

# PERSPECTIVE

Popular Annual Financial Report  
for the Fiscal Year Ended June 30, 2018

Dear Esteemed Member:

We are pleased to bring you the Popular Annual Financial Report for the Oklahoma Public Employees Retirement System (OPERS) for the fiscal year ended June 30, 2018. This report contains summary financial information from the 2018 Comprehensive Annual Financial Report (CAFR) written in layman's terms. The theme of this year's CAFR is "Perspective."

Perspective isn't just an art term; it's also the way we view what we do in an effort to gain a broader understanding of our mission.

The health and stability of this retirement plan and helping Oklahoma's public employees achieve a secure and lasting retirement is what guides our actions. Each opportunity to serve our members is with the perspective of providing comprehensive, accountable and financially sound retirement services.

We hope you find this report informative.

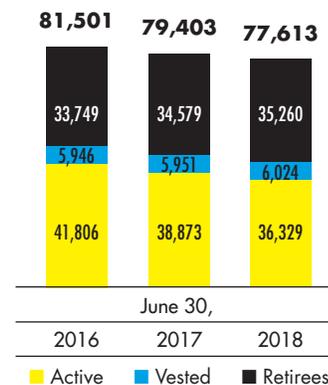
Sincerely,

Joseph A. Fox  
Executive Director

## ABOUT OPERS

OPERS was established in 1964 by the Oklahoma Legislature. As of June 30, 2018, the Plan consisted of 283 participating employers comprised of state, county, and local agencies. The membership includes 36,329 active members, 6,024 inactive members, and 35,260 retirees and beneficiaries. Active membership has steadily decreased since the creation of the mandatory Pathfinder Defined Contribution plan for new state employees after November 1, 2015.

## Demographics Chart



## COMPREHENSIVE ANNUAL FINANCIAL REPORT ONLINE

The 2018 Popular Annual Financial Report of the Oklahoma Public Employees Retirement System (OPERS) contains summary financial information from the 2018 Comprehensive Annual Financial Report. The full report may be viewed, in its entirety online, at [www.opers.ok.gov/publications](http://www.opers.ok.gov/publications).

## NET POSITION

The net position restricted for pension and health insurance subsidy plan (HISP) totaled approximately \$9.7 billion at June 30, 2018, compared to \$9.2 billion at June 30, 2017 and \$8.4 billion at June 30, 2016. The net position is available for payment of monthly retirement benefits and other qualified distributions to the System's participants. Equity markets performed well during fiscal year 2018, resulting in an increase in net investment income which led to an increase in net position restricted for pension/HISP benefits from June 30, 2016 to June 30, 2017 and from June 30, 2017 to June 30, 2018.

## CHANGES IN FIDUCIARY NET POSITION

OPERS is funded through a combination of member contributions, employer contributions and investment earnings. For the year ended June 30, 2018, fiduciary net position increased by \$472.6 million, or 5.1%, from June 30, 2017. Total assets increased \$206.2 million, or 2.0%, due to a 4.1% increase in investments and partially offset by a 25.5% decrease in securities lending collateral. The System achieved a money-weighted rate of return of 8.4% compared to the prior year of 12.6% resulting in the majority of the increase in fiduciary net position. Total liabilities decreased \$266.4 million, or 21.4%, due to a 17.0% decrease in pending purchases of securities and a 25.5% decrease in the securities lending collateral liability.

Deductions to fiduciary net position are incurred primarily for the purpose for which OPERS was created, namely the payment of benefits to retirees. For the year ended June 30, 2018, total deductions increased \$18.5 million, or 3.0%, from the prior year. Retirement, death, and survivor benefits increased \$18.6 million, or 3.1%, due to a 2.0% increase in the number of retirees at year end and a 1.3% increase in the average benefit. Refunds and withdrawals remained unchanged from prior year. The 1.1% decrease in administrative costs was primarily due to a decrease in professional services costs.

## BENEFITS PAID TO MEMBERS

Members qualify for full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member on or after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90). Normal retirement age under the Plan is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule of 90 if the participant became a member on or after November 1, 2011.

The *Schedule of Benefit Payments* to the right provides information on the total benefit expenses incurred by the Plan consisting of age and service, disability, and beneficiary death benefits.

## Condensed Schedules of Fiduciary Net Position

(\$ millions)	2018			2017			2016*
	Pension	HISP	Combined	Pension	HISP	Combined	
<b>Assets:</b>							
Cash and cash equivalents	\$ 216.4	\$ 6.6	\$ 223.0	\$ 113.3	\$ 5.9	\$ 119.2	\$ 120.7
Receivables	223.6	8.1	231.7	340.9	11.8	352.7	283.1
Investments	9,403.9	344.1	9,748.0	9,042.9	318.3	9,361.2	8,449.8
Securities lending collateral	459.7	16.8	476.5	618.2	21.8	640.0	500.7
Property and equipment	0.2	—	0.2	0.4	—	0.4	0.5
Other assets	0.6	—	0.6	0.3	—	0.3	0.3
<b>Total assets</b>	<b>10,304.4</b>	<b>375.6</b>	<b>10,680</b>	<b>10,116.0</b>	<b>357.8</b>	<b>10,473.8</b>	<b>9,355.1</b>
<b>Liabilities:</b>							
Other liabilities	483.8	17.7	501.5	583.8	20.5	604.3	418.9
Securities lending collateral	459.7	16.8	476.5	618.2	21.8	640.0	500.7
<b>Total liabilities</b>	<b>943.5</b>	<b>34.5</b>	<b>978.0</b>	<b>1,202.0</b>	<b>42.3</b>	<b>1,244.3</b>	<b>919.6</b>
<b>Ending fiduciary net position</b>	<b>\$ 9,360.9</b>	<b>\$ 341.1</b>	<b>\$ 9,702.0</b>	<b>\$ 8,914.0</b>	<b>\$ 315.5</b>	<b>\$ 9,229.5</b>	<b>\$ 8,435.5</b>

\*Prior year column for 2016 has not been restated for the effect of the adoption of GASB Statement No. 74

## Condensed Schedules of Changes in Fiduciary Net Position

(\$ millions)	2018			2017			2016*
	Pension	HISP	Combined	Pension	HISP	Combined	
Member contributions	\$ 66.9	\$ —	\$ 66.9	\$ 70.3	\$ —	\$ 70.3	\$ 73.8
State and local agency contributions	258.9	19.1	278.0	269.5	18.9	288.4	296.2
Net investment income	735.0	25.5	760.5	1,013.9	35.7	1,049.6	15.6
<b>Total additions</b>	<b>1,060.8</b>	<b>44.6</b>	<b>1,105.4</b>	<b>1,353.7</b>	<b>54.6</b>	<b>1,408.3</b>	<b>385.6</b>
Retirement, death and survivor benefits	592.7	18.8	611.5	573.9	19.0	592.9	565.4
Refunds and withdrawals	16.0	—	16.0	16.0	—	16.0	15.9
Administrative expenses	5.1	0.2	5.3	5.2	0.2	5.4	5.2
<b>Total deductions</b>	<b>613.8</b>	<b>19.0</b>	<b>632.8</b>	<b>595.1</b>	<b>19.2</b>	<b>614.3</b>	<b>586.5</b>
Net (decrease) increase in fiduciary net position	447.0	25.6	472.6	758.6	35.4	794.0	(200.9)
Beginning of year	8,914.0	315.5	9,229.5	8,155.4	280.1	8,435.5	8,636.4
<b>End of year</b>	<b>\$ 9,361.0</b>	<b>\$ 341.1</b>	<b>\$ 9,702.1</b>	<b>\$ 8,914.0</b>	<b>\$ 315.5</b>	<b>\$ 9,229.5</b>	<b>\$ 8,435.5</b>

\*Prior year column for 2016 has not been restated for the effect of the adoption of GASB Statement No. 74

## INVESTMENTS

The Board of Trustees adheres to the highest standard in making investment decisions for the Plan – the Prudent Investor Rule. The Board and its advisors invest the Plan’s assets for the sole interest of our membership and their beneficiaries. In addition, funds are to be diversified to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so. The 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%. The *Rate of Return* table to the right reflects overall investment returns over the past six fiscal years.

The Board of Trustees has established the *Statement of Investment Policy* to guide investment decisions and outline the overall investment philosophy of the Plan. The investment philosophy is supported by three main pillars: identifying the importance of asset allocation and rebalancing; diversification of the asset base as the primary risk control element; and, controlling costs through passive investment management where most appropriate.

The Board engages outside investment managers to manage the various asset classes where OPERS has exposure. At fiscal year end, the investment portfolio of OPERS was actively managed by three fixed income managers, seven domestic equity managers and two international equity managers. OPERS’ investment portfolio also consisted of passively managed index funds, including one fixed income index fund, one domestic equity index fund and two international equity index funds.

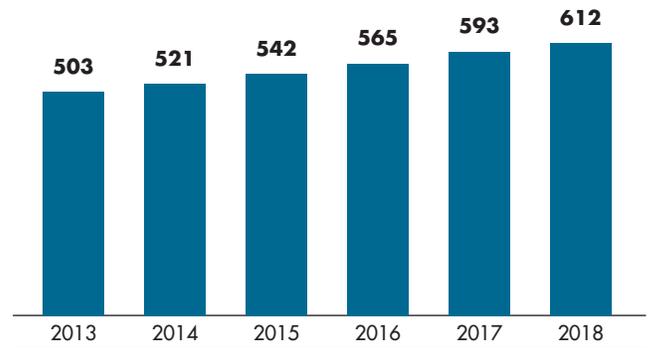
For fiscal year 2018 investments provided an 8.4 percent rate of return. The annualized rate of return for OPERS was 7.0 percent over the last three years and 8.3 percent over the last five years. The allocation of the investment portfolio, as of June 30, 2018, is shown in the *Asset Mix* chart to the right.

## FUNDING

A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. It must also have a revenue source sufficient to keep up with future obligations. The funding objective for OPERS is to meet long-term benefit promises through contributions that remain approximately level as a percent of member payroll. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the level of investment potential. The advantage of a well-funded plan is that the participants can look at assets that are committed to the payment of benefits. The actuarial accrued liability and actuarial value of assets of OPERS as of July 1, 2018 amounted to \$9.9 billion and \$9.7 billion, respectively.

The OPERS funded status increased to 97.7 percent at July 1, 2018. The funded status had declined from 73.0 percent at July 1, 2008 to 66.0 percent at July 1, 2010 before significantly increasing to 80.7 percent at July 1, 2011 due to the removal of the cost-of-living-adjustment (COLA) assumption, and further increased to 93.6 percent at July 1, 2015. The *Funded Ratio* chart to the right shows the change in funded status over the past six fiscal years.

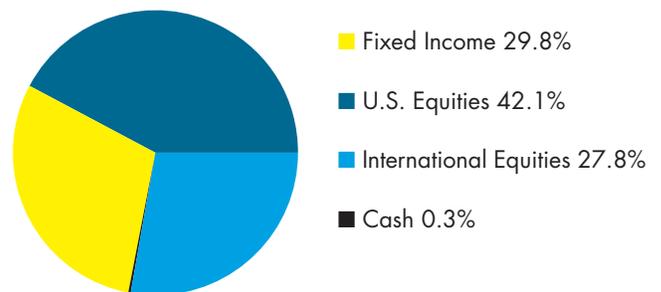
Schedule of Benefit Payments (\$ millions)



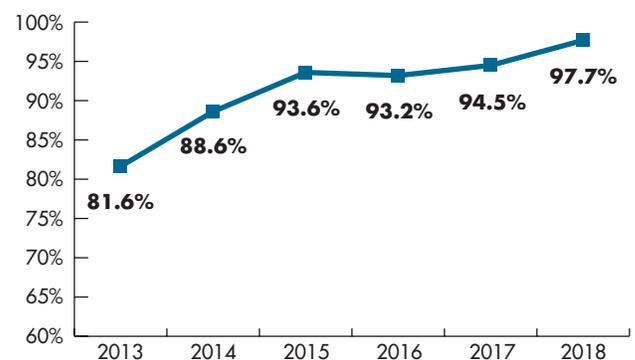
Rate of Return

Year Ended June 30,	Total
2018	8.4 %
2017	12.8 %
2016	0.3 %
2015	3.2 %
2014	18.0 %
2013	12.0 %

Asset Mix

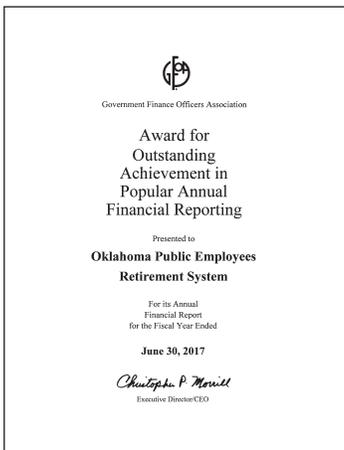


Funded Ratio



# OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM

## OPERS AWARDED FOR EXCELLENCE IN FINANCIAL REPORTING



The Government Finance Officers Association of the United States and Canada (GFOA) has given an *Award for Outstanding Achievement in Popular Annual Financial Reporting* to the Oklahoma Public Employees Retirement System for its Popular Annual Financial Report for the fiscal year ended June 30, 2017. The Award for Outstanding Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

To receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a

Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal. An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. OPERS has received the award for the last eleven consecutive years. We believe our current report continues to conform to the award requirements, and we are submitting it to GFOA.

In addition, OPERS was awarded the *Public Pension Standards Award for Funding and Administration* by the Public Pension Coordinating Council, a confederation of the National Association of State Retirement Administrators, the National Conference on Public Employee Retirement Systems, and the National Council on Teacher Retirement. This is the eighth consecutive award OPERS has received in recognition of meeting professional standards for plan funding and administration as set forth in the Public Pension Standards.