



SEASONS

POPULAR ANNUAL FINANCIAL REPORT FOR THE
FISCAL YEAR ENDED JUNE 30, 2019

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM

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, 2019. This report contains summary financial information from the 2019 Comprehensive Annual Financial Report (CAFR) written in layman's terms. The theme of this year's CAFR is "Seasons."

This year's theme illustrates how changes in our life impact our final years in retirement and how your retirement system is an integral part of the investment years of our members. 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.

This report is our call to reflect on the past seasons and shows we are working toward a financially secure retirement system that will allow our members to feel confident in each season of their lives.

We hope you find this report informative.

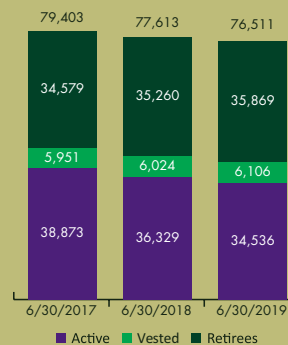
Sincerely,

Joseph A. Fox
Executive Director

ABOUT OPERS

OPERS was established in 1964 by the Oklahoma Legislature. As of June 30, 2019, the Plan consisted of 285 participating employers comprised of state, county, and local agencies. The membership includes 34,536 active members, 6,106 inactive members, and 35,869 retirees and beneficiaries. Active membership has steadily decreased since the creation the mandatory Pathfinder Defined Contribution plan for new state employees after November 1, 2015.

Demographic Chart



COMPREHENSIVE ANNUAL FINANCIAL REPORT ONLINE

The 2019 Popular Annual Financial Report of the Oklahoma Public Employees Retirement System (OPERS) contains summary financial information from the 2019 Comprehensive Annual Financial Report. The full report may be viewed, in its entirety online, at www.opers.ok.gov/publications.



NET POSITION

The net position restricted for pension and health insurance subsidy plan (HISP) totaled approximately \$10 billion at June 30, 2019, compared to \$9.7 billion at June 30, 2018, improving by approximately \$0.3 billion due to investment income and flows of funds, and \$9.2 billion at June 30, 2017. 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 2019, resulting in an increase in net investment income which lead to an increase in net position restricted for pension/HISP benefits from June 30, 2017 to June 30, 2018 and from June 30, 2018 to June 30, 2019.

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, 2019, fiduciary net position increased by \$251.0 million, or 2.6 percent, from June 30, 2018. Total assets increased \$112.5 million, or

1.1 percent, due to a 1.0 percent increase in investments change in fair value and 0.8 percent increase in securities lending collateral. The System achieved a money-weighted rate of return of 6 percent compared to the prior year of 8.4 percent resulting in the majority of the increase in fiduciary net position. Total liabilities decreased \$138.4 million, or 14.2 percent, due to a 28.3 percent decrease in pending purchases of securities.

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, 2019, total deductions increased \$28.4 million, or 4.5 percent, from the prior year. Retirement, death, and survivor benefits increased \$28.5 million, or 4.7 percent, due to a 1.7 percent increase in the number of retirees at year end and a 1.5 percent increase in the average benefit. Refunds and withdrawals decreased \$0.6 million or 3.7 percent from prior year and a 7.8 percent increase in administrative costs was primarily due to new IT consulting and IT services.

Condensed Schedules of Fiduciary Net Position

(\$ millions)	2019			2018			2017		
	Pension	HISP	Combined	Pension	HISP	Combined	Pension	HISP	Combined
Assets:									
Cash and cash equivalents	\$ 127.3	\$ 6.9	\$ 134.2	\$ 216.4	\$ 6.6	\$ 223.0	\$ 113.3	\$ 5.9	\$ 119.2
Receivables	322.1	11.9	334.0	223.6	8.1	231.7	340.9	11.8	352.7
Investments	9,489.1	354.0	9,843.1	9,403.9	344.1	9,748.0	9,042.9	318.3	9,361.2
Securities lending collateral	462.9	17.3	480.2	459.7	16.8	476.5	618.2	21.8	640.0
Other assets	1.0	—	1.0	0.8	—	0.8	0.7	—	0.7
Total assets	10,402.4	390.1	10,792.5	10,304.4	375.6	10,680.0	10,116.0	357.8	10,473.8
Liabilities:									
Other liabilities	346.4	12.9	359.3	483.7	17.7	501.4	583.8	20.5	604.3
Securities lending collateral	462.9	17.3	480.2	459.7	16.8	476.5	618.2	21.8	640.0
Total liabilities	809.3	30.2	839.5	943.4	34.5	977.9	1,202.0	42.3	1,244.3
Ending fiduciary net position	\$ 9,593.1	\$ 359.9	\$ 9,953.0	\$ 9,361.0	\$ 341.1	\$ 9,702.1	\$ 8,914.0	\$ 315.5	\$ 9,229.5

Condensed Schedules of Changes in Fiduciary Net Position

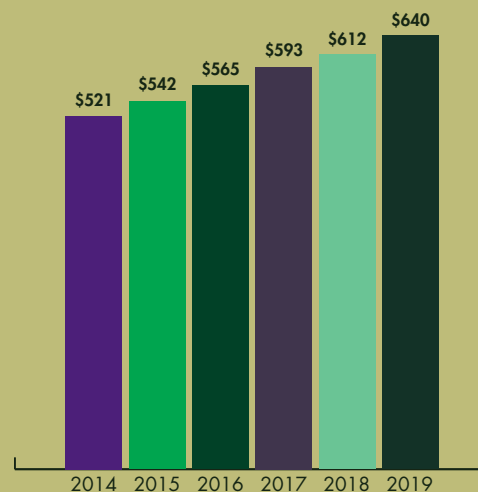
(\$ millions)	2019			2018			2017		
	Pension	HISP	Combined	Pension	HISP	Combined	Pension	HISP	Combined
Member contributions	\$ 66.6	\$ —	\$ 66.6	\$ 66.9	\$ —	\$ 66.9	\$ 70.3	\$ —	\$ 70.3
State and local agency contributions	263.7	18.8	282.5	258.9	19.1	278.0	269.5	18.9	288.4
Net investment income	544.2	18.9	563.1	735.0	25.5	760.5	1,013.9	35.7	1,049.6
Total additions	874.5	37.7	912.2	1,060.8	44.6	1,105.4	1,353.7	54.6	1,408.3
Retirement, death and survivor benefits	621.4	18.6	640.0	592.7	18.8	611.5	573.9	19.0	592.9
Refunds and withdrawals	15.4	—	15.4	16.0	—	16.0	16.0	—	16.0
Administrative expenses	5.6	0.2	5.8	5.1	0.2	5.3	5.2	0.2	5.4
Total deductions	642.4	18.8	661.2	613.8	19.0	632.8	595.1	19.2	614.3
Net increase in fiduciary net position	232.1	18.9	251.0	447.0	25.6	472.6	758.6	35.4	794.0
Beginning of year	9,361.0	341.1	9,702.1	8,914.0	315.5	9,229.5	8,155.4	280.1	8,435.5
End of year	\$ 9,593.1	\$ 360.0	\$ 9,953.1	\$ 9,361.0	\$ 341.1	\$ 9,702.1	\$ 8,914.0	\$ 315.5	\$ 9,229.5

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* provides information on the total benefit expenses incurred by the Plan consisting of age and service, disability, and beneficiary death benefits.

Schedule of Benefit Payments (\$millions)



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, 2019 was 6.1 percent. The *Rate of Return* table 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.

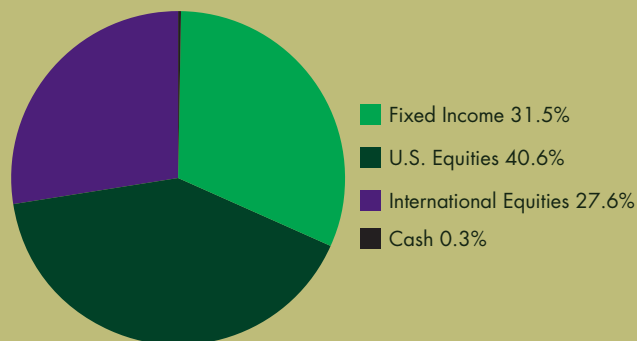
The Board engages outside investment managers to manage the various asset classes where OPERS has exposure. At fiscal year end, the investment portfolio of OPERS was actively managed by three fixed income managers, seven domestic equity managers and two international equity managers. OPERS' investment 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 2019 investments provided a 6.1 percent rate of return. The annualized rate of return for OPERS was 9.1 percent over the last three years and 6.1 percent over the last five years. The allocation of the investment portfolio, as of June 30, 2019, is shown in the *Asset Mix* chart.

Rate of Return

Year Ended June 30,	Total
2019	6.1 %
2018	8.4 %
2017	12.8 %
2016	0.3 %
2015	3.2 %
2014	18.0 %

Asset Mix



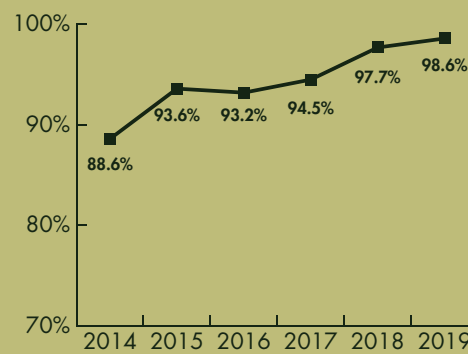
OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM

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, 2019 amounted to \$10.0 billion and \$9.9 billion, respectively.

The OPERS funded status increased to 98.6 percent at July 1, 2019. 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 shows the change in funded status over the past six fiscal years.

Funded Ratio



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, 2018. 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 twelve 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 ninth consecutive award OPERS has received in recognition of meeting professional standards for plan funding and administration as set forth in the Public Pension Standards.

