PROTECT AND SERVE

Winter 2011

A publication of the Oklahoma Police Pension and Retirement System

Inside this Issue:

Letter from the Executive Director — Steven K. Snyder

Under the Gun... even at 93%!

Your Oklahoma Police Pension and Retirement System (OPPRS) reached a 12 years high in regard to it's funded status when it reached 93% funded ratio as of July 1, 2011. This is the highest funded ratio for the OPPRS since 1999 and is the third highest since 1981. In addition the average rate of return for OPPRS is 8.0% since 1990, a 21 year history of out performance of the system's actuarial rate of return of 7.5%.

As for investment return, Asset Consulting Group, the financial consultant for OPPRS certified that your system generated an annual return of 18.3% as of June 30, 2011. This excellent performance is due, in large part, to the conscientiousness and dedication of the Board of Trustees who place a high emphasis upon the financial integrity of the OPPRS.

As you may be aware, the Oklahoma State House of Representatives conducted a series of interim studies reviewing the state retirement systems, including the Oklahoma Police Pension and Retirement System, relating to design, funding and investments. Interim study 11-040 reviewed the investment management of the pension systems. Interim study 11-041 is reviewing modifications to the plan designs of the pension systems including the Deferred Option Plan (otherwise known as "Plan B" or the "Louisiana Plan") Interim Study 11-042 reviewed the funding issues facing the pension system and alternatives to increasing funding (including increasing the employee and employer contributions) to the pension systems. Finally, interim study 11-043 reviewed the best practices of pension plans.

All of these studies seem to point to legislation being introduced this coming session that could affect pension benefits for future retirees. Although the OPPRS funding status is at 93%, this outstanding funded ratio will not necessarily protect the OPPRS from legislative benefit and plan changes. Be assured that your Board of Trustees and I will be closely monitoring any legislation introduced that may adversely affect the OPPRS and we will keep you informed of any changes.

Have a safe and prosperous holiday season

NATIONAL INSTITUTE ON
Retirement Security
Reliable Research. Sensible Solutions.

NEW STUDY FINDS PENSIONS ARE PREFERRED RETIREMENT PLAN

SEPTEMBER 29, 2011, Washington, D.C.— A new study of the retirement plan choice in the public sector finds that defined benefit (DB) pensions are strongly preferred over 401(k)-type defined contribution (DC) individual accounts. The study analyzes seven state retirement systems that offer a choice between DB and DC plans to find that the DB uptake rate ranges from 98 to 75 percent. The percentage of new employees choosing DC plans ranges from 2 to 25 percent for the plans studied.

In recent years, a few states have offered public employees a choice between primary DB and DC plans. The new study, *Decisions, Decisions: Retirement Plan Choices for Public Employees and Employers,* analyzes the choices made by employees and finds that:

- When given the choice between a primary DB or DC plan, public employees overwhelmingly choose the DB pension plan.
- DB pensions are more cost efficient than DC accounts due to higher investment returns and longevity risk pooling.
- DC accounts lack supplemental benefits such as death and disability protection. These can still be provided, but require extra contributions outside the DC plan which are therefore not deposited into the members' accounts.
- When states look at shifting from a DB pension to DC accounts, such a shift does not close funding shortfalls and can increase retirement costs.
- A "hybrid" plan for new employees in Utah provides a unique case study in that it has capped the pension funding risk to the employer and shifted risk to employees.

Happy Holidays
from
Oklahoma Police Pension & Retirement Board
&
Oklahoma Police Pension & Retirement Staff

The seven plans offering DB and DC choice that were analyzed for the study include Colorado Public Employees' Retirement Association, Florida Retirement System, Montana Public Employee Retirement Administration, North Dakota Public Employees Retirement System, Ohio Public Employees Retirement System, State Teachers Retirement System of Ohio, and South Carolina Retirement Systems. The new hire elections for these plans are summarized below:

System	DB Plan Enrollments	DC Plan Enrollments	Combined Plan Enrollments
Colorado Public Employees' Retirement Association	88%	12%	Not offered
Florida Retirement System	75%	25%	Not offered
Montana Public Employee Retirement Administration	97%	3%	Not offered
North Dakota Public Employees Retirement System**	98%	2%	Not offered
Ohio Public Employees Retirement System	95%	4%	1%
State Teachers Retirement System of Ohio	89%	9%	2%
South Carolina Retirement Systems	82%	18%	Not offered

"Not offered" means enrollment in a combined DB/DC plan is not offered.
*Data for Colorado, North Dakota, and Ohio PERS are for January 2010 through December 2010. Data for Florida, Montana, STRS Ohio, and South Carolina are for July 2010 through June 2011.
** One new employee out of the 63 eligible joined the North Dakota DC plan in 2010.

"Beyond the seven states analyzed that offer DB-DC choice, the experiences of Nebraska and West Virginia offer additional insight," said report co-author Mark Olleman, consulting actuary and principal with Milliman, Inc. "Both states chose to put new hires in a DC plan, and then later changed to DB. Nebraska offered some employees hired between 1964 and 2003 only a DC plan, but also maintained a DB plan for other employees. Over 20 years, the average investment return in the DB plan was 11 percent, and the average return in the DC plans was between 6 and 7 percent."

Olleman continued, "West Virginia closed their Teachers' DB plan to new hires in 1991 in response to funding problems and put all new hires in a DC plan. Unfortunately this did not solve the funding problem, and many teachers found it difficult to retire when relying only on the DC plan. West Virginia performed a study, found a given level of benefits could be funded for a lower cost through a DB plan, and put all teachers hired after July 1, 2005, in the DB plan as a cost-saving measure. So both Nebraska and West Virginia found a DC plan did not achieve their goals and changed from DC to DB."

The full study is available at www.nirsonline.org and www.milliman.com.

Oklahoma Police Pension files suit against U.S. Bank

On November 9, 2011, the Oklahoma Police Pension Retirement System (“OPPRS”) filed a class action lawsuit against U.S. Bank in federal court in New York on behalf of purchasers of Bear Stearns mortgage-backed securities. The complaint alleges that U.S. Bank, acting as sole trustee for Trusts containing Bear Stearns mortgage-backed securities, violated its statutory and contractual duties to assure that title to the mortgage loans was properly conveyed to the Trusts and in overseeing those Trusts. The complaint further alleges that U.S. Bank breached its obligations by failing to: (1) take physical possession of the underlying mortgage loan files from Bear Stearns; (2) review each of the loan files to ensure all key documents were included and complete; (3) promptly notify a subsidiary of Bear Stearns of loans that contained missing, defective or incomplete loan files; and (4) cure those defects by substituting or re-purchasing the defective loans.

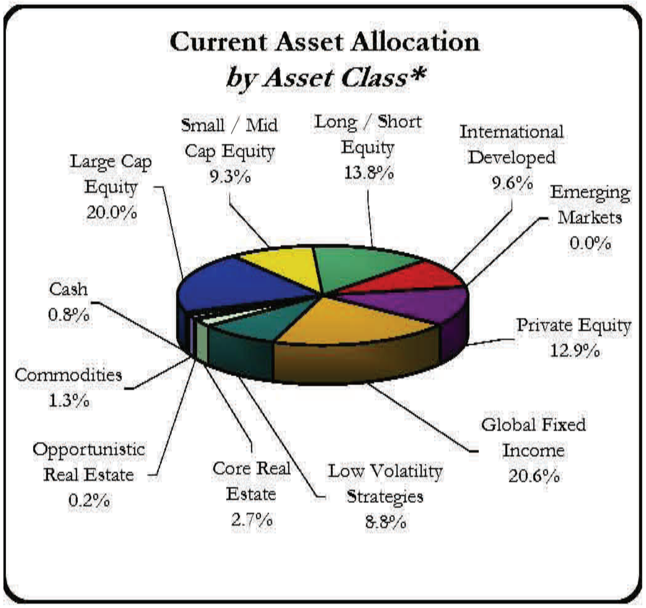
Last year, the Congressional Oversight Panel investigating the 2008 financial meltdown in the United States housing market detailed similar violations by numerous trustee banks, noting that that without a proper transfer to the Trusts, the mortgage-backed securities that investors such as OPPRS purchased, would in fact be non-mortgage backed securities. Additionally, other federal and state investigations throughout the country have noted widespread abuses in the transfer and assignment of these poorly securitized mortgage loans, leading many to halt all foreclosure practices and implement new statutes and review procedures stemming from these practices.

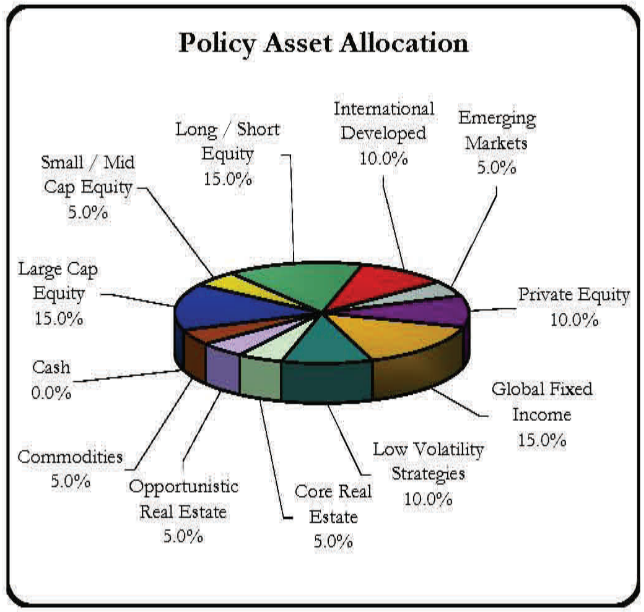
Following the collapse of Bear Stearns, numerous investigations have revealed that the mortgage loans Bear Stearns securitized were of particularly poor quality, often with significant violations of the underwriting representations and warranties, which ultimately suffered high credit losses. The case is entitled, *Oklahoma Police Pension and Retirement System v. U.S. Bank National Association, No.:11-cv-8066, United States District Court for the Southern District of New York.*

~ REMINDER ~

Any retiree or beneficiary wishing to add or change insurance premium deductions must verify the proper effective date with the insurance provider prior to submitting Form 135—Health Election/Change Form. Oklahoma Police Pension and Retirement System does not administer insurance, therefore we can not provide premium payment due dates or other coverage specifics.

Oklahoma Police Pension & Retirement System
Periods Ending October 31, 2011





Asset Class Allocation	Market Values (000s)	% Asset Class	% Total Portfolio	% Cash	Policy %	Over/Under Target
Large Cap Equity	$344,748	30.5%	20.0%	--	15.0%	5.0%
Small / Mid Cap Equity	$160,827	14.2%	9.3%	2.5%	5.0%	4.3%
Long / Short Equity	$237,063	21.0%	13.8%	--	15.0%	(1.2%)
International Developed	$165,172	14.6%	9.6%	--	10.0%	(0.4%)
Emerging Markets	$0	0.0%	0.0%	--	5.0%	(5.0%)
Private Equity	$221,594	19.6%	12.9%	--	10.0%	2.9%
Total Equity Composite	$1,129,405	100.0%	65.5%	0.4%	60.0%	5.5%
Global Fixed Income	$354,214	69.9%	20.5%	1.5%	15.0%	5.5%
Low Volatility Strategies	$152,156	30.0%	8.8%	--	10.0%	(1.2%)
Fixed Income Composite[1]	$507,079	100.0%	29.4%	1.1%	25.0%	4.4%
Core Real Estate	$47,092	64.2%	2.7%	0.7%	5.0%	(2.3%)
Opportunistic Real Estate	$3,500	4.8%	0.2%	--	5.0%	(4.8%)
Commodities	$22,767	31.0%	1.3%	--	5.0%	(3.7%)
Real Assets Composite	$73,359	100.0%	4.3%	0.5%	15.0%	(10.7%)
Cash	$14,484	100.0%	0.8%	93.6%	0.0%	0.8%
Securities Lending Liability	($358)					
Total Portfolio[1]	$1,723,969					

**Excludes Securities Lending Liability*

[1] *Fixed Income Composite and Total Fund includes $709,117 for illiquid securities in terminated account with Overseas CAP Partners.*

	Market Values (000s)	% of Asset Class	% of Total Portfolio	% Cash	*One Month*	*June 30, FYTD*	*YTD*	*One Year*	*Three Years*	*Five Years*	*Ten Years*
Total Portfolio[1]	$1,723,969			1.4%	5.31 %	(3.57)%	0.81 %	4.59 %	9.17 %	3.04 %	5.87 %
Total Portfolio Net of Fees					5.28 %	(3.67)%	0.55 %	4.27 %	8.95 %	2.83 %	5.65 %
Policy Index[2]					*7.47 %*	*(2.78)%*	*2.43 %*	*6.66 %*	*10.88 %*	*2.30 %*	*5.07 %*

[1] *Total Fund includes $709,117 for illiquid securities in terminated account with Overseas CAP Partners.*

[2] *The Policy Index is comprised of the following indices: 55% Russell 3000, 10% MSCI EAFE, 30% Barclays Capital Universal, and 5% NFI ODCE (net) as of November 2007. From June 1, 2007 to October 31, 2007 the Policy Index was comprised of the following indices: 55% Russell 3000, 35% Barclays Capital Universal, and 10% MSCI EAFE. Prior to that the Policy Index was comprised of the following indices: 55% Russell 3000, 35% Barclays Capital Aggregate, and 10% MSCI EAFE.*

National Conference on Public Employee Retirement Systems — The Voice for Public Pensions

The Secure Choice Pension:

Enhancing Retirement Security in the Private Sector

NCPERS Proposes Public-Private Enterprise to Ensure Retirement Security for All

Washington, DC – The executive director of the largest trade association for public sector pension funds today unveiled a bold proposal for a new type of retirement plan – one aimed at enhancing retirement security in the private sector by providing workers who are not in a pension plan with a guaranteed, lifetime retirement income that would be immune to stock market fluctuations and economic downturns.

At the same time, the proposed Secure Choice Pension (SCP) would provide the flexibility and portability that the increasingly mobile private work force needs, while spreading investment risks and costs over large pools of plan participants and employers.

"Less than half of private sector employees have access to an employer-sponsored retirement plan – and many of those who do simply are not financially prepared for retirement," said Hank Kim, Esq., Executive Director and Counsel for the National Conference on Public Employee Retirement Systems (NCPERS). "Recent studies have put the gap between what private sector workers are saving and what they need to save at a staggering $5 trillion to nearly $8 trillion. Even workers who do have significant savings are faced with the uncertainties of outliving those savings and the vagaries of the markets.

"What we are proposing is a new alternative, a modification of the cash balance pension model, to address the retirement security crisis that faces the private sector," Kim said. "The SCP would be a public-private enterprise – a partnership between the private sector and public sector to provide lifetime retirement security for all."

As envisioned by NCPERS, each state would establish its own SCP, to be administered by a board of trustees made up of public and private representatives. Private sector employers would join an SCP, allowing their employees to participate in that SCP. Both the participating employers and employees would make regular contributions to the SCP.

SCPs would give participants the benefits of lower costs, because of the efficiencies and economies of scale available to large pension plans. It would also give private sector participants the benefits of higher returns because SCP assets would be pooled and managed by professionals.

At retirement, the SCP would provide participants with a guaranteed pension payment for life, with an opportunity for increased payments in good economic times. Plan participants would enjoy a guaranteed minimum retirement income, but the SCP's trustees would be able to declare a "dividend" during a strong economy that would increase that benefit.

"At best, most private sector employees have only two of the three legs of the retirement stool. They have Social Security and some have personal savings, which includes 401(k)s. SCPs are a way to bring back the third leg of the stool for those workers who currently don't have a pension," Kim said. "Even workers who diligently save can see their nest eggs significantly diminished by an unexpected economic downturn. And private sector companies – especially small employers – are increasingly reluctant to bear all of the risk a traditional defined benefit pension plan entails.

National Conference on
Public Employee Retirement Systems
The Voice for Public Pensions

"The SCP is a desperately needed alternative. It would address the private sector retirement security crisis through a guaranteed, affordable, sustainable pension that draws on the lessons learned from successful public pension plans," Kim said. "The SCP is a powerful alternative whose time is now."

NCPERS' full proposal for the Secure Choice Plan is available at www.retirementsecurityforall.org.

About NCPERS

The National Conference on Public Employee Retirement Systems (NCPERS) is the largest trade association for public sector pension funds, representing more than 500 funds throughout the United States and Canada. It is a unique non-profit network of public trustees, administrators, public officials and investment professionals who collectively manage nearly $3 trillion in pension assets. Founded in 1941, NCPERS is the principal trade association working to promote and protect pensions by focusing on advocacy, research and education for the benefit of public sector pension stakeholders.

2012 Oklahoma Police Pension & Retirement Board Meeting Dates

January 18, 2012

February 15, 2012

March 21, 2012

April 18, 2012

May 16, 2012

June 20, 2012

July 18, 2012

August 15, 2012

September 19, 2012

October 17, 2012

November 21, 2012

December 19, 2012

Bureau of Labor Statistics

Unemployment Data

Measure	Not seasonally adjusted			Seasonally adjusted					
	Oct. 2010	Sept. 2011	Oct. 2011	Oct. 2010	June 2011	July 2011	Aug. 2011	Sept. 2011	Oct. 2011
U-1 Persons unemployed 15 weeks or longer, as a percent of the civilian labor force	5.5	5.2	5.0	5.7	5.3	5.3	5.4	5.4	5.1
U-2 Job losers and persons who completed temporary jobs, as a percent of the civilian labor force	5.4	5.0	4.8	5.9	5.4	.5.4	5.3	5.3	5.2
U-3 Total unemployed, as a percent of the civilian labor force (official unemployment rate)	9.0	8.8	8.5	9.7	9.2	9.1	9.1	9.1	9.0
U-4 Total unemployed plus discouraged workers, as a percent of the civilian labor force plus discouraged workers	9.8	9.4	9.1	10.4	9.8	9.8	9.7	9.7	9.6
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	10.6	10.2	10.0	11.2	10.7	10.7	10.6	10.5	10.5
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	15.9	15.7	15.3	17.0	16.2	16.1	16.2	16.5	16.2

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

1099's will be mailed in January

Remember to keep us updated with your current mailing address!!!!

Forms available on our website: www.opprs.ok.gov or by calling our office at (405) 840-3555.

ASSET CONSULTING GROUP

Consultant's Corner

European Contagion Risk & What It Potentially Means For Investments

The European debt crisis continues to dominate headlines globally as the potential ramifications of a lack of an effective resolution are far-reaching. The Eurozone countries facing the most severe deficit/debt situation are Greece, Ireland, and Portugal, while a "second tier" group of countries (Spain and Italy) also have significant fiscal problems which could pose a threat to the Euro. If the Eurozone can confine the current crisis to Greece, Ireland, and Portugal, the impact is likely to be minimal, however, a much more severe scenario with potential global impact will result if Italy and Spain are brought into the current financing crisis.

As France and Germany have the largest exposure to government debt in these five countries ($700billion-$800billion each) they have the greatest incentive to spearhead a solution. The U.S. and U.K. also have significant exposures to these countries, but approximately three-quarters of the U.S. exposure are through indirect sources. Potential sources of contagion include cross-ownership of debt, Credit Default Swaps and other derivatives, the limited reserves of the ECB, and rising sovereign debt yields.

Greek currency devaluation is not possible because of the common euro currency, and recent attempts to impose fiscal austerity are causing civil unrest and political instability. Investors should monitor ten-year government bond yields and CDS prices as these provide a means of assessing the severity of the European debt situation globally. Ten-year government bond yields above 10% in Spain and Italy would be an indicator that contagion risks have significantly increased.

The outlook for corporate debt is not as dire and will need to be assessed on an individual credit basis. The implementation of austerity programs in Greece, Portugal, and Ireland is likely to further depress GDP growth and delay economic recovery, which will likely dampen stock prices. European financials are likely to underperform until the debt uncertainties subside, while outside of Europe, financials with greater exposure to Greece, Ireland, and Portugal will face continuing market headwinds. The effect on the Euro is much more difficult to assess, as the major cross-currency countries (U.K., U.S., and Japan) are wrestling with their own economic/fiscal issues and are in different stages of their interest rate cycles. Germany's leadership will likely have to continue balancing domestic political pressure to curtail bailout programs with the downside risks posed by its holdings. The cross-holdings of the Eurozone members, originally seen as a benefit in good economic times, now pose a potential threat to the viability of the common currency.

As an outline for a debt "deal" has recently been established, the devil as usual, is in the details. For the foreseeable future, volatility is likely to rein. Unless warranted by changing investment objectives, maintaining strategic asset allocation targets is typically rewarded.

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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Oklahoma Police Pension and Retirement System Staff
Front row (L-R), Andrea Houston, Judy Cong, Liz Moore, Dusty Brassfield, Katie Luttrell. Back row, Sean Ruark, Darcie Gordon, Steve Snyder, Debbie Kearns, Nancy Nethercutt, Marla Hensley

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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