell markedly over the second quarter.

### International Equity

International equities underperformed domestic stocks as U.S. exceptionalism remained the story. For the year ending June 30th, 2019, the S&P 500 Index delivered a +10.4% return, outpacing the MSCI ACWI Index (+5.7%), the MSCI Emerging Markets Index (+1.2%), and the MSCI EAFE Index (+1.1%). Within emerging market equities, Latin American equities (MSCI EM Latin America +18.4%) diverged from Asian equities (MCSI EM Asia -2.3%), likely aided by lower levels of economic exposure to the Chinese economy, which in Q2 grew only +6.2% from the prior year, its lowest rate since 1992.

Interest rate differentials between U.S. Treasuries and sovereign bonds in Europe and Japan widened as the Federal Reserve hiked rates while the European Central Bank and the Bank of Japan held rates steady. Expanding interest rate differentials likely contributed to the strength of the U.S. dollar over the period, which presented headwinds for unhedged investors in international equities. The only major international developed currency which strengthened vs. the dollar over the trailing year was the Japanese yen. The yen firmed up +2.8% relative to the dollar, mostly due to risk-off currency flows during the market selloff in the 4th quarter of 2018, where international investors sought safe-haven in the Japanese currency. Elsewhere, the British pound sterling weakened as uncertainty surrounding Brexit continued to drive trading in the currency.

### Fixed Income

Late last year, the Federal Reserve tightened monetary policy further with 0.25% rate hikes in September and December, bringing the target range for federal funds to 2.25% - 2.50%. In December, escalating geopolitical tensions and expectations for slowing global growth weighed on market sentiment, and despite the Fed cutting its guidance for additional rate hikes in 2019 from three to two, markets sold off. Moving into 2019, the Fed pivoted to a much more dovish stance, starting by clarifying its "patient approach" to future rate hikes, walking back its previous commitment to "further gradual increases". In March, the Fed announced its balance sheet "normalization" process would unwind faster than originally anticipated, which effectively eased financial conditions by creating additional market liquidity. Finally, in June the Fed pledged to "act as appropriate to sustain the expansion", an initiative unsupported by the Fed's mandate targeting maximum employment, stable prices, and moderate long-term interest rates. Analysts viewed the Fed's language as effective in preparing markets for a 0.25% cut during its July meeting, and perhaps another 0.25%-0.50% in cuts by the end of the calendar year.

The shift to more accommodative monetary policy is not a phenomenon unique to the Fed – the European Central Bank, the Bank of Japan, and others have also changed their tune, citing benign inflation pressures and an uncertain geopolitical backdrop as justification for lower rates. Still, with U.S. unemployment near 50-year lows and equities near all-time highs, some analysts have expressed concern over the strength of the Fed's stimulus measures should a recession rear its head.

Falling ten-year sovereign yields were one of the biggest stories driving markets over the year. Ten-year Treasury yields reached as high as +3.2% in November but ended Q2 2019 at +2.0%. Long-duration U.S. Treasuries were top performers in the U.S., gaining +12.3% over the year and benefitting from precipitous declines in yields. Hard-currency emerging market debt (+12.4%) was the top fixed income performer over the year, and outperformed local-currency EMD (+9.0%), mostly due to a period of emerging market currency weakness last summer. In Europe, yields on many ten-year sovereign bonds established fresh all-time lows with German yields falling from 0.3% to -0.3% and French yields falling from 0.7% to 0.0%. In Italy, yields fell from 2.6% to 2.1%, but spiked as high as 3.6% in the fourth quarter of last year due to concerns that the sitting coalition government would not respect the fiscal budget deficit limits enforced by the European Union. Over the year, the value of global negative-yielding debt rose from $8.16 trillion to $12.92 trillion.

In U.S. credit, high yield and investment grade spreads remained near cycle tights at 3.77% and 1.15%. The BBgBarc U.S. High Yield Corporate Index and BBgBarc U.S. Agg Corporate Index returned 7.5% and 7.9% over the period, respectively.

## Portfolio Review

The Board adopted a new asset allocation in fiscal year 2017, pursuant to an asset/liability study. The Board has maintained the same strategic asset allocation since that time. URSJJ is scheduled to conduct its next asset/liability study in 2020 which could potentially result in an asset allocation change.

## 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. URSJJ targets a median return within peer comparisons over longer periods of time.

Investment returns achieved through June 30, 2019 have been calculated using a time-weighted rate of return methodology based upon market values, as shown in the following table, for the 1, 3 and 5-year annualized time periods ended June 30, 2019. The U.S. Equity asset class, with its passive implementation, matched the return of its respective blended benchmark for the 3 and 5-year time periods and slightly lagged over the 1-year period. The Non-U.S. Equity asset class, which also is implemented using passive managers, slightly lagged its benchmark for the 1, 3 and 5-year annualized time periods ended June 30, 2019. The Fixed Income asset class performed above the benchmark for the 1, 3 and 5-year annualized time periods for the fiscal year end. During a fiscal year where bonds broadly performed well, OPERS' fixed income composite had strong absolute and relative returns, in particular from its long duration manager.

The Domestic Equity asset class was ranked above median in its peer universe for the 5-year annualized periods ended June 30 and was in line with the median for the 3-year period. The Non-U.S. Equity asset class was ranked above median in its universe for the 3-year time period, and below median in the 5-year time period. The Fixed Income asset class was ranked in the top quartile of its universe for the 1-year period, in the third quartile for the 3-year time period, and in the second quartile for the 5-year period compared to its peer group. OPERS' fixed income asset class structure is more conservative than many of its large plan peers.

The total URSJJ Plan was below its Policy Benchmark for the 1-year time period ended June 30, 2019 and performed in line with its Policy Benchmark for the annualized 3 and 5-year time period ended June 30. The ranking for the total URSJJ Plan was in the second quartile for the 3, and 5-year periods ended June 30, 2019 compared to the peer universe of Public Funds.

# Chief Investment Officer's Report

**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

Dear Members:

The Fund's total return of 6.1% for fiscal year 2019 was below the 7% long-term return target and below the 6.7% return of the policy portfolio. Capital market returns in the U.S. carried the day, as the equity markets continued this historic bull run. But it was the U.S. fixed income markets that provided the highest overall contribution to the total return of the Fund for the period. Non-U.S. equity markets lagged the U.S., but still provided positive total returns in U.S. dollar terms for the period. We endeavor to build a durable portfolio that will weather tumultuous market conditions. Maintaining diversification among asset classes and geographical regions is a critical component of that effort. We also de-emphasize active management in the portfolio, as demonstrated by our large holdings of index funds. This year's letter, which covers the 2019 fiscal year, will follow the same format as in years past. First, I will discuss the general economic environment and the performance of various markets throughout the fiscal year. Next, I will focus on the Fund by reviewing the investment performance and the asset allocation. Then, I will offer an investment outlook and discuss recent events at the Fund. Finally, I will review the Fund's investment philosophy and guiding principles, because both are critically important to the investment decision-making process.

**Economic Environment**

The Gross Domestic Product (GDP), the primary gauge for economic activity in the U.S., entered the eleventh year of expansion since the Great Recession ended in 2009. U.S. GDP posted an annual growth rate of 2.0% in the second quarter. Spending by consumers surged, supported by the lowest unemployment rate in almost fifty years, rising wealth from stock market gains, and favorable consumer sentiment. The strength in consumer spending was offset by declining exports and weakness in the industrial, manufacturing, and housing sectors. The U.S. Administration and China continued to antagonize each other with rhetoric on trade and by each placing reciprocal tariffs on the other's products. The U.S. dollar strengthened relative to the rest of the developed world's currencies. Note that a stronger dollar makes U.S. exports more expensive in other countries. The Federal Reserve raised the Fed Funds rate twice during the fiscal year, to 2.5%. However, the trade dispute, geopolitical risks, and a global economic slowdown caused the Fed to reverse course and reduce rates in July 2019. Fed Chairman Powell stated the Fed would "act as appropriate" to preserve the economic expansion in the U.S.

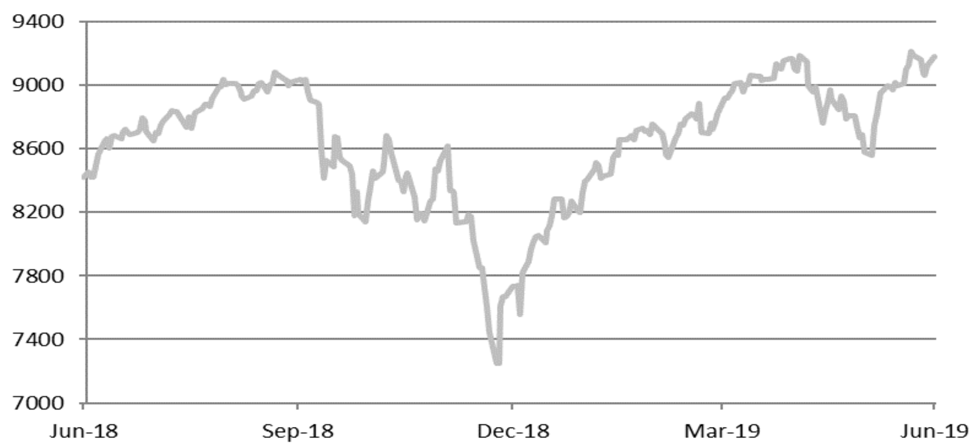
Economic activity in the European Union continued to slow on a year-over-year and quarter-over-quarter basis during the fiscal year. GDP growth for the Eurozone was just 0.2% for the second quarter of 2019. Eurozone GDP growth suffered on the potential for a global trade war, Brexit uncertainty, and reduced exports. The German economy, the largest in the Euro block, contracted on reduced industrial activity and exports. The European Central Bank (ECB) continued its stimulative measures, holding short-term rates at 0% and continuing to implement quantitative easing to lower long-term interest rates. The ECB also slashed its forecasted growth rate and inflation expectations for the Euro Zone. The United Kingdom's economic prospects have been dimmed by Brexit turmoil. Japan's quarterly economic growth was 0.3% percent in the second quarter of 2019. The trade war with the U.S. sapped economic strength in China, as the 6.3% annual GDP growth rate was the lowest it has been in nearly 30 years. GDP growth reflected lower import and export activity from trade protectionism in addition to declining domestic demand.

# Chief Investment Officer's Report

### U.S. and Global Stock Markets

The U.S. stock market, as measured by the Russell 3000 Index, continued to perform well during the fiscal year. The Russell 3000 Index is one of the broadest equity indices available and a good proxy for the U.S. equity market as a whole. Surging profitability by companies in the U.S. and corporate tax cuts lent support to the equity market index returns for the period.

**Change in the Russell 3000 Index during the fiscal year ended June 30, 2019**
Value at 6/30/19 9,180.3
Value at 6/30/18 8,423.6




**Source: FTSE Russell**

The Russell 3000 ended the one-year period through June 30, 2019, up 8.98%, despite a spike in volatility towards the end of the calendar year. While economic activity in the U.S. continued to offer support to earnings growth in general, the stock market sold off precipitously in the fourth quarter. The tariff-driven trade wars with China, Europe and Mexico, along with a ballooning federal budget deficit, contributed to uncertainty and an erosion of confidence in the business and consumer sectors. Large capitalization stocks performed especially well compared to small capitalization stocks over the one-year period ended June 30. The Russell 1000 index (large cap stocks) returned over 10%, while the Russell 2000 index (small cap stocks) lost over 3% over the period. The market again rewarded risk taking during the period, but this time in the largest companies with relatively less sensitivity to the general economy. Shares in sectors of the market with the least economic sensitivity, like utility stocks and consumer staples companies, performed well for the period, and technology shares continued to rise. The rest of the developed world continued to underperform the U.S. equity market on a U.S. dollar basis. The MSCI All Country World Index ex-U.S. (ACWI ex-U.S. Index), which includes developed and emerging markets, gained 1.29% (net) in U.S. dollar terms for the fiscal year. The U.S. dollar continued to strengthen relative to many other foreign currencies, which detracted from gains experienced by U.S. dollar investors in foreign markets. Emerging market returns in U.S. dollar terms were comparable to non-U.S. developed market returns.

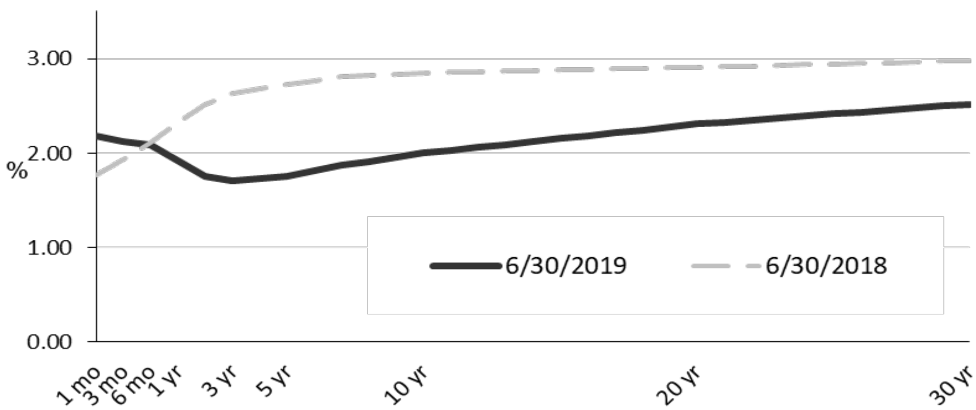
### Interest Rates

The chart on the next page depicts the U.S. Treasury term structure of interest rates. The yield curve is a graphical representation of yield levels across the spectrum of bond maturities. As shown, interest rate levels declined in the "belly" of the curve over the period, causing the yield curve to invert. For most of the fiscal year, the Federal Reserve continued on the path towards interest rate normalization by raising the Fed Funds rate twice during the fiscal year. The Fed Funds Rate stood at a range of 2.25%- 2.50% at the end of the fiscal year. The Federal Reserve then reversed course and began an easing cycle on fears that slowing economies outside of the U.S. would cause the economic expansion to stall in the U.S.

# Chief Investment Officer's Report

Outside of the U.S., yields continued to be low, and even negative in Japan and Germany. Geopolitical risks associated with Brexit have caused great uncertainty in Europe, and central banks have continued to be accommodative.

**U.S. Treasury Yield Curve**




**Source: U.S. Treasury**

**Investment Returns Through June 30, 2019**

| U.S. Equity | Style | 1 Year | 3 Years | 5 Years |
|---|---|---|---|---|
| Russell 3000 | Broad U.S. Equity | 8.98% | 14.02% | 10.19% |
| S&P 500 | Large Cap Equity | 10.42% | 14.19% | 10.71% |
| Russell 1000 | Large Cap Equity | 10.02% | 14.15% | 10.45% |
| Russell 1000 Growth | Large Cap Growth | 11.56% | 18.07% | 13.39% |
| Russell 1000 Value | Large Cap Value | 8.46% | 10.19% | 7.46% |
| Russell 2000 | Small Cap Equity | -3.31% | 12.30% | 7.06% |
| Russell 2000 Growth | Small Cap Growth | -0.49% | 14.69% | 8.63% |
| Russell 2000 Value | Small Cap Value | -6.24% | 9.81% | 5.39% |
| **Uniform Retirement System for Justices & Judges** | **Broad U.S. Equity** | **7.75%** | **13.85%** | **9.98%** |

| U.S. Fixed Income | Style | 1 Year | 3 Years | 5 Years |
|---|---|---|---|---|
| ML 3-Month T-Bill | Cash | 2.27% | 1.33% | 0.83% |
| Barclays U.S. Aggregate | Core Bonds | 7.87% | 2.31% | 2.95% |
| Citigroup 20-year Treasury Average | Long Term Bonds | 12.22% | 1.23% | 5.94% |
| Barclays Corporate High Yield | High Yield Bonds | 7.48% | 7.52% | 4.70% |
| **Uniform Retirement System for Justices & Judges** | **Domestic Fixed Income** | **8.41%** | **2.54%** | **3.43%** |

| International Equity | Style | 1 Year | 3 Years | 5 Years |
|---|---|---|---|---|
| MSCI ACWI Ex-US | Broad Non-US Equity | 1.29% | 9.39% | 2.16% |
| MSCI EAFE | Developed Non-US Equity | 1.08% | 9.11% | 2.25% |
| MSCI Emerging Market | Emerging Non-US Equity | 1.21% | 10.66% | 2.49% |
| **Uniform Retirement System for Justices & Judges** | **Non-U.S. Equity** | **1.58%** | **9.73%** | **2.47%** |

| | | | | |
|---|---|---|---|---|
| **Uniform Retirement System for Justices & Judges** | **Total Fund** | **6.21%** | **9.05%** | **6.04%** |

# Chief Investment Officer's Report

**Source: Various index providers, including FTSE Russell, S&P, Barclays, Citigroup, and MSCI. URSJJ returns were calculated using the BAI Iterative method (as such returns are time-weighted) and are gross of investment fees.**

## Investment Performance

### Bull market continued

The Fund produced a total return of 6.21% for the period gross of fees (6.18% net of fees) which underperformed the policy benchmark portfolio by 46 basis points for the period. While most of the Fund follows a passive investment management style, the contribution from active management was accretive to overall results. Active management is used in the fixed income asset class, but not in the domestic or international equity portfolios.

The Fund benefited from robust absolute returns from the U.S. market, in both fixed income and equity market exposures. These two segments of the portfolio returned in excess of the 7% required return for the period and were the primary drivers of the Fund's overall results. Non-U.S. equity market returns were positive, but performed well below the required return-rate hurdle.

### U.S. Equity

The Fund uses passive index investment management for the entire U.S. equity portfolio. Passive investment management is an efficient and cost effective way to manage the assets, while maintaining broad exposure to the desired asset class. Assuming risk in the U.S. equity markets continued to be rewarded. The Fund's allocation dedicated to large capitalization stocks was one of the best performing asset classes for the period, returning over 10%. The small capitalization portion of the fund lost over 3% for the fiscal year. The overall U.S. equity portfolio returned over 7.8% for the period.

### Fixed Income

The Fund's bond portfolio contributed meaningfully to overall results, driving the total return for the fiscal year. As mentioned above, yields declined, especially in the belly of the yield curve, which boosted the nominal total return of the asset class. The Fund's advisor who uses interest rate positioning in managing its portion of the portfolio by analyzing long-term economic trends performed very well for the period, as its long duration position was handsomely rewarded. The inflation-sensitive portion of the bond portfolio also performed well. The two advisors who focus on the broader bond market both outperformed the benchmark, delivering equity-like total returns for the period, which is not expected from the asset class. Bonds are maintained in the portfolio for their diversified return pattern when compared with exposure to the equity markets. The decline in rates over the course of the fiscal year provided strong returns to the diversified Fund.

### Non-U.S. Equity

This portion of the Fund is also managed entirely in a passive style. The index consists of stocks from developed and emerging countries outside of the United States. Emerging markets performed in-line with non-U.S. developed markets for the period, as risk seeking behavior outside of the U.S. was not rewarded. The U.S. dollar continued to strengthen modestly relative to many other foreign currencies, which detracted from gains experienced by U.S. dollar investors in foreign markets. The non-U.S. equity portfolio contributed positively to the total return of the fund, having gained 1.6% in U.S. dollar terms for the period, but dramatically underperformed the U.S.

# Chief Investment Officer's Report

## Asset Allocation

### Diversification Reduces Volatility
Diversification is the most effective defense against the risks associated with any one individual security or asset class. Risks are controlled by allocating the Fund's assets across various asset classes and sectors within asset classes. There were no changes to the asset allocation during the fiscal year.

| Asset Class | Min | 6/30/2019 | Target | Max |
|---|---|---|---|---|
| Cash | 0.0% | 0.3% | 0.0% | 0.0% |
| Domestic Fixed Income | 27.5% | 31.0% | 32.0% | 36.5% |
| U.S. Equity | 34.4% | 41.1% | 40.0% | 45.6% |
| Non-U.S. Equity | 25.0% | 27.6% | 28.0% | 31.0% |
| **Total Fund** | | **100%** | **100%** | |

## Outlook and Recent Events

### Outlook

If you've read this report in previous years, you know that I begin this section on a cautionary note regarding the accuracy of forecasted market returns. Correctly and consistently forecasting the market's behavior is impossible, and taking any forecast as fact is sheer folly. We build the Fund according to the tenets set forth in our Investment Policy while making diversification, with respect to different asset classes and within each asset class, a priority. We endeavor to structure the Fund so it may benefit from strong returns in relatively riskier asset classes, but are ever mindful to maintain a level of diversification to dampen the return volatility that can result.

The current global economic environment continues to be driven by economic activity in the U.S. However, the specter of trade wars with traditional trading partners, like China and potentially Europe, are tempering global economic growth forecasts. While the U.S. consumer appears to have withstood the saber rattling thus far, industrial and manufacturing activity, in addition to business confidence, have certainly been diminished in the U.S. The economic slowdown that has impacted the rest of the world has continued. The process for Brexit poses great uncertainty, not only to the U.K., but to Europe and the rest of the developed world. The good news is that central banks in the U.S., Europe, and Asia have continued to pursue easy money policies to support economic activity. Some of these measures are unprecedented, such as maintaining negative interest rate levels. The efficacy of these supportive policies, combined with the resolution of trade deals, will be the key to restoring confidence and enhancing global economic activity levels.

Our largest concern continues to be the prospect of generating and maintaining investment results that match or exceed the actuarial assumed rate of return of 7.00%. This will continue to be a challenging task going forward. Interest rates remain low, which pressures the long-term return generating capacity of a diversified portfolio. Additionally, with the stock market hitting record levels, equity market valuation levels appear stretched, which reduces prospective future returns.

### Fixed Income
***Over a long period of time***, the total return of the bond market ***tends*** to resemble the yield of years past. Over short periods, interest rate movements may have a profound impact on the capital gains (or losses) experienced by bond investors. Even though rates started the year at relatively low levels, rates fell dramatically over the fiscal year, producing outsized returns for the bond market. Falling rates produce positive returns for bonds in the short-term, but also constrain prospective returns of the bond market going forward. Our medium-term expectation for the total return of the broad U.S. fixed income market going forward would more closely reflect current yields, which are around 1.5%-1.7%. Bonds are a necessary part of a diversified portfolio, but are unlikely to contribute to the total returns of the Fund as the asset class has in the past.

# Chief Investment Officer's Report

**Equity**

Equity markets are particularly difficult to predict with any type of precision. Over short periods of time, market sentiment and technical factors (buying and selling) have an overwhelming impact on returns experienced by investors. ***Over a long period of time***, the real return from the equity markets can be attributable to three main sources: dividends on stocks, the growth rate of corporate earnings, and changes in the valuation ratios. Generally, the growth rate of earnings depends on the economic environment. The U.S. economy continues to exhibit relatively stable growth. Consumer spending, the biggest driver of the U.S. economy, remains stable as the outlook for employment is satisfactory but wage growth is stagnant. Market sentiment has been negatively impacted by trade tensions and a slowdown in the global economy. Geopolitical risks remain in the global economy, and the resolution of Brexit and trade tensions would contribute positively to the general economic outlook. Market valuations appear extended, and confidence is a fuel that can quickly evaporate.

**Recent Events**

There were no changes to the Fund structure or the managers within the Fund during the year.

**Investment Philosophy and Guiding Principles**

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

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

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

Regards,

Brad Tillberg, CFA
Chief Investment Officer

# Largest Holdings

The Plan's ten largest fixed income at June 30, 2019, are described in the following schedules. The Plan invests in four index funds which are separately presented.

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

| Security | Par | | Fair Value |
|---|---|---|---|
| U.S. Treasury Bonds 2.25% due 8-15-2046 | 3,760,000 | $ | 3,552,320 |
| U.S. Treasury Bonds 2.5% due 5-15-2046 | 3,155,000 | | 3,136,761 |
| U.S. Treasury Bonds 2.5% due 2-15-2046 | 2,500,000 | | 2,486,915 |
| U.S. Treasury Bonds 2.0% due 5-31-2024 | 2,280,000 | | 2,306,808 |
| U.S. Treasury Bonds 2.875% due 5-15-2049 | 2,089,000 | | 2,241,106 |
| U.S. Treasury Notes 1.625% due 6-30-2024 | 2,125,000 | | 2,124,086 |
| U.S. Treasury Notes 2.625% due 7-15-2021 | 1,863,000 | | 1,895,239 |
| U.S. Treasury Notes 2.625% due 5-15-2021 | 1,480,000 | | 1,502,836 |
| U.S. Treasury Notes 2.125% due 5-31-2021 | 1,475,000 | | 1,485,026 |
| U.S. Treasury Notes 2.125% due 5-15-2026 | 1,425,000 | | 1,448,825 |

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

| Fund | Units | | Fair Value |
|---|---|---|---|
| BlackRock Russell 1000 Index Fund | 525,956 | $ | 119,754,054 |
| BlackRock ACWI ex-U.S. Index Fund | 3,410,512 | | 95,905,066 |
| BlackRock Russell 2000 Index Fund | 427,463 | | 23,078,094 |
| BlackRock U.S. TIPS Index Fund | 472,871 | | 10,949,128 |

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

# Schedule of Stock Brokerage Commissions Paid

Year Ended June 30, 2019

None

# Investment Portfolio by Type and Manager

At June 30, 2019, the investment portfolio of URSJJ was allocated by type and style as follows:

| Investment Type and Manager | Style | Fair Value* | Percent of Total Fair Value |
|---|---|---|---|
| | | *(000's)* | |
| Fixed Income: | | | |
| Blackrock Financial Management, Inc. | Constrained Core | $ 52,335 | 15.0% |
| Hoisington Investment Management | Interest Rate Anticipation | 12,532 | 3.6% |
| BlackRock Institutional Trust Company | Index Fund – U.S. TIPS | 10,949 | 3.1% |
| Metropolitan West Asset Management | Core Plus | 34,117 | 9.8% |
| Total Fixed Income | | 109,933 | 31.5% |
| U.S. Equities: | | | |
| BlackRock Institutional Trust Company | Index Fund – Russell 2000 | 23,078 | 6.6% |
| BlackRock Institutional Trust Company | Index Fund – Russell 1000 | 119,755 | 34.2% |
| Total U.S. Equities | | 142,833 | 40.8% |
| International Equities: | | | |
| BlackRock Institutional Trust Company | Index Fund – ACWI ex-U.S. | 95,905 | 27.4% |
| Short-term Investment Funds | Operating Cash | 1,060 | 0.3% |
| Total Managed Investments | | 349,731 | 100.0% |
| Securities Lending Collateral | | 12,506 | |
| Cash Equivalents on Deposit with State | | 84 | |
| Total Investments and Cash Equivalents | | $ 362,321 | |
| Statement of Fiduciary Net Position | | | |
| Cash Equivalents | | 4,322 | |
| Investments | | 357,999 | |
| Total Investments and Cash Equivalents | | $ 362,321 | |

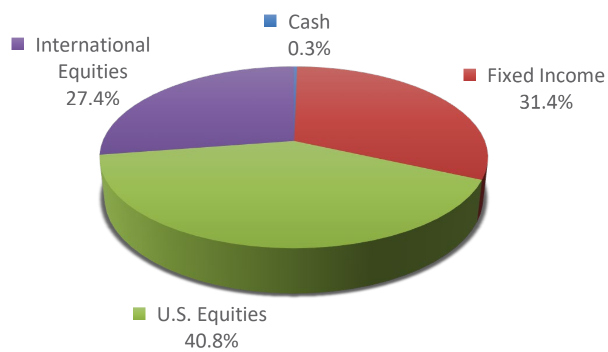
** Manager fair values include their respective cash and cash equivalents.*

# Asset Comparison

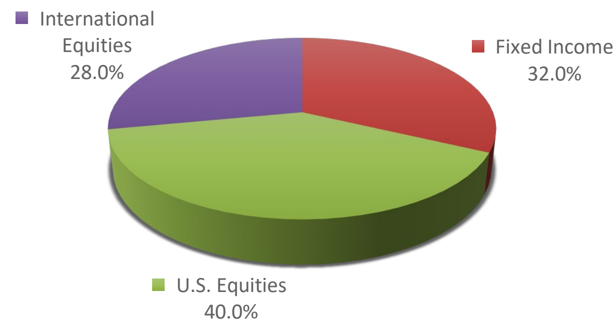
A comparison of the actual investment distribution at June 30, 2019 and 2018, based on the net investment manager holdings, including accrued income, payables and receivables, compared to the target allocation for each year is as follows:

## 2019

### Asset Mix

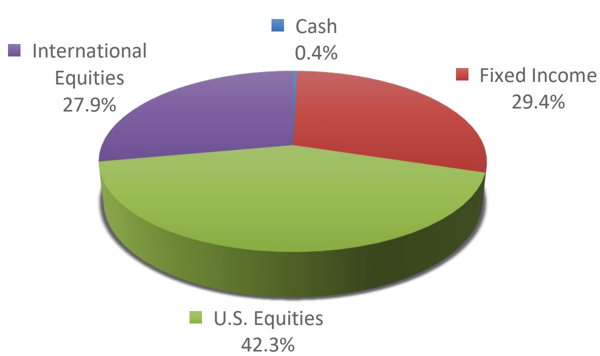



### Target Policy Mix

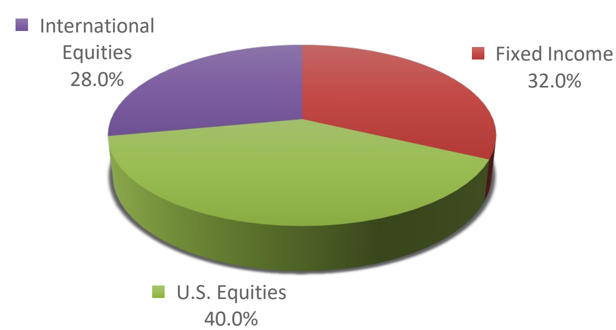



## 2018

### Asset Mix




### Target Policy Mix



# ACTUARIAL

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November 6, 2019

Board of Trustees
Oklahoma Public Employees Retirement System
5400 N. Grand Boulevard
Suite 400
Oklahoma City, OK 73112

Members of the Board:

In this report are submitted the results of the annual valuation of the assets and liabilities of the Uniform Retirement System for Justices and Judges (URSJJ), prepared as of July 1, 2019.

The purpose of this report is to provide a summary of the funded status of the System as of July 1, 2019 and to provide the actuarially determined rate. While not verifying the data at the source, the actuary performed tests for consistency and reasonability. There have been no changes to the actuarial assumptions or methods since the last valuation.

The promised benefits of the System are included in the actuarially calculated contribution rates which are developed using the Entry Age Normal cost method. A five-year market-related value of assets is used for actuarial valuation purposes. Gains and losses are reflected in the unfunded actuarial accrued liability (UAAL) that is being amortized by regular annual contributions as a level percentage of payroll, on the assumption that payroll will increase by 3.50% annually.

As in recent valuations, liabilities have been calculated without considering future cost of living adjustments (COLAs) and/or stipends in keeping with House Bill 2132 (2011). We note that House Bill 1340 (2018) granted a one-time stipend to retirees funded by the System. Should funding of future COLAs and/or stipends be provided by the System, the COLAs and/or stipends should be included in the actuarial valuation.

We have prepared the Schedule of Funding Progress and Trend Information shown in the financial section of the Comprehensive Annual Financial Report. All historical information that references a valuation date prior to July 1, 2010 was prepared by the previous actuarial firm.

This is to certify that the independent consulting actuaries are members of the American Academy of Actuaries and have experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.

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

We have also reviewed the supplemental medical benefits provided by the System under Section 401(h) of the Internal Revenue Code and have determined that these benefits are subordinate to the retirement benefits as required.

In our opinion, in order for the System to meet all the benefit obligations of the plan for current active and retired members, contributions equal to at least the actuarially determined rate are necessary for future fiscal years. Assuming these contributions are made to the System, from year to year in the future at the rates recommended on the basis of the successive actuarial valuations, the continued sufficiency of the retirement fund to provide the benefits called for under the System may be safely anticipated. Because the statutory contribution exceeds the actuarially determined rate in this valuation, we recommend the statutory contribution be used to protect against future investment and experience losses.

The Table of Contents, which immediately follows, outlines the material contained in the report.

Respectfully submitted,

Alisa Bennett, FSA, EA, FCA, MAAA
President

Brent Banister, PhD, FSA, EA, FCA, MAAA
Chief Actuary

# Summary of Results

| | | 7/1/2019 Valuation | 7/1/2018 Valuation | % Change |
|---|---|---|---|---|
| 1. | **PARTICIPANT DATA** | | | |
| | Number of: | | | |
| | Active Members | 269 | 265 | 1.5 |
| | Retired and Disabled Members and Beneficiaries | 300 | 272 | 10.3 |
| | Inactive Members | 18 | 14 | 28.6 |
| | Total members | 587 | 551 | 6.5 |
| | Projected Annual Salaries of Active Members | $ 35,112,886 | $ 33,838,528 | 3.8 |
| | Annual Retirement Payments for Retired Members and Beneficiaries | $ 21,569,313 | $ 18,534,201 | 16.4 |
| 2. | **ASSETS AND LIABILITIES** | | | |
| | Total Actuarial Accrued Liability | $ 308,615,185 | $ 293,103,489 | 5.3 |
| | Market Value of Assets | $ 347,536,802 | $ 338,035,386 | 2.8 |
| | Actuarial Value of Assets | $ 345,235,761 | $ 336,354,636 | 2.6 |
| | Unfunded Actuarial Accrued Liability | $ (36,620,576) | $ (43,251,147) | (15.3) |
| | Funded Ratio | 111.9% | 114.8% | (2.5) |
| 3. | **EMPLOYER CONTRIBUTION RATES AS A PERCENT OF PAYROLL** | | | |
| | Normal Cost Rate | 24.76% | 25.18% | |
| | Amortization of Unfunded Actuarial Accrued Liability | (15.11%) | (16.72%) | |
| | Budgeted Expenses | 0.62% | 0.59% | |
| | Total Actuarial Required Contribution Rate | 10.27% | 9.05% | |
| | **Less** Member Contribution Rate | 8.00% | 8.00% | |
| | Employer Actuarial Required Contribution Rate | 2.27% | 1.05% | |
| | **Less** Statutory State Employer contribution Rate | 22.00% | 22.00% | |
| | Contribution Shortfall/(Surplus) | (19.73%) | (20.95%) | |

# Analysis of Financial Experience

### Gains & Losses in Actuarial Accrued Liability During the Year Ended June 30, 2019 Resulting from Differences Between Assumed Experience & Actual Experience

| Type of Activity | (Gain) or Loss for Year End 2019 |
|---|---|
| 1. **Age & Service Retirements.** If members retire at older ages or with smaller benefits than assumed, there is a gain. If they retire at younger ages or have higher average pays, a loss occurs. | $ 5,570,000 |
| 2. **Disability Retirements.** If disability claims are less than assumed, then there is a gain. If more claims, a loss. | 0 |
| 3. **Death Benefits.** If survivor claims are less than assumed, there is a gain. If more claims, there is a loss. | 2,320,000 |
| 4. **Withdrawal from Employment.** If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss. | (70,000) |
| 5. **Pay Increases.** If there are smaller pay increase than assumed, there is a gain. If greater increases, a loss. | (270,000) |
| 6. **New Entrants.** All new entrants to the System create a loss. | 30,000 |
| 7. **Other.** Miscellaneous gains and losses resulting from data adjustments, employee transfers, valuation methods, etc. | (350,000) |
| 8. **(Gain) or Loss During Year From Financial Experience.** | 3,470,000 |
| 9. **Composite (Gain) or Loss During Year.** | $ 10,700,000 |

# Solvency Test

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

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

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

| | Actuarial Accrued Liabilities[1] and Valuation Assets | | | | | 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[1]** | **(1)** | **(2)** | **(3)** | **Funded Ratio of Total Accrued Actuarial Liabilities** |
| July 1, 2010 | 20,768,871 | 138,619,902 | 123,376,632 | 282,765,405 | 230,010,299 | 100 | 100 | 57.2 | 81.3 |
| July 1, 2011 | 20,060,127 | 134,336,252 | 92,395,853 | 246,792,232 | 237,626,663 | 100 | 100 | 90.1 | 96.3 |
| July 1, 2012 | 21,278,738 | 137,448,040 | 90,652,122 | 249,378,900 | 238,553,638 | 100 | 100 | 88.1 | 95.7 |
| July 1, 2013 | 23,130,164 | 136,834,202 | 94,444,597 | 254,408,963 | 247,531,035 | 100 | 100 | 92.7 | 97.3 |
| July 1, 2014 | 24,434,587 | 140,084,348 | 94,268,742 | 258,787,677 | 274,070,696 | 100 | 100 | 100.0 | 105.9 |
| July 1, 2015 | 23,390,700 | 158,199,138 | 84,810,188 | 266,400,026 | 295,355,061 | 100 | 100 | 100.0 | 110.9 |
| July 1, 2016 | 25,199,268 | 159,092,241 | 92,142,032 | 276,433,541 | 306,256,213 | 100 | 100 | 100.0 | 110.8 |
| July 1, 2017 | 25,438,215 | 172,934,885 | 87,163,806 | 285,536,906 | 321,405,873 | 100 | 100 | 100.0 | 112.6 |
| July 1, 2018 | 26,453,365 | 177,660,433 | 88,989,691 | 293,103,489 | 336,354,636 | 100 | 100 | 100.0 | 114.8 |
| July 1, 2019 | 22,988,211 | 209,998,302 | 75,628,672 | 308,615,185 | 345,235,761 | 100 | 100 | 100.0 | 111.9 |

[1] Actuarial value of assets based on the smoothing technique adopted by the Board.

## Schedule of Active Member Valuation Data

| Valuation Date | Number | Annual Payroll | Annual Average Pay | % Increase in Average Pay |
|---|---|---|---|---|
| July 1, 2019 | 269 | $35,112,886 | $130,531 | 2.22% |
| July 1, 2018 | 265 | 33,838,528 | 127,693 | 0.28 |
| July 1, 2017 | 262 | 33,359,101 | 127,325 | (1.61) |
| July 1, 2016 | 269 | 34,810,851 | 129,408 | 1.54 |
| July 1, 2015 | 271 | 34,537,376 | 127,444 | 1.86 |
| July 1, 2014 | 274 | 34,281,695 | 125,116 | (0.49) |
| July 1, 2013 | 273 | 34,325,368 | 125,734 | 0.33 |
| July 1, 2012 | 266 | 33,336,632 | 125,326 | (2.13) |
| July 1, 2011 | 271 | 34,700,819 | 128,047 | (0.92) |
| July 1, 2010 | 271 | 35,023,262 | 129,237 | 5.45 |

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

| | Added to Rolls | | Removed from Rolls | | Rolls – End of Year | | | |
|---|---|---|---|---|---|---|---|---|
| Year Ended | No. | Annual Allowances | No. | Annual Allowances | No. | Annual Allowances | % Increase in Annual Allowances | Average Annual Allowances |
| June 30, 2019 | 35 | $3,235,367 | 7 | $200,255 | 300 | $21,569,313 | 16.38% | $71,898 |
| June 30, 2018 | 11 | 1,003,518 | 4 | 314,465 | 272 | 18,534,201 | 3.86 | 68,140 |
| June 30, 2017 | 16 | 1,470,169 | 11 | 581,210 | 265 | 17,845,148 | 5.24 | 67,340 |
| June 30, 2016 | 5 | 409,553 | 5 | 412,096 | 260 | 16,956,189 | 0.01 | 65,216 |
| June 30, 2015 | 30 | 2,395,473 | 5 | 298,613 | 260 | 16,958,732 | 14.11 | 65,226 |
| June 30, 2014 | 19 | 1,330,374 | 14 | 838,912 | 235 | 14,861,872 | 3.42 | 63,242 |
| June 30, 2013 | 7 | 439,982 | 10 | 576,225 | 230 | 14,370,410 | (0.94) | 62,480 |
| June 30, 2012 | 7 | 550,850 | 9 | 188,030 | 233 | 14,506,653 | 2.57 | 62,260 |
| June 30, 2011 | 28 | 2,415,131 | 3 | 73,279 | 235 | 14,143,833 | 19.84 | 60,187 |
| June 30, 2010 | 17 | 1,533,568 | 7 | 277,053 | 210 | 11,801,981 | 11.92 | 56,200 |

# Summary of System Provisions

| | |
|---|---|
| *Employees Included:* | All Justices and Judges of the Supreme Court, Court of Criminal Appeals, Workers Compensation Court, Courts of Appeals or District Court who serve in the State of Oklahoma participate in the Uniform Retirement System for Justices and Judges. |
| *System Contributions:* | The contributions are received from the employer agencies based on a percentage of salary of covered members. Effective for the fiscal year ending June 30, 2006, employer contributions increased to 3.0% of the member's salary and will increase annually up to 22.0% of member payroll for fiscal years ending June 30, 2019, and thereafter. |
| *Member Contributions:* | Before September 1, 2005, basic member contributions equal 5% of salary, while married members could have elected an 8% contribution rate in order to provide survivor coverage. After September 1, 2005, the member contribution rate for all members is 8% of salary. |
| *Final Average Salary:* | The average monthly salary received during the highest three (3) years of active service as a Justice or Judge in a court of record. |
| *Retirement Date:* | A member who completes eight (8) years of service and attains age sixty-five (65), or completes ten (10) years of service and attains age sixty (60), or completes eight (8) years of service and whose sum of years of service and age equals or exceeds eighty (80), may begin receiving retirement benefits at his/her request. For judges taking office after January 1, 2012, retirement age is sixty-seven (67) with eight (8) years of service or age sixty-two (62) with ten (10) years of service. |
| *Normal Retirement Benefit:* | General formula is 4% of average monthly salary multiplied by service, up to a maximum benefit of 100% of final average salary. |
| *Disability Benefit:* | After fifteen (15) years of service and age fifty-five (55), provided the member is ordered to retire by reason of disability and is eligible for disability retirement benefits. This benefit, payable for life, is calculated in the same manner as a normal retirement benefit but cannot exceed 100% of final average salary. |

# Summary of System Provisions (continued)

| | |
|---|---|
| *Survivor Benefit:* | The spouse of a deceased active member who had met normal or vested retirement provisions may elect a spouse's benefit. The spouse's benefit is the benefit that would have been paid if the member had retired and elected the joint and 100% survivor option (Option B), or a 50% unreduced benefit for certain married participants making 8% of pay contributions prior to September 1, 2005. If the member has ten (10) years of service and the death is determined to be employment related, this benefit is payable immediately to the spouse. In order to be eligible for this survivor coverage, members must be married to their spouse for three (3) years preceding death and they must be married ninety (90) days prior to the member's termination of employment as a Justice or Judge. Effective October 1, 2004, the benefit for surviving spouses may be higher than 50% of the member's benefit, up to 65% for certain members who made additional voluntary survivor benefit contributions of 3% of salary prior to July 1, 1999, and who die or retire after July 1, 1999. |
| *Optional Forms of Retirement Benefits:* | The normal form of benefit for a single member is a single life monthly annuity with a guaranteed refund of the contribution accumulation. The normal form for a married member is a 50% joint and survivor annuity benefit. Optional forms of payment with actuarial reduction (if applicable) are available to all members retiring under the normal retirement or vested retirement provisions. After September 1, 2005, the options providing post-retirement death benefits are:<br><br>Option A -- Joint and 50% survivor annuity with a return to the unreduced amount if the joint annuitant dies.<br>Option B -- Joint and 100% survivor annuity with a return to the unreduced amount if the joint annuitant dies.<br><br>For married members, spousal consent is required for any option other than Option A. |
| *Participant Death Benefit:* | $5,000 lump sum. |
| *Supplemental Medical Insurance Premium:* | The System contributes the lesser of $105 per month or the Medicare Supplement Premium to the Oklahoma State and Education Employee's Group Health Insurance Program for members receiving retirement benefits. |

# Summary of Actuarial Assumptions and Methods

1. The investment return rate used in the valuation was 7.00 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 7.00 percent investment return rate translates to an assumed real rate of return of 4.25 percent.

2. The RP-2024 Mortality Table projected to 2025 using Scale MP-2016 with male rates multiplied by 95% under age 70 and 105% over age 70, while female rates are multiplied by 90% and 115%. After all adjustments, ages are set back one year.

3. The probability of withdrawal from service is 2% for all years of service. The individual pay increase assumption is 3.75% per year.

4. The probabilities of retirement are shown in Schedule 1.

5. Because of the passage of House Bill 2132, benefits are not assumed to increase due to future ad hoc cost-of-living increases. We note that House Bill 1340 (2018) granted a one-time stipend to retirees funded by the System.

6. The individual entry-age normal actuarial cost method of valuation was used in determining actuarial accrued liability and normal cost. Actuarial gains and losses reduce or increase the unfunded actuarial accrued liability and are amortized over the remaining amortization period (8 years as of July 1, 2019).

7. The actuarial value of assets is based on a five-year moving average of expected actuarial values and market values. A preliminary expected value is determined equal to the prior year's actuarial value of assets plus net cash flow for the year ending on the valuation date, assuming the valuation investment return. The expected actuarial asset value is equal to the preliminary expected actuarial value plus the unrecognized investment gains and losses as of the beginning of the previous fiscal year. Twenty percent (20%) of the gain/loss as measured by the difference between the expected actuarial value and the market value at the valuation date is added to the preliminary expected actuarial value plus twenty percent (20%) of the unrecognized gains or losses for the four preceding fiscal years. The final result is constrained to a value no less than 80% and no more than 120% of the market value at the valuation date.

8. The actuarial assumptions and methods used in the valuation were adopted by the Board on based on System experience from July 1, 2013 through June 30, 2016.

# Summary of Actuarial Assumptions and Methods (continued)

## Schedule 1
### Percent of Eligible Active Members Retiring Within Next Year

| Retirement Ages | Percent | Retirement Ages | Percent |
|---|---|---|---|
| Below 59 | 7% | 67 | 20% |
| 59 | 10% | 68 | 20% |
| 60 | 10% | 69 | 25% |
| 61 | 10% | 70 | 25% |
| 62 | 15% | 71 | 25% |
| 63 | 15% | 72 | 25% |
| 64 | 15% | 73 | 25% |
| 65 | 15% | 74 | 25% |
| 66 | 15% | 75 | 100% |


# STATISTICAL

## RETIREMENT SEASON

Like the seasons reach full circle, retirement is both an ending and a beginning. Your dream about retirement has now become a reality. You have reached a significant milestone, and this season is about embracing your future and living your best life. Years of investing and partnering with the URSJJ have provided you with financial independence. However, this season is not the end of the journey; it is the continuation of a life well-lived.

**The Statistical Section** provides additional historical perspective, context, and detail to assist the reader in using the information in the financial statements, notes to financial statements and required supplementary information to understand and assess the economic condition of the Uniform Retirement System for Justices and Judges (URSJJ) on a combined basis, including both the Defined Benefit Pension Plan and the Health Insurance Subsidy Plan*.*

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

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

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

Schedules and information are derived from URSJJ internal sources unless otherwise noted.
*Schedules and data are provided by actuarial consultant Cavanaugh MacDonald Consulting, LLC.

# Schedule of Changes in Fiduciary Net Position

| Year | Additions | | | Deductions | | | Total Changes |
|---|---|---|---|---|---|---|---|
| Year Ended June 30, | Member Contributions | Employer Contributions | Investment Income (Loss) | Benefit Payments | Administrative Expenses | Refunds | Total Changes in Fiduciary Net Position |
| **2019** | $ 2,666,542 | $ 7,333,003 | $ 20,305,127 | $ 20,580,861 | $ 170,153 | $ 65,548 | $ 9,488,110 |
| **2018** | 2,608,284 | 6,684,275 | 26,439,554 | 18,642,900 | 155,666 | 52,038 | 16,881,509 |
| **2017** | 2,663,717 | 6,190,796 | 36,643,672 | 17,827,148 | 154,659 | 89,298 | 27,427,080 |
| **2016** | 2,666,001 | 5,831,884 | 1,441,579 | 17,198,048 | 149,149 | 161,575 | (7,569,308) |
| **2015** | 2,706,406 | 5,295,012 | 8,173,421 | 16,093,317 | 143,582 | 111,044 | (173,104) |
| **2014** | 2,543,885 | 4,610,812 | 46,212,132 | 14,939,499 | 132,190 | 56,892 | 19,411,540 |
| **2013** | 2,543,584 | 4,129,300 | 27,498,371 | 14,599,877 | 128,007 | 31,831 | (4,369,589) |
| **2012** | 2,562,347 | 3,619,677 | 4,411,958 | 14,478,117 | 154,623 | 330,831 | 37,008,455 |
| **2011** | 2,667,908 | 3,193,277 | 44,556,035 | 13,117,911 | 118,765 | 172,089 | 26,533,739 |
| **2010** | 2,599,341 | 8,704,232 | 27,116,482 | 11,705,265 | 114,663 | 66,388 | (41,277,853) |

# Schedule of Revenue by Source

| Year Ended June 30, | Member Contributions | Employer Contributions Dollars | Employer Contributions % of Annual Covered Payroll | Investment Income (Loss) | Total |
|---|---|---|---|---|---|
| 2018 | $ 2,608,284 | $ 6,684,275 | 19.75 % | $ 26,439,554 | $ 35,732,113 |
| 2017 | 2,663,717 | 6,190,796 | 18.56 | 36,643,672 | 45,498,185 |
| 2016 | 2,666,001 | 5,831,884 | 16.75 | 1,441,579 | 9,939,464 |
| 2015 | 2,706,406 | 5,295,012 | 15.33 | 8,173,421 | 16,174,839 |
| 2014 | 2,543,885 | 4,610,812 | 13.45 | 46,212,132 | 53,366,829 |
| 2013 | 2,543,584 | 4,129,300 | 12.03 | 4,411,958 | 10,593,982 |
| 2012 | 2,562,347 | 3,619,677 | 10.86 | 44,556,035 | 50,417,220 |
| 2011 | 2,667,908 | 3,193,277 | 9.20 | 27,116,482 | 38,420,055 |
| 2010 | 2,599,341 | 8,704,232 | 24.85 | (35,739,688) | (30,721,150) |
| 2009 | 2,774,837 | 2,243,701 | 6.68 | (8,735,864) | (4,560,710) |

The employer contribution rate was raised to 7.0% effective July 1, 2008, 8.5% effective July 1, 2009, 10.0% effective July 1, 2010, 11.5% effective July 1, 2011, 13.0% effective July 1, 2012, 14.5% effective July 1, 2013, 16.0% effective July 1, 2014, 17.5% effective July 1, 2015, 19.0% effective July 1, 2016 and 20.5% effective July 1, 2017. In May 2009 the State Legislature designated an additional $6.0 million as employer contributions effective July 1, 2009.

# Schedule of Expenses by Type

| Year Ended June 30, | Benefit Payments | Administrative Expenses | Withdrawals | Total |
|---|---|---|---|---|
| 2019 | $ 20,580,861 | $ 170,153 | $ 65,548 | $ 20,816,562 |
| 2018 | 18,642,900 | 155,666 | 52,038 | 18,850,604 |
| 2017 | 17,827,148 | 154,659 | 89,298 | 18,071,105 |
| 2016 | 17,198,048 | 149,149 | 161,575 | 17,508,772 |
| 2015 | 16,093,317 | 143,582 | 111,044 | 16,347,943 |
| 2014 | 14,939,499 | 132,190 | 56,892 | 15,128,581 |
| 2013 | 14,599,877 | 128,007 | 31,831 | 14,759,715 |
| 2012 | 14,478,117 | 154,623 | 330,831 | 14,963,571 |
| 2011 | 13,117,911 | 118,765 | 172,089 | 13,408,765 |
| 2010 | 11,705,265 | 114,663 | 66,388 | 11,886,316 |

# Schedule of Benefit Payments and Refunds by Type

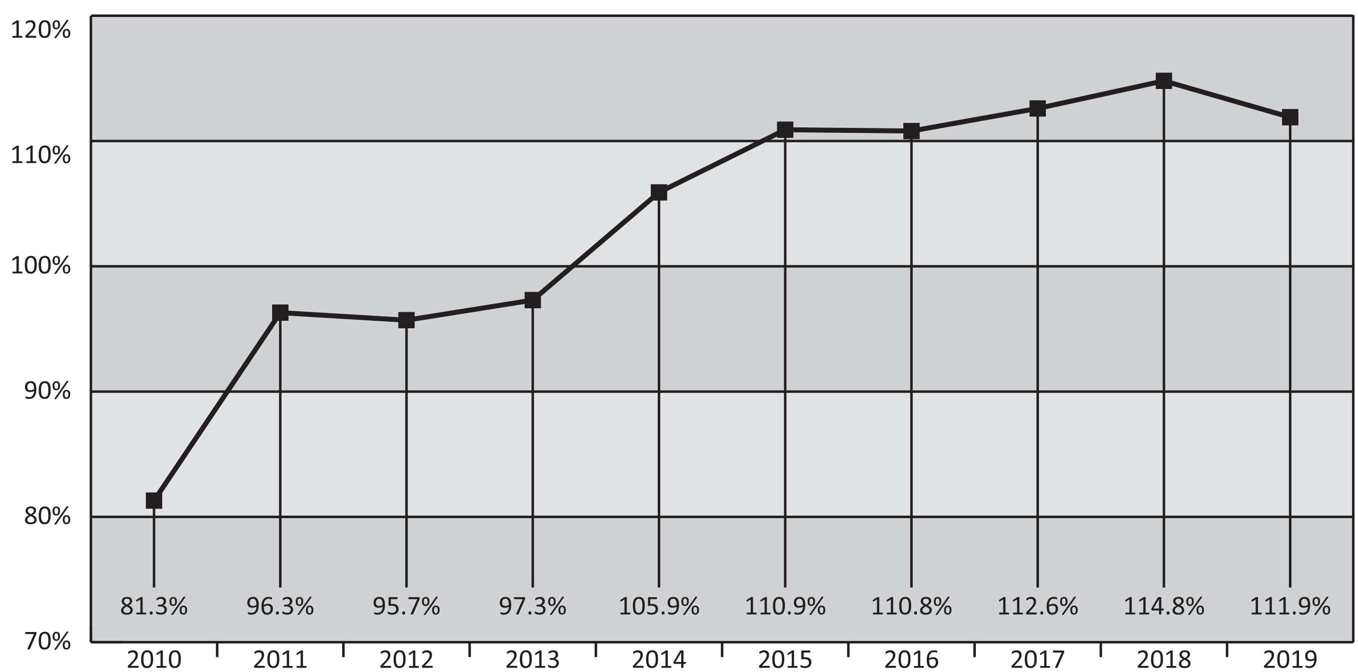
The following schedule provides information as to the type of benefit expenses incurred by the Plan as reflected in the "Benefit Payment" and "Refunds" columns of the **Schedule of Expenses by Type** included elsewhere in this Statistical Section.

| Year | Benefits | | | Refunds | | | | Total Benefit |
|---|---|---|---|---|---|---|---|---|
| **Ended June 30,** | **Age and Service** | **Disability** | **Beneficiary Death** | **Withdrawals** | **Transfers to Other Systems** | **Member Death** | **Other** | **Payments and Refunds** |
| 2019 | $ 20,336,707 | $ 234,154 | $ 10,000 | $ 65,548 | $ - | | $ - | $20,646,409 |
| 2018 | $ 18,364,345 | $ 231,055 | $ 47,500 | $ - | $ - | $ 52,038 | $ - | $18,694,938 |
| 2017 | 17,471,154 | 323,494 | 32,500 | 42,418 | - | 46,479 | 401 | 17,916,446 |
| 2016 | 16,877,693 | 295,355 | 25,000 | 161,575 | - | - | - | 17,359,623 |
| 2015 | 15,811,374 | 246,943 | 35,000 | 111,044 | - | - | - | 16,204,361 |
| 2014 | 14,748,689 | 157,476 | 33,334 | 56,892 | - | - | - | 14,996,391 |
| 2013 | 14,387,401 | 157,476 | 55,000 | (46,560) | - | 78,391 | - | 14,631,708 |
| 2012 | 14,290,643 | 157,476 | 30,000 | 234,514 | - | 96,317 | - | 14,808,950 |
| 2011 | 12,925,436 | 157,475 | 35,000 | 3,744 | - | 168,345 | - | 13,290,000 |
| 2010 | 11,507,789 | 157,476 | 40,000 | 66,389 | - | - | - | 11,771,654 |

*Negative withdrawal amounts represent the cancellation of a withdrawal issued in a prior fiscal year. This occurs very infrequently.*

# Funded Ratio Chart

As of July 1



# Rate of Return by Type of Investment

| Year Ended June 30, | Fixed Income | U.S. Equity | International Equity | Total |
|---|---|---|---|---|
| 2019 | 8.4 % | 7.8 % | 1.6 % | 6.2 % |
| 2018 | 0.3 % | 15.1 % | 7.6 % | 8.3 |
| 2017 | (0.8) | 19.0 | 20.9 | 12.7 |
| 2016 | 7.2 | 1.6 | (10.0) | 0.6 |
| 2015 | 2.4 | 7.4 | (5.0) | 2.8 |
| 2014 | 5.1 | 25.1 | 22.0 | 17.7 |
| 2013 | (1.2) | 21.7 | 13.9 | 11.5 |
| 2012 | 12.1 | 3.4 | (14.3) | 1.9 |
| 2011 | 4.3 | 32.8 | 30.1 | 21.4 |
| 2010 | 13.5 | 16.4 | 10.5 | 14.3 |

# Schedule of Retired Members by Type of Benefit

June 30, 2019

| Amount of Monthly Benefit | Number of Retirees | Type of Retirement* 1 | 2 | 3 | 4 | Option Selected # 1 | 2 | 3 | 4 |
|---|---|---|---|---|---|---|---|---|---|
| $1 – 1,000 | 6 | 1 | 5 | - | - | 1 | 5 | - | - |
| 1,001 – 2,000 | 18 | 5 | 13 | - | - | 1 | 14 | 1 | 2 |
| 2,001 – 3,000 | 29 | 14 | 15 | - | - | 2 | 20 | 2 | 5 |
| 3,001 – 4,000 | 35 | 23 | 11 | - | 1 | 4 | 21 | 3 | 7 |
| 4,001 – 5,000 | 45 | 31 | 12 | 2 | - | 3 | 31 | 3 | 8 |
| Over 5,000 | 167 | 159 | 7 | 1 | - | 24 | 108 | 13 | 22 |
| **Totals** | **300** | **233** | **63** | **3** | **1** | **35** | **199** | **22** | **44** |

***Type of Retirement**

Type 1 – *Normal retirement for age and service:* For participants who became members prior to January 1, 2012, they are eligible at (1) when the sum of the member's age plus years of service equals 80 points and has judicial service of at least 8 years, or (2) age 65 with 8 years of judicial service, or (3) age 60 with 10 years of judicial service. For participants who became members on or after January 1, 2012, they are eligible at (1) age 67 with 8 years of judicial service, or (2) age 62 with 10 years of judicial service.

Type 2 – *Survivor payment:* Normal.

Type 3 – *Disability:* Available for members who have attained age 55 and have 15 years of credited service and are determined to be disabled by the Court of the Judiciary.

Type 4 – *Survivor payment:* Disability retirement.

**# Option Selected**

Option 1 – *Single-life annuity:* The maximum benefit is paid for the member's lifetime.

Option 2 – *50% to 65% Survivor Annuity:* Paid to surviving spouse for his or her lifetime if certain contributions were paid by the justice or judge while actively participating and if other criteria are met.

Option 3 – *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. This option became available September 1, 2005.

Option 4 – *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. This option became available September 1, 2005.

**Deferred Members**

At June 30, 2019, there are 18 former members with deferred future benefits.

# Schedule of Average Benefit Payments

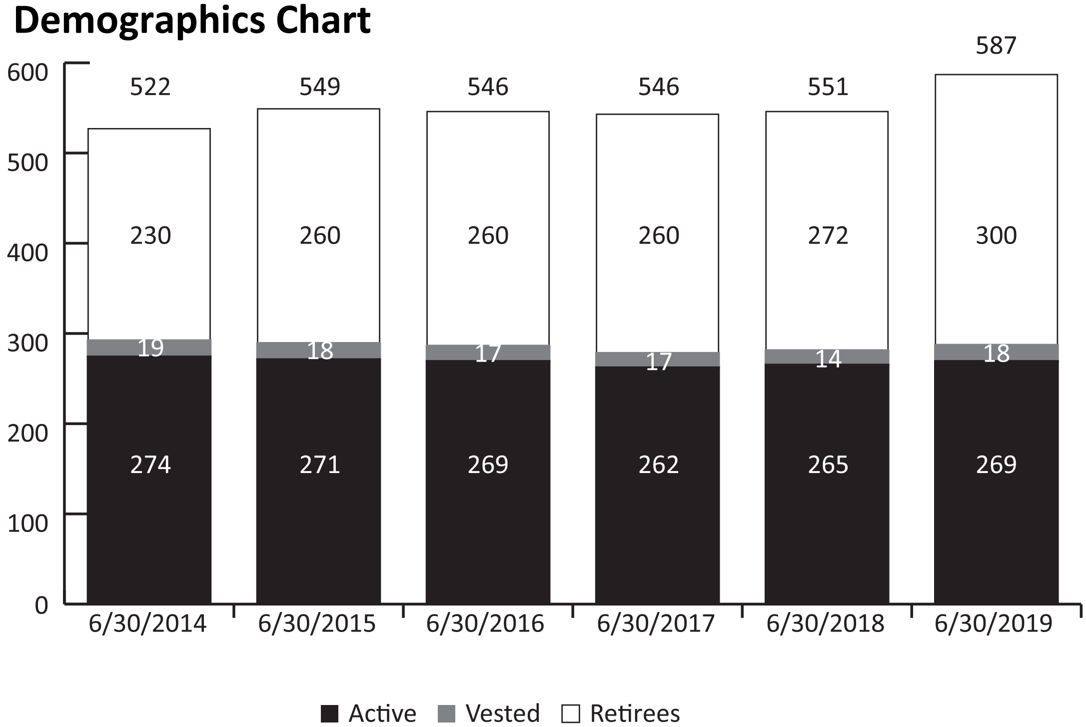
| **Retirement Effective Dates** | **Years of Credited Service** | | | | | | |
|---|---|---|---|---|---|---|---|
| **July 1, 2009 to June 30, 2019** | **0 to 5** | **6 to 10** | **11 to 15** | **16 to 20** | **21 to 25** | **26 to 30** | **31+** |
| Period 7/1/09 to 6/30/10 | | | | | | | |
| Average Monthly Benefit | $ - | $ - | $ 3,522 | $ 6,916 | $ 9,197 | $ 10,077 | $ - |
| Average Final Average Salary | $ - | $ - | $ 6,845 | $ 9,504 | $ 9,459 | $ 10,076 | $ - |
| Number of Active Retirees | - | - | 4 | 3 | 8 | 2 | - |
| Period 7/1/10 to 6/30/11 | | | | | | | |
| Average Monthly Benefit | $ - | $ 2,346 | $ 4,059 | $ 6,367 | $ 8,054 | $ 9,602 | $ 8,666 |
| Average Final Average Salary | $ - | $ 8,662 | $ 8,259 | $ 9,881 | $ 9,384 | $ 10,106 | $ 10,182 |
| Number of Active Retirees | - | 1 | 5 | 6 | 5 | 6 | 5 |
| Period 7/1/11 to 6/30/12 | | | | | | | |
| Average Monthly Benefit | $ - | $ 3,731 | $ - | $ - | $ 9,456 | $ 10,868 | $ - |
| Average Final Average Salary | $ - | $ 10,364 | $ - | $ - | $ 9,828 | $ 10,868 | $ - |
| Number of Active Retirees | - | 1 | - | - | 3 | 1 | - |
| Period 7/1/12 to 6/30/13 | | | | | | | |
| Average Monthly Benefit | $ - | $ 3,064 | $ 4,495 | $ 5,036 | $ 8,486 | $ - | $ - |
| Average Final Average Salary | $ - | $ 9,157 | $ 9,601 | $ 7,405 | $ 9,962 | $ - | $ - |
| Number of Active Retirees | - | 2 | 2 | 2 | 2 | - | - |
| Period 7/1/13 to 6/30/14 | | | | | | | |
| Average Monthly Benefit | $ - | $ 3,441 | $ - | $ 5,911 | $ 8,031 | $ 10,364 | $ 10,364 |
| Average Final Average Salary | $ - | $ 9,559 | $ - | $ 8,663 | $ 9,828 | $ 10,364 | $ 10,364 |
| Number of Active Retirees | - | 1 | - | 5 | 3 | 1 | 1 |
| Period 7/1/14 to 6/30/15 | | | | | | | |
| Average Monthly Benefit | $ - | $ 2,959 | $ 5,181 | $ 7,868 | $ 9,557 | $ 9,077 | $ 9,756 |
| Average Final Average Salary | $ - | $ 9,614 | $ 10,010 | $ 10,309 | $ 10,301 | $ 9,655 | $ 10,197 |
| Number of Active Retirees | - | 5 | 4 | 5 | 7 | 2 | 3 |
| Period 7/1/15 to 6/30/16 | | | | | | | |
| Average Monthly Benefit | $ - | $ 4,350 | $ - | $ 6,132 | $ 7,883 | $ - | $ - |
| Average Final Average Salary | $ - | $ 10,874 | $ - | $ 9,017 | $ 9,272 | $ - | $ - |
| Number of Active Retirees | - | 1 | - | 1 | 3 | - | - |
| Period 7/1/16 to 6/30/17 | | | | | | | |
| Average Monthly Benefit | $ - | $ 3,169 | $ 4,072 | $ 7,044 | $ 10,041 | $ 10,615 | $ 12,220 |
| Average Final Average Salary | $ - | $ 8,848 | $ 9,119 | $ 10,266 | $ 10,780 | $ 10,615 | $ 12,220 |
| Number of Active Retirees | - | 3 | 2 | 3 | 6 | 2 | 1 |
| Period 7/1/17 to 6/30/18 | | | | | | | |
| Average Monthly Benefit | $ - | $ - | $ 4,244 | $ 4,540 | $ 9,240 | $ 8,009 | $ 10,691 |
| Average Final Average Salary | $ - | $ - | $ 8,974 | $ 6,722 | $ 10,133 | $ 9,280 | $ 11,500 |
| Number of Active Retirees | - | - | 3 | 1 | 4 | 1 | 2 |
| Period 7/1/18 to 6/30/19 | | | | | | | |
| Average Monthly Benefit | $ - | $ 2,476 | $ 4,337 | $ 7,681 | $ 9,811 | $ 10,133 | $ 10,548 |
| Average Final Average Salary | $ - | $ 8,052 | $ 10,377 | $ 10,460 | $ 10,292 | $ 10,133 | $ 11,172 |
| Number of Active Retirees | - | 3 | 7 | 8 | 11 | 2 | 4 |

## Principal Employer

The Uniform Retirement System of Justices and Judges is a single-employer public employee retirement plan. The Plan covers Justices and Judges who sit on the Supreme Court of Oklahoma, the Oklahoma Court of Criminal Appeals, the Oklahoma Courts of Civil Appeals, the Oklahoma District Courts, and the Oklahoma Workers' Compensation Court. The Plan also covers the Administrative Director of the Courts.

| Year Ended June 30, | Covered Employees of the State |
|---|---|
| 2019 | 269 |
| 2018 | 265 |
| 2017 | 262 |
| 2016 | 269 |
| 2015 | 271 |
| 2014 | 274 |
| 2013 | 273 |
| 2012 | 266 |
| 2011 | 271 |
| 2010 | 271 |

## Demographics Chart



# Member Statistics

| Earnings tabulated are average rates of pay as of July 1, 2019 | Number | Amount of Annual Benefit |
|---|---|---|
| **Members receiving benefits** | | |
| Retired | 233 | $ 19,008,009 |
| Surviving spouses | 64 | 2,371,773 |
| Disabled | 3 | 189,531 |
| **Total** | **300** | **$ 21,569,313** |
| **Members with deferred benefits** | | |
| Vested terminated | 13 | $ 653,594 |
| Assumed deferred vested members (estimated benefits) | 5 | 278,284 |
| **Total** | **18** | **$ 931,878** |

| | | Average | | |
|---|---|---|---|---|
| **Statistics for** | **Number** | **Age** | **Service** | **Earnings** |
| **Active members as of July 1, 2018** | | | | |
| Continuing | 252 | 58.7 | 12.5 | $ 123,235 |
| New | 13 | 44.4 | 0.7 | 86,510 |
| **Total** | **265** | **58.0** | **11.9** | **$ 121,433** |
| **Active members as of July 1, 2019** | | | | |
| Continuing | 225 | 57.6 | 11.7 | $ 126,945 |
| New | 44 | 49.5 | 0.5 | 55,660 |
| **Total** | **269** | **56.3** | **9.9** | **$ 115,285** |

# Distribution of Retirees and Beneficiaries

| | Number | | | Annual Benefits | | |
|---|---|---|---|---|---|---|
| **Age** | **Male** | **Female** | **Total** | **Male** | **Female** | **Total** |
| **Under 50** | - | - | - | $ - | $ - | $ - |
| **50-55** | - | 1 | 1 | - | 70,322 | 70,322 |
| **55-60** | 3 | 2 | 5 | 310,067 | 119,475 | 429,542 |
| **60-65** | 14 | 7 | 21 | 1,516,549 | 539,852 | 2,056,401 |
| **65-70** | 54 | 13 | 67 | 4,978,097 | 928,772 | 5,906,869 |
| **70-75** | 60 | 17 | 77 | 5,015,995 | 938,196 | 5,954,191 |
| **75-80** | 39 | 16 | 55 | 2,499,644 | 1,034,989 | 3,534,633 |
| **80-85** | 21 | 9 | 30 | 1,351,994 | 323,844 | 1,675,838 |
| **85-90** | 10 | 13 | 23 | 549,671 | 512,036 | 1,061,707 |
| **90-95** | 5 | 12 | 17 | 411,218 | 321,881 | 733,099 |
| **95-100** | 2 | - | 2 | 110,620 | - | 110,620 |
| **Over 100** | 1 | 1 | 2 | 28,260 | 7,831 | 36,091 |
| **Total** | **209** | **91** | **300** | **$ 16,772,115** | **$ 4,797,198** | **$ 21,569,313** |

# Summary of Active Members

### Age and years of credited service
### Earnings tabulated are average rates of pay as of July 1, 2019

| | Years of Service | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Age** | **0 to 4** | **5 to 9** | **10 to 14** | **15 to 19** | **20 to 24** | **25 to 29** | **30 to 34** | **35 to 39** | **40 & Up** | **Total** |
| **Under 35** | 1 | | | | | | | | | **1** |
| **Average Pay** | $60,050 | | | | | | | | | **$60,050** |
| **35 to 39** | 17 | 1 | | | | | | | | **18** |
| **Average Pay** | $86,156 | $135,567 | | | | | | | | **$88,901** |
| **40 to 44** | 18 | 4 | 2 | | | | | | | **24** |
| **Average Pay** | $95,694 | $125,037 | $125,037 | | | | | | | **$103,030** |
| **45 to 49** | 16 | 9 | 3 | 4 | | | | | | **32** |
| **Average Pay** | $90,481 | $125,564 | $133,455 | $119,772 | | | | | | **$108,039** |
| **50 to 54** | 9 | 10 | 7 | 2 | 2 | 1 | | | | **31** |
| **Average Pay** | $95,610 | $125,413 | $125,200 | $135,567 | $124,847 | $119,565 | | | | **$117,142** |
| **55 to 59** | 19 | 19 | 14 | 6 | 4 | | | | | **62** |
| **Average Pay** | $97,969 | $126,602 | $126,103 | $130,302 | $129,315 | | | | | **$118,248** |
| **60 to 64** | 10 | 15 | 8 | 5 | 3 | 3 | 2 | | | **46** |
| **Average Pay** | $80,362 | $127,655 | $123,678 | $124,445 | $114,508 | $137,870 | $132,276 | | | **$116,343** |
| **65 to 69** | 3 | 9 | 9 | 3 | 9 | | 2 | | | **35** |
| **Average Pay** | $114,508 | $121,992 | $129,278 | $123,721 | $133,046 | | $152,660 | | | **$127,967** |
| **70 & up** | 2 | 2 | 4 | 4 | 3 | | | 2 | 3 | **20** |
| **Average Pay** | $97,808 | $119,772 | $134,579 | $122,405 | $142,574 | | | $146,095 | $148,347 | **$131,403** |
| **Total** | **95** | **69** | **47** | **24** | **21** | **4** | **4** | **2** | **3** | **269** |
| **Average Pay** | **$92,206** | **$125,763** | **$127,309** | **$125,627** | **$130,267** | **$133,294** | **$142,468** | **$146,096** | **$148,347** | **$115,285** |

URSJJ

**Uniform Retirement System for Justices and Judges**

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