TO PROTECT AND TO SERVE

Spring 2010

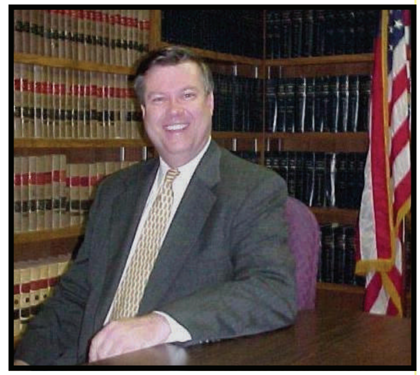
A publication of the Oklahoma Police Pension and Retirement System

Inside this Issue:

Letter from the Executive Director — Steven K. Snyder

Are times getting better …

Yes and No



A question that keeps arising is whether times are getting better? The stock market was back over 11,000. The industrial production is increasing. Consumers are spending more than they have in the previous two years. Wage reductions have slowed or stopped. Using these indicators, a person would say that, yes, times are getting better. Are they?

Unemployment keeps hovering around the 10% mark. This figure is deceiving because it measures only those who are looking for work. It doesn't include those who have stopped looking for work (discouraged workers) or those who are working part time. When you include those people in the numbers, the total increases to over 17%. The number of unemployed, underemployed, and discouraged workers is basically one in every six people.

How does this affect the members of the Oklahoma Police Pension and Retirement System? With dwindling tax revenue, both the State of Oklahoma and it's municipalities are seeing dramatic reduction in their budgets. The State of Oklahoma is looking at over a one billion dollar reduction in tax revenue for fiscal year 2011 (beginning July 1, 2010). This is a 20% reduction from fiscal year 2010. Cities, too, are also seeing dramatic revenue decreases which, in turn, adversely affect their budgets including salaries and benefits for their police departments.

As many of you know, the two largest police departments in the State of Oklahoma, Oklahoma City and Tulsa are looking at or already have implemented furloughs and layoffs. (continued on page 2)

NO COLA!

The Oklahoma Legislature adjourned sine die on May 28th, 2010 and did not pass Senate Bill 1637. Therefore, there will be no Cost of Living Adjustment (COLA) this year.

At one point Tulsa Police Department had proposed eliminating 124 officer positions while Oklahoma City's Police Department was looking at eliminating a similar number of officer positions. Other smaller police departments are already looking at reductions in force and furloughs.

Due to these economic reductions, some officers are looking at the possibility of retiring. As many officers are contemplating retiring, one question that keeps arising is how the pension benefit, and the 'Back DOP" formula is calculated. Below, you will find the formula for calculating your Final Average Salary, Pension Benefit, and Back DOP. Hopefully you will find the formulas beneficial.

On a closing note; notwithstanding the tumultuous economic times that the nation, state and the citizens have endured, the Oklahoma Police Pension and Retirement System is well funded in comparison to the other public pension systems in Oklahoma. The Oklahoma Police Pension and Retirement System has increased its total fund by 25% in the past 24 months and has an actuarial funded status, as of June 30, 2009 of 76%. Therefore, rest assured that your pension benefits are safe and secure.

Respectfully,
Steve Snyder

FINAL AVERAGE SALARY Formula:

______________________÷ __________________________ = _____________________

Highest 30 Consecutive Months (Pensionable Salary) Number of Consecutive Months Final Average Salary (FAS)

****

BACK DOP Formula:

_______________ - __________(not to exceed 5 years)_ = _______(no less than 20 years)

Total Years of Service Years Back DOP Years of Benefit Service

****

BENEFIT Formula:

__________ x 2.5%(0.25) x _______(not to exceed 30 years) = ______________________

Final Average Salary (from above) Years of Benefit Service (from above) Estimated Monthly Pension

****

New Fed Data Sheds Light on Pension Investments

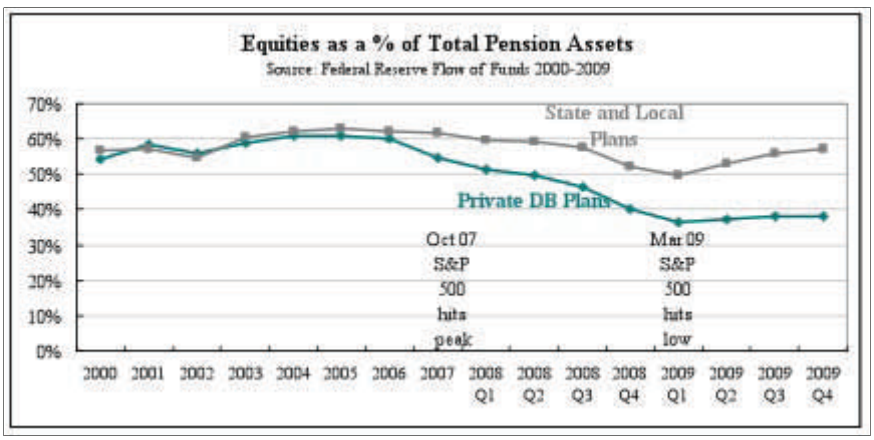
With the Federal Reserve's newly-released Flow of Funds data for 2009, we can take a fresh look at how pension funds are investing.

A look at these data reveals some interesting trends. In 2009, the stock market rebound helped the investment performance of all types of plans. But state and local pension plans did better than their private sector counterparts, posting gains of 16%, as compared with gains of 13% for private sector DB plans.

Such a large performance gap between public and private sector DB plans is new and can be attributed to fairly dramatic changes that private sector plans have made to their portfolios in recent years. Public pension plans have avoided making drastic moves, largely staying the course through the recent market turmoil, and reaping the rewards of a patient, long-term approach to investing.

The Flow of Funds is a comprehensive, independent source of data on how pension funds in the public and private sectors invest their assets and how this has been changing over time.

These data indicate that by the end of 2009, private pension plans, as a group, had significantly retrenched from investing in stocks, holding just 38% of their portfolio in equities. Public plans, meanwhile, made small adjustments, but no drastic moves – equity shares at the end of 2009 stood at about 57%. This is striking, because when we look back over the past decade, we can see that through 2006, pensions in the private and public sectors invested quite similarly – each held about 60% of their assets in stocks.



What's going on?

The drop in equity holdings among both types of plans reflects, in part, the dramatic drop in the stock market from the highs reached in October 2007. As depicted in the graph above, the declining share of pension assets invested in equities continued until the first quarter of 2009, when the stock market hit bottom. Both public and private plans saw value of their equity holdings drop. But the graph also shows that private pensions' equity holdings shrank at a much faster rate than those of public plans. Private sector DB plans' equity holdings fell to about 36% in the first quarter of 2009, from about 60% prior to 2006. Since early 2009, equity shares have come back slightly for corporate plans, but that has not been due to any new investments in stocks. Rather, since mid-2006, private sector pension funds have steadily pulled more than half a trillion dollars out of the stock market.

Equity holdings among public pension plans changed to a much smaller degree than what would be expected, given the rapid drop, and then (partial) recovery of the stock market. This indicates that public plans took a long-term, balanced approach to investing even in the face of drastic changes in the market, continuing a trend that was documented in the 2008 NIRS report, In It for the Long Haul.

Why are public and private plans, which used to travel on a common investment path, diverging now? And why were plans in the private sector in full retreat from stocks during what some have called the buying opportunity of a lifetime?

Continued on pg 4

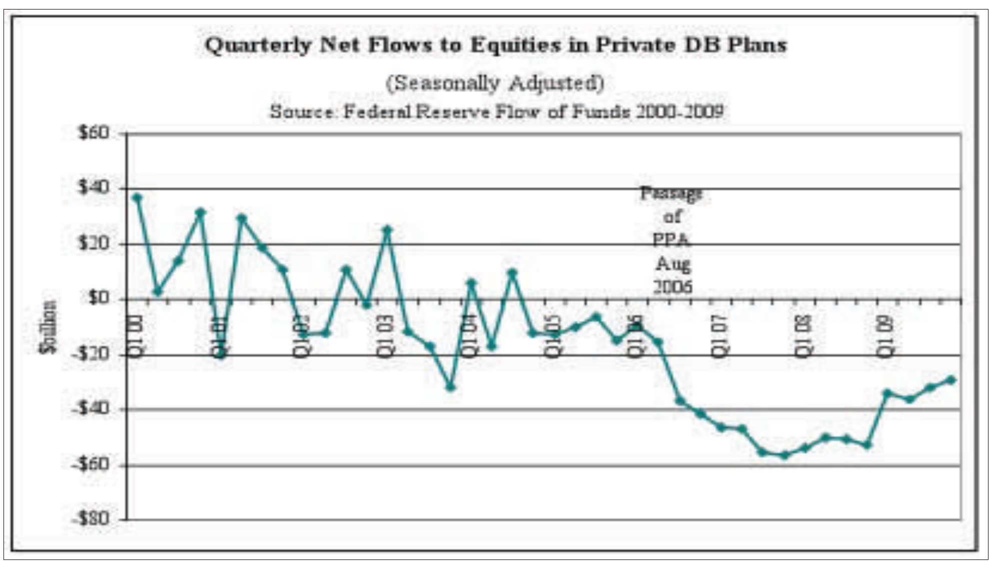
The most likely reason is changes in federal pension law and threatened changes to private sector accounting standards that place heavy burdens on companies that offer pensions. Changes to federal pension law passed in 2006 required that pension shortfalls arising from investment losses be paid for over seven years or less. At the same time, accounting regulations that would require pension assets and liabilities to be valued as though the plan were terminating immediately would introduce considerable volatility to the financial statements of companies that offer pensions. Both of these factors make sponsoring a pension a far less attractive proposition for private sector employers.

In response, private sector plan sponsors have tried to limit the damage two ways – both of which have had similar results.

First, companies have attempted to reduce the volatility of the investments in their plans by turning away from equities and embracing "fixed income" investments. But in light of the very low interest rate environment that has prevailed for most of this decade, this has proved an expensive proposition.

Second, many companies have decided to get out of the business of offering pensions to their employees altogether. And it is perhaps not surprising that in the months leading up to the passage of the Pension Protection Act of 2006, and in the years since, hundreds of companies have closed down their pensions. A 2008 GAO study found that 45% of pensions in the corporate sector have either been closed to newly hired employees, or have implemented a "hard freeze" with no new benefit accruals in the plan for any employees.

Here again, the policy shift away from equities plays out. As noted in the NIRS issue brief Look Before You Leap, a "frozen" pension plan requires a different investment strategy than an open plan. A frozen plan rapidly ages, since no new employees are coming into the plan. As a result, the plan requires greater liquidity over time, and must move away from long-term investments like stocks in favor of holding cash and bonds. This imposes a significant cost in the foregone opportunity to earn better returns that could have come with a better balanced portfolio. This trend has not only been a negative for private sector employers. Most experts agree that impact of these pension freezes will be disastrous for Americans' future retirement security.

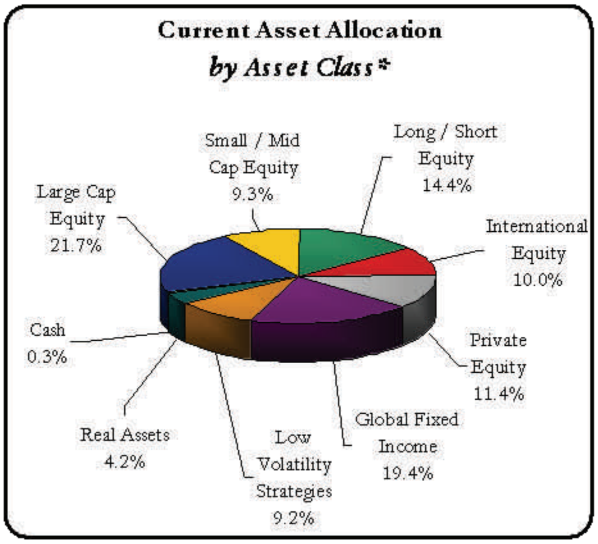


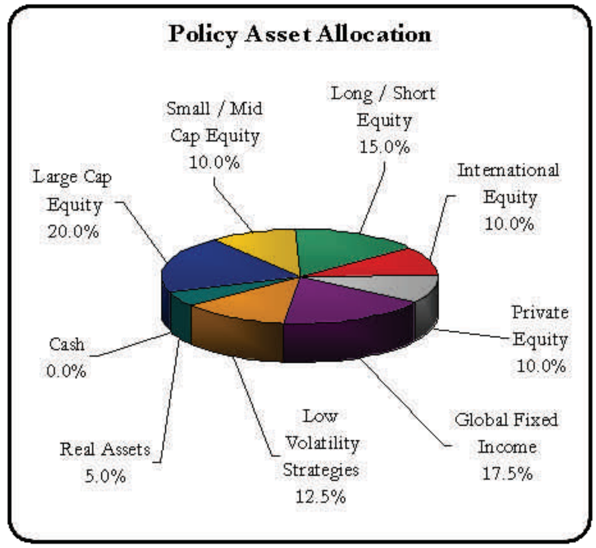
The Flow of Funds data lend strong support to the link between passage of the Pension Protection Act and the big changes we are seeing in the way private sector pension plans invest. Looking at net flows into and out of equities over the decade, we can see that flows turned sharply negative (and stayed there) immediately after the Act was passed in August 2006.

Thank goodness that pension policy in the public sector has avoided this trap. Pensions serving employees of state and local government (with just a few exceptions) remain open and continue to serve retired, active and newly hired employees. That is a huge positive for retirement security. But it also means good things for taxpayers, since the plans are in a better position, as compared with frozen private sector plans, to continue taking a long-term approach to investing through balanced portfolios. That approach has proved to serve public plans well during this period of recovery in financial markets.

Posted by: Beth Almeida, NIRS Executive Director, March 15, 2010

Oklahoma Police Pension & Retirement System
Periods Ending April 30, 2010





Asset Class Allocation	Market Values (000s)	% Asset Class	% Total Portfolio	% Cash	Policy %	Over/Under Target
Large Cap Equity	$354,960	32.5%	21.7%	--	20.0%	1.7%
Small / Mid Cap Equity	$151,453	13.9%	9.3%	2.2%	10.0%	(0.7%)
Long / Short Equity	$235,636	21.6%	14.4%	--	15.0%	(0.6%)
International Equity	$163,933	15.0%	10.0%	--	10.0%	0.0%
Private Equity	$187,018	17.1%	11.4%	--	10.0%	1.4%
Total Equity Composite	**$1,093,000**	**100.0%**	**66.8%**	**0.3%**	**65.0%**	**1.8%**
Global Fixed Income	$317,537	67.6%	19.4%	3.9%	17.5%	1.9%
Low Volatility Strategies	$151,221	32.2%	9.2%	--	12.5%	(3.3%)
Fixed Income Composite[1]	**$469,467**	**100.0%**	**28.7%**	**1.3%**	**30.0%**	**(1.3%)**
Real Assets	$68,849	100.0%	4.2%	0.2%	5.0%	(0.8%)
Cash	$4,859	100.0%	0.3%	94.9%	0.0%	0.3%
Securities Lending Liability	($361)					
Total Portfolio[1]	**$1,635,815**					

* Excludes Securities Lending Liability

1 Fixed Income Composite and Total fund includes $709,116 for illiquid securities in terminated accounts with Oversees CAP Partners

	Market Values (000s)	% of Asset Class	% of Total Portfolio	% Cash	*One Month*	*YTD*	*June 30, FYTD*	*One Year*	*Three Years*	*Five Years*	*Ten Years*
Total Portfolio[1]	$1,635,815			0.9%	1.05 %	3.88 %	17.61 %	21.97 %	(0.80)%	5.26 %	4.12 %
Total Portfolio Net of Fees					1.04 %	3.81 %	17.49 %	21.80 %	(0.95)%	5.08 %	3.88 %
Policy Index[2]					*1.40 %*	*5.61 %*	*23.07 %*	*29.16 %*	*(0.87) %*	*4.43 %*	*3.04 %*

1 Total Fund includes $709,116 for illiquid securities in terminated account with Overseas CAP Partners and $10,826 in remaining investment in Prudential Timber.

2 The Policy Index is comprised of the following indices: 55% Russell 3000, 35% Barclays Capital Universal, and 10% MSCI EAFE as of June 1, 2007. Prior to that the Policy Index was compromised of the following indices: 55% Russell 3000, 35% Barclays capital Aggregate, and 10% MSCI EAFE.

$37.25 Million: American Home Mortgage Settlement

A federal judge recently approved a $37.25 million settlement with American Home Mortgage, the bankrupt former lending giant that was among the first institutions caught up in the scandal over subprime loans. Berman DeValerio represented the Oklahoma Police Pension and Retirement System, which was co-lead plaintiff with the Teachers' Retirement System of Oklahoma.

"We pursued this litigation to recover the maximum possible amount American Home and its enablers took from our members through this fraud," said Steven K. Snyder, Executive Director and Chief Investment Officer of the Oklahoma Police Pension and Retirement System. "We are satisfied that we achieved a significant settlement, despite the company's bankruptcy and other complicating factors." The plaintiffs argued that the real estate investment trust company had misrepresented its investments in filings with the Securities and Exchange Commission and other public representations. According to the complaint, American Home failed to write down the value of certain loans in its portfolio, which had declined substantially in value as the credit markets unraveled. As a result, investors purchased American Home securities at inflated prices.

"American Home billed itself as a conservative mortgage lender, yet in reality it was aggressively pursuing high-risk loans," said Kathleen Donovan-Maher, a Berman DeValerio partner who managed the case. "The company publicly insisted that it was not a subprime lender when, in fact, that's precisely what it was."

With American Home denying less than 5% of the mortgage applications it received, "anyone with a pulse" could qualify for its products, the complaint alleged. True prime lenders typically denied more than 15% of loan applications. Subprime lenders – who lend to those with poorer credit – denied 45% of loan applications between 2004 through 2006.

The lawsuit, *In re American Home Mortgage Securities Litigation,* 07-MD- 1898 (E.D.N.Y), named as defendants a number of the company's former top officers and directors, as well as American Home's former auditor – Deloitte & Touche LLP – and numerous underwriters.

Judge Thomas C. Platt of the U.S. District Court for the Eastern District of New York approved the settlement in January. The United States Bankruptcy Court also approved the settlement.

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Consultant's Corner

2010 – Now What?

Recent statistics indicate that the economy is stabilizing across most fronts, and several leading indicators have recently turned positive. However, there are still legitimate concerns regarding how vigorous and sustained the recovery will be. In the near-term, it appears that another downturn is unlikely given where the data tells us we are in the economic cycle. While it seems that some segments of the economy will be slower to recover, the tide appears to be shifting (absent some unforeseen systemic shock). Some of the current economic indicators that signify a secondary recession is unlikely are as follows:

- A key indicator of a turnaround has been the increase in consumer spending during the last two quarters. At approximately 70% of GDP (Gross Domestic Product), consumer spending drives GDP growth. Looking ahead, the median forecast is for consumer spending in 2010 to remain around its recent historical average.
- Recent data also indicates that personal income is beginning to rise from trough levels. Over time, it is expected that this rising income should contribute to increased consumption.
- The recent increase in temporary employment, which has historically been a leading indicator for permanent employment, suggests that employment may be nearing an inflection point.
- Corporate profits are picking up due to lower costs and revenue growth. Sales have recently picked up at the wholesale and manufacturing levels as companies have increased orders to replenish inventories. The combination of higher sales and lower costs has led to a resurgence of corporate profitability.

Despite the positive indicators, much concern remains about the health of the U.S. economy. Current capacity utilization in the economy is at a historic low point and unemployment is still hovering near 10%. Longer-term, there are valid concerns that the U.S. government's recent stimulus programs will result in much higher inflation. Current indicators suggest that inflationary pressures will remain low for most of 2010 but economists and investors are actively monitoring market signals for any signs of change. Additionally, European economies have struggled for many of the same reasons our domestic economy has, compounding the problems facing U.S. – based investors.

In summary, current economic data continues to be mixed – and much of the information is "less bad" rather than positive – but the markets broadly reflect improvement in investor sentiment and a belief that a "double dip" recession is unlikely.

Sources: Bloomberg, Commerce Department, Bureau of Economic Analysis, NBER, Bureau of Labor Statistics

This is a regular feature in the newsletter from Asset Consulting Group, the financial consultant to the Oklahoma Police Pension and Retirement System.

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This newsletter is for informational purposes only. Individual requirements and benefits may differ, depending on circumstances. Consult the plan provisions or OPPRS for detailed information.

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