Spring/Summer 2011

PROTECT AND SERVE

A publication of the Oklahoma Police Pension and Retirement System

Inside this Issue:

Letter from the Executive Director — Steven K. Snyder

The Oklahoma Legislature adjourned sine die on May 20, 2011. This session has been one filled with changes that affected not only the Oklahoma Police Pension and Retirement System (OPPRS), but all of the state retirement systems. The pension reform legislation bills that will have an impact upon our System are House Bill 2132 (HB 2132) and Senate Bill 347 (SB 347). Please see summaries of the bills on page 2.

There were numerous other legislative bills that were introduced this legislative session that would have affected the OPPRS, but none of these bills were passed out of the legislature. A positive for OPPRS is that the funded status increased from approximately 75% to approximately 91%, as of July 1, 2010.

I am sure that you are aware that there will be no Cost of Living Adjustment (COLA) this year. With House Bill 2132 in place, no future COLA's will be granted unless there is concurrent funding provided to pay for the COLA. We will keep you apprised of developments as the year progresses.

Have a happy and safe summer season.

REMINDER

Web Member Services does not list beneficiary information because beneficiaries are determined by statute

HB 2132

HB 2132 creates the Truth in Funding Act. The bill removes cost of living adjustments for the definition of "non-fiscal retirement bills". The bill also removes provisions requiring an actuarial analysis of cost of living adjustments and adds language that provides that a retirement bill having a fiscal impact will be considered only if the Legislature provides the funding determined by the legislative actuary in an amount equal to or exceeding the annual normal cost to the retirement system resulting from the bill being enacted.

The bill also provides that no retirement will adopt a cost of living actuarial assumption or cause an assumption to be included in any actuarial valuation. The bill also prohibits a bill from taking effect if the State Board of Equalization determines that any retirement bill having a fiscal impact does not have concurrent funding. The bill also provides that the bill may not be administered by the retirement system. The bill goes into effect August 25, 2011.

SB 347

SB347 requires that any municipal officer or employee forfeit their retirement benefits upon final conviction of or pleading guilty or nolo contendere to a felony for bribery, corruption, forgery or perjury or any other crime related to their office or employment. The bill exempts from the forfeiture of their retirement benefits officers or employees who receive a deferred sentence, but requires that benefit not begin prior to completion of the deferred sentence. The bill also establishes that the forfeiture will not include the officer or employee's contributions to the retirement system or benefits that are vested at the time of the effective date of the law. The bill requires that the forfeiture continue until the conviction of guilty plea is reversed by the highest appellate court to which the officer or employee may appeal. The bill also requires the prosecuting attorney to notify the retirement system in which the officer or employee is enrolled and requires the retirement system to immediately suspend all benefits and to notify the officer or employee of their right to a hearing to review whether the conviction or plea meets the qualifications for forfeiture. The bill permits the retirement system to investigate, gather court documents and contact prosecutors to determine if a conviction or plea meets the qualifications for forfeiture. The bill applies to municipal retirement systems, Oklahoma Firefighters Pension and Retirement System, the Oklahoma Police Pension and Retirement System, and the Oklahoma Public Employees Retirement System. The bill takes effect on Aug 25, 2011.

NATIONAL INSTITUTE ON Retirement Security

Reliable Research. Sensible Solutions.

PENSION EDUCATIONAL INFORMATION

APRIL 2011

To ensure stakeholders have accurate data and context, below is a snapshot summary of fact-based information regarding public pensions that can be provided to interested parties.

- **Pensions are durable and recovering from the Wall Street financial crisis that impacted all investors.**

Like all investors, public and private sector pensions realized investment losses with the recent historic market decline. Public pensions saw their holdings fall in value by $889 billion between 2007 and 2008. Aggregate funding levels of the nation's largest public pension plans shifted from 85% in 2008 to 80% in 2009—a level that most experts agree is adequate for long-term pension sustainability. Since that time, as the stock market has rebounded, so has the value of pension funds and most plans are well positioned to recover. At the end of calendar year 2010, aggregate state and local government retirement system assets totaled nearly $3 trillion, a 35% increase from the low point of the market collapse. These asset levels are nearly 25% higher than on June 30, 2009 – a date that some studies rely upon to portray the financial condition of public pensions.

Since then, investment returns have rebounded sharply and states have adopted changes to benefits levels and financing structures that have had a positive impact on pension trusts. *(Source: National Association of State Retirement Administrators, "Strong Investment Gains and Legislative Changes Speeding Public Pension Recovery," April 2011)*

- **Public pension systems across the country are actively making changes to ensure their long-term sustainability.**

In response to the market downturn, state and local government have taken substantive and varied actions to modify their pension plans. In fact, more changes were enacted in 2010 than in any other year in recent history.

In the past few years, nearly two-thirds of states have made changes to benefit levels, contribution rate structures, or both. From coast to coast, changes have included increasing employee contributions; changing the benefit multiplier or final average pay calculation; increasing the age and service requirements; implementing anti-spiking provisions; modifying post-retirement increases; and increasing the vesting time period. *(Source: National Conference of State Legislatures, "Pensions And Retirement Plan Enactments In 2010 State Legislatures," November 2010)*

- **Public pensions are prudent investors, and continue to utilize investment return assumptions that are realistic and minimize taxpayer costs.**

During the 25-year period ending December 31, 2010, the major pension plans averaged approximately 9% a year in investment returns, according to Callan Associates. This period includes three recessions, including the stock market decline of 2008- 2009. Because most funds assumed an investment return of 8% or less, taxpayers were the beneficiaries of the positive returns, as contributions to pension funds were less than actuarially projected during this 25-year period.

In addition, Standard and Poor's concluded that in calendar year 2009, pension funds on aggregate reported a 19.5% return on investment. In 2010, funds that have reported investments are typically reporting gains in the 13% to 15% range. Since 2003, the average aggregate pension fund earnings have exceeded the typically assumed benchmark of 8% per year every year except 2008, the year of the market crash.

Moreover, studies show that public pensions are prudent investors in both bull and bear markets. They consistently exhibit prudent investment behavior, adopt best investment practices, and avoid moral hazard. *(Source: National Institution Retirement Security, "In it for the Long Haul: The Investment Behavior of Public Pensions," November 2008)*

- **Public pensions are a small portion of state budgets, and closing funding gaps is manageable.**

According to the Center on Budget and Policy Priorities, states and localities devote an average of 3.8 percent of their operating budgets to pension funding. In most states, a modest increase in funding and/or sensible changes to pension eligibility and benefits should be sufficient to remedy funding.

The Center for Retirement Research at Boston College projects that if total contributions increase by just 2.2 percent of payrolls on average, state and local governments can pay off the total unfunded liabilities in 30 years. Moreover, states are continuing to make most, if not all, of their annual required contributions (ARCs) to the pension funds. In 2009, an average of 88% of the ARC was paid by the largest state and local retirement systems in the country. States that have kept up with their payments will be able to make minor adjustments to keep the plan healthy, while states that showed less funding discipline before the downturn will likely face greater challenges.

- **Pension spending creates jobs and economic stimulus in virtually every jurisdiction across the nation.**

Public employees and retirees live in every city and county in the nation. The $175 billion in annual benefit distributions from pension trusts are a critical source of economic stimulus to communities throughout the nation, and act as an economic stabilizer in difficult financial times.

Recent studies find that expenditures made from state and local pension benefits had a total economic impact of more than $358 billion; supported more than 2.5 million American jobs that paid more than $92 billion in total compensation to American workers; and supported more than $57 billion in annual federal, state, local tax revenue. The expenditures also had large multiplier effects. Each taxpayer dollar invested in state and local pensions supported $11.45 in total economic activity, while each dollar paid out in benefits supported $2.36 in economic activity. *(Source: The National Institute on Retirement Security, "Pensionomics: Measuring the Economic Impact of State and Local Pension Plans," February 2009)*

- **Pensions remain the most economically efficient way to provide modest retirement benefits to employees.**

The average public sector retirement benefit is about $1,900 per month. The benefits typically are funded using a shared approach, with employers, employees, and investment returns contributing to the pension trust.

Moreover, a recent study finds that a pension is the most economically efficient means of delivering retirement income—half the cost of a defined contribution account. Pensions are efficient because they avoid the problem of "over-saving" by pooling longevity risks, maintaining an optimally balanced investment portfolio, and achieving higher investment returns as compared to individual investors, because of professional asset management and lower fees. *(Source: The National Institute on Retirement Security, "A Better Bang for the Buck: The Economic Efficiencies of Defined Benefit Pension Plans," August 2008)*

- **Traditional pensions remain the most effective way for middle-class Americans to achieve financial security and self-sufficiency in retirement.**

Poverty among older households lacking pension income is six times greater than those with pension income. An estimated 1.4 million fewer Americans rely on public assistance because of the stable retirement income provided by traditional pensions.

Without this pension income, there would be a 40% increase in the number of older households receiving public assistance, at a cost of some $7.3 billion in additional public assistance expenditures. *(Source: The National Institute on Retirement Security, "The Pension Factor: Assessing the Role of Defined Benefit Plans in Reducing Elder Hardships," July 2009)*

- **Americans are highly anxious about their retirement prospects, and view pensions as a solution.**

A national poll revealed that some 84% of Americans are concerned that current economic conditions are impacting their ability to achieve a secure retirement, with more than half (54%) of Americans very concerned. More than 80% of Americans believe that recent economic downturn exposed the risks of America's retirement system, with nearly three quarters indicating that stock market volatility makes it impossible for the average American to predict how much money they will have in their nest egg when they retire.

Americans view pensions as reliable, and a solution to relieving retirement anxiety. Some 83% of Americans indicated that those with pensions are more likely to have a secure retirement, and 72% of those who have a pension are confident it will be there at retirement. Moreover, 75% believe the disappearance of pensions has made it harder to achieve the "American Dream." *(Source: National Institute on Retirement Security, "Pensions and Retirement Security 2011: A Roadmap for Policymakers," March 2011)*

Reminder to all members

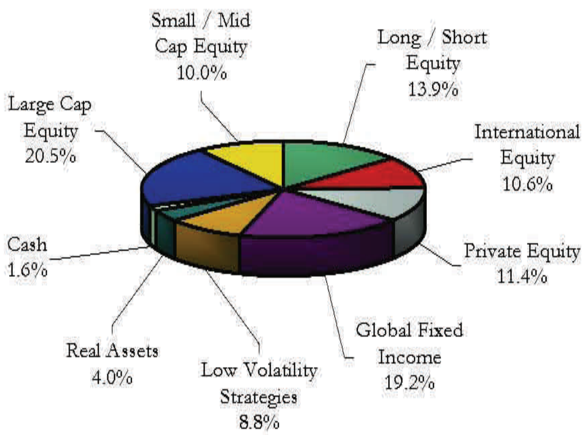
- Vesting is NOT automatic, in order to elect a vested benefit, the applicant must submit the Application for Vested Benefit. (Form 108)
- Any retiree or beneficiary wishing to add, change, or terminate an insurance premium deduction must submit a Health Election Change. (Form 135)

Forms are available on our website, and will also be provided upon request.

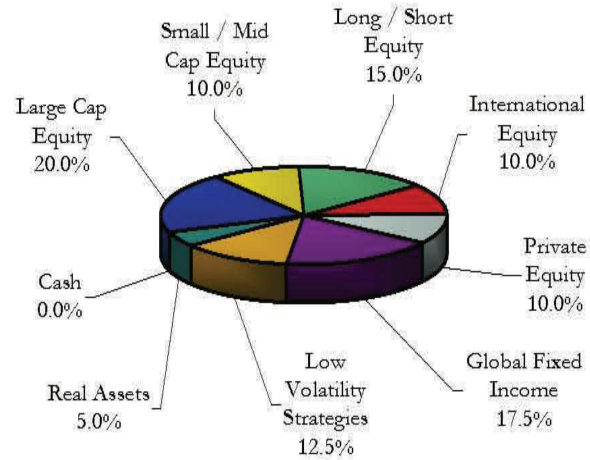
www.opprs.ok.gov

Oklahoma Police Pension & Retirement System
Periods Ending April 30, 2011

Current Asset Allocation *by Asset Class**



Policy Asset Allocation



Asset Class Allocation	Market Values (000s)	% Asset Class	% Total Portfolio	% Cash	Policy %	Over/Under Target
Large Cap Equity	$373,758	30.9%	20.5%	--	20.0%	0.5%
Small / Mid Cap Equity	$182,567	15.1%	10.0%	2.7%	10.0%	0.0%
Long / Short Equity	$253,721	20.9%	13.9%	--	15.0%	(1.1%)
International Equity	$192,788	15.9%	10.6%	--	10.0%	0.6%
Private Equity	$208,470	17.2%	11.4%	--	10.0%	1.4%
Total Equity Composite	$1,211,304	100.0%	66.4%	0.4%	65.0%	1.4%
Global Fixed Income	$349,309	68.4%	19.1%	1.6%	17.5%	1.6%
Low Volatility Strategies	$160,784	31.5%	8.8%	--	12.5%	(3.7%)
Fixed Income Composite[1]	$510,795	100.0%	28.0%	0.3%	30.0%	(2.0%)
Real Assets	$73,343	100.0%	4.0%	0.3%	5.0%	(1.0%)
Cash	$29,281	100.0%	1.6%	96.0%	0.0%	1.6%
Securities Lending Liability	($358)					
Total Portfolio[1]	$1,824,366					

**Excludes Securities Lending Liability*

[1] Fixed Income Composite and Total Fund includes $702,478 for illiquid securities in terminated account with Overseas 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]	$1,824,366			2.0%	2.15 %	5.66 %	19.78 %	13.61 %	2.94 %	4.56 %	5.81 %
Total Portfolio Net of Fees					2.10 %	5.54 %	19.49 %	13.30 %	2.75 %	4.36 %	5.58 %
Policy Index[2]					*2.64 %*	*6.99 %*	*24.90 %*	*15.16 %*	*3.21 %*	*4.19 %*	*4.71 %*

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.

On the Horizon

What is going to happen next year?

Most, if not all, of the following possible changes will, in all probability, be effective for new hires only. It should not affect current members of the Oklahoma Police Pension and Retirement System.

Rest assured, your Board of Trustees and the staff of the System are providing information to the legislature advising them that the System is in good shape and that there should be no changes imposed upon the System.

No one knows for certain, but here are some areas of the public pension systems that the Legislature may be looking at to-wit:

1. Deferred Retirement Option Plan (DROP);
2. Beneficiary benefits;
3. Contribution rates.

1. As for the DROP benefit, the legislature may look at the 7.5% minimum rate of return on the DROP account balances. One option is to lower the rate, while another option is to set the rate at the same rate of return of the System. There is also consideration to continue the member's 8% contribution to the System after the member enters the forward or back DROP. In addition, they are looking at the entire employer contributions remaining with the System (currently ½ of cities' contributions is paid into member's DROP account).

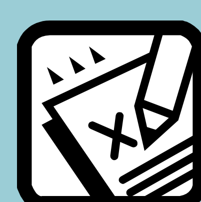
2. Currently, the beneficiary of a deceased member receives 100% of the members monthly pension benefit. The Legislature is looking at reducing that amount to 50%, in alignment with the benefit a beneficiary in the Armed Forces receives.

3. Currently the contribution rates for the System is 8% employee contribution and 13% employer contribution. The Legislature may look at increasing the contribution rates of the System.

Election Results

District 3—Rick Smith, Broken Arrow

District 6 - Randy Scott, Oklahoma City



Serving 3 year terms, beginning July 1, 2011

Active Membership by City/Town

(as of June 13, 2011)

Ada	33
Altus	45
Alva	9
Anadarko	16
Arapaho	0
Ardmore	44
Atoka	15
Bartlesville	48
Bethany	29
Bixby	23
Blackwell	17
Blair	0
Boynton	0
Bristow	7
Broken Arrow	114
Catoosa	11
Chandler	7
Checotah	9
Chickasha	25
Choctaw	10
Claremore	39
Cleveland	3
Clinton	15
Collinsville	9
Commerce	2
Coweta	14
Cromwell	0
Cushing	15
Davis	5
Del City	28
Dewey	8
Disney	0
Drummond	9

Drumright	6
Duncan	45
Durant	37
Edmond	107
El Reno	26
Elk City	25
Enid	90
Eufaula	11
Forest Park	4
Fort Gibson	8
Frederick	11
Garber	0
Glenpool	18
Grandfield	0
Granite	1
Grove	18
Guthrie	20
Guymon	16
Harrah	8
Haskell	5
Henryetta	11
Hinton	4
Hobart	8
Hominy	3
Hugo	15
Idabel	17
Jenks	17
Jones	5
Kingfisher	7
Krebs	7
Lawton	179
Lexington	0
Lindsay	6

Madill	11
Mangum	6
Mannford	6
Marlow	8
McAlester	41
Miami	26
Midwest City	93
Moore	74
Muskogee	85
Mustang	19
Newcastle	16
Newkirk	5
Nichols Hills	14
Nicoma Park	6
Noble	10
Norman	158
Nowata	4
Okeene	1
Oklahoma City	973
Okmulgee	23
Owasso	44
Pauls Valley	15
Pawhuska	7
Perkins	5
Perry	13
Piedmont	8
Ponca City	51
Poteau	24
Prague	6
Pryor	22
Purcell	16
Ringling	2
Sallisaw	22

Sand Springs	29
Sapulpa	43
Sawyer	0
Sayre	7
Seminole	11
Shawnee	53
Skiatook	18
Spencer	8
Stigler	7
Stillwater	74
Sulphur	10
Tahlequah	30
Tecumseh	7
The Village	20
Tishomingo	6
Tonkawa	7
Tulsa	763
Tuttle	8
Valley Brook	0
Vinita	15
Warner	4
Warr Acres	21
Watonga	5
Waurika	0
Weatherford	19
Weleetka	1
Wetumka	5
Wewoka	8
Wister	1
Woodward	22
Yukon	38

Bureau of Labor Statistics
Unemployment Data

Measure	Not seasonally adjusted			Seasonally adjusted					
	Apr. 2010	Mar. 2011	Apr. 2011	Apr. 2010	Dec. 2010	Jan. 2010	Feb. 2010	Mar. 2011	Apr. 2011
U-1 Persons unemployed 15 weeks or longer, as a percent of the civilian labor force	6.3	5.7	5.5	5.8	5.6	5.5	5.3	5.3	5.1
U-2 Job losers and persons who completed temporary jobs, as a percent of the civilian labor force	5.9	5.8	5.2	6.0	5.8	5.6	5.4	5.4	5.3
U-3 Total unemployed, as a percent of the civilian labor force (official unemployment rate)	9.5	9.2	8.7	9.8	9.4	9.0	8.9	8.8	9.0
U-4 Total unemployed plus discouraged workers, as a percent of the civilian labor force plus discouraged workers	10.2	9.7	9.2	10.5	10.2	9.6	9.5	9.4	9.5
U-5 Total unemployed, plus discouraged workers, plus all other persons marginally attached to the labor force, as a percent of the civilian labor force plus all persons marginally attached to the labor force	10.9	10.6	10.1	11.2	10.9	10.7	10.5	10.3	10.4
U-6 Total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force	16.6	16.2	15.5	17.0	16.7	16.1	15.9	15.7	15.9

NOTE: Persons marginally attached to the labor force are those who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the past 12 months. Discouraged workers, a subset of the marginally attached, have given a job-market related reason for not currently looking for work. Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule. Updated population controls are introduced annually with the release of January data.

Source: US Department of Labor, Bureau of Labor Statistics http://www.bls.gov/news.release/empsit.t15.htm

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ASSET CONSULTING GROUP

Consultant's Corner

Diversifying Your Investments

Historically, a common investment approach has been to invest a portion of your assets in international equities as a means of reducing the overall volatility (risk) of your portfolio. As the correlation between U.S. and international stocks has risen over recent years, investors have questioned if the benefits of investing in international markets are worth the risks. Investment markets have become more global than ever, emphasizing that investing in international markets can play an important role in a long-term portfolio. Below are a few reasons why it is important to consider investing a portion of your portfolio in non-US assets.

- Non-U.S. equities account for approximately 60% of global market capitalization, thus representing a significant opportunity set for U.S. investors.
- An investor who limits themselves to only U.S. equities excludes more than one-half of the global opportunity set.
- U.S. stocks are impacted primarily by U.S. economic and market forces while companies domiciled outside of the U.S. are exposed to different economic and market factors.
- Over longer periods of time, investors can increase a portfolio's potential return & reduced risk by adding a non-U.S. equity allocation to the portfolio.
- Exposure to different currencies can significantly affect the returns for U.S.-based investors. In 2009 and 2010, U.S.-based investors benefitted from the weakness of the U.S. dollar.
- Emerging economies are projected to grow faster than developed economies. By 2013 more than 50% of the Global GDP is expected to come from emerging economies.
- Non-U.S. equity markets are typically less efficient than U.S. markets, presenting more potential investment opportunities for investors.

The U.S. equity market has topped the performance charts only once since 1998.

While there is no right answer for all investors, research suggests having an allocation to international equities can be beneficial to long-term portfolios; the percentage allocated will depend upon the individual investor profile, risk tolerance, and other unique considerations.

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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