PROTECT AND SERVE

Fall/Winter 2012

A publication of the Oklahoma Police Pension and Retirement System

Inside this Issue:

Letter from the Executive Director — Steven K. Snyder

As the Holidays as well as a New Year approach, many of us look to the future with both trepidation and hope. Trepidation is in the form of a dysfunctional federal government that cannot get its house in order and therefore leaves us, the American public, facing uncertain prospects for 2013. We face a daunting national debt of over $16 trillion however this figure is misleading. According to former U.S. Comptroller General David Walker, the United States Government owes over $70 trillion when you add in the unfunded liability of Social Security, Medicare, and Federal employee retirement obligations and the national debt grows by $10 million per minute! A June 2012 report from the non-partisan Congressional Budget Office found that the federal debt would exceed 70 percent by the end of 2012. In 2008, the federal debt stood at 40 percent of GDP and if current policies remain in effect, the federal debt may exceed 200 percent in 2025, only 12 years away! No wonder there is fear and foreboding of things to come.

Hope comes in the form of the financial soundness of both the State of Oklahoma as well as the Oklahoma Police Pension and Retirement System ("OPPRS"). Although the OPPRS funded status decreased from 93% to 90% (which is due to the actuarial smoothing effect that "looks back" on the past 5 years returns), we are still the best funded state retirement system in Oklahoma and one of the best funded retirement systems in the United States. However, public pension systems in other states have not been as lucky as we have been and, as such, we see number of changes taking place in these systems. Since 2008, 45 states have enacted defined benefit (DB) pension plan reforms to achieve affordability, sustainability, and human resource goals rather than switching to 401(k) type defined contribution (DC) accounts. They did so due to exigent financial difficulties.

The most common public pension plan modifications that have been implemented are increased employee contributions; reduced DB benefits for new hires including changes to retirement ages; and cost of living adjustment reductions for retirees and existing workers. More specifically, a recent report issued by the National Institute on Retirement Security, "*On the Right Track? Public Pension Reforms in the Wake of the Financial Crisis*," found the following:

- Distinct business and labor market dynamics and regulatory pressures led to the decline of pensions in the private sector that do not necessarily apply to governments.
- A policy of closing or freezing pensions and switching to DC accounts is not necessarily the best approach for government employers and taxpayers. Recognizing this, states are modifying their pensions to ensure long-term sustainability.
- Freezing or closing DB plans and shifting to DC-only accounts threatens workers' retirement security, with mid-career employees being the hardest hit.
- Because pensions play an important role in public sector compensation, freezing or closing DB plans and shifting to DC accounts may negatively affect the ability of public employers to recruit and retain qualified workers.

The State of Oklahoma has followed a path that has had some effects to the members of the various state retirement systems (such as Cost of Living Adjustment (COLA) modifications), however, it has not enacted some of the draconian measures that have been implemented in other states (such as eliminating defined benefit plans for new hires). Although there may still be work to do to shore up the other retirement systems in Oklahoma, be assured that the Board of Trustees and I will diligently work on your behalf to ensure that the Oklahoma Police Pension and Retirement System remains the model of good stewards of your retirement security.

It is my wish that you have a joyous Holiday Season and a Happy New Year!

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

NATIONAL INSTITUTE ON
Retirement Security
Reliable Research. Sensible Solutions.

New Research Examines Human Resource Impacts of Pensions

New Research Examines Human Resource Impacts of Pensions During Economic Downturn, Nearly All State & Local Employers Modified Pensions Rather Switching to Alternative Plan Designs.

WASHINGTON, D.C., November 14, 2012 – A new research brief examines the workforce impacts of existing defined benefit (DB) pension plans to assess the likely effects of a switch to defined contribution (DC) individual accounts or cash balance plans. "The Great Recession: Pressures on Public Pensions, Employment Relations and Reforms" finds that:

Public employers would attract a different labor force if they switched retirement benefits away from pensions. Public employees would be less committed to employers and thus less likely to invest in nontransferable skills that are critical to delivery of taxpayer services.

Employee turnover would increase under individual DC accounts and cash balance plans. These types of retirement benefits no longer defer compensation into the future and thus offer fewer economic incentives for employees to stay with public employers.

Moving from a pension structure would result in higher cost for public employers and employees because of higher investment and administrative costs for alternative retirement plans.
Public employers and employees overwhelmingly choose to stay with pensions rather than moving to alternative benefits when faced with a choice, illustrating the high value of pensions to public sector employers and employees.

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

"The Wall Street crisis hurt all investors, including pension systems that saw drops in their funding levels," said Diane Oakley, executive director of the National Institute on Retirement Security. "As a result, policymakers in nearly every state examined and enacted large-scale reforms to their workforce retirement plans – and nearly every state and locale maintained its pension plan. The research finds that this outcome isn't surprising because private and public pensions have a strong track record of simultaneously meeting employers' recruitment and retention needs and employees' economic security needs," Oakley said.

Christian Weller, study co-author and public policy professor at the University of Massachusetts–Boston and senior fellow at the Center for American Progress said, "State and local budgets are under intense scrutiny. Spending on public employee retirement benefits in particular is caught in the crossfire of these fiscal and political debates." Weller continued, "There are some proposals for a radical switch from pensions to individual savings plans. Our research suggests that policymakers understand the value of existing pensions as recruitment and retention tools. They also are worried about the substantial costs of switching retirement plans. It is no surprise that policymakers generally rejected proposals to radically alter retirement benefits."

"The study underscores the key role of pensions as a human resource management tool," said Ilana Boivie, report co-author and research economist for the Communications Workers of America. "Employers in all sectors leverage pensions to reduce attrition of skilled employees. These employers are rewarded with better employee recruitment and retention. For example, 69% of employees with pensions say their retirement plan is an important reason to stay versus only 37% with DC plans. Also, employers with pensions have lower turnover rates ranging from 20 – 200% lower as compared to those employers with DC plans," Boivie explained.

The National Institute on Retirement Security is a non-partisan, non-profit organization established to contribute to informed policymaking by fostering a deep understanding of the value of retirement security to employees, employers, and the economy through national research and education programs. Located in Washington, D.C., NIRS has a diverse membership of organizations interested in retirement including financial services firms, employee benefit plans, trade associations, and other retirement service providers.

Questions about your pension??

We are always available to answer any questions you may have about your pension.

Cities A-K & Oklahoma City	Angela McCullough - (405) 840-3555 ext 226
Cities L-Z	Sean Ruark - (405) 840-3555 ext 225

Oklahoma Police Pension files suit against Abiomed, INC

On January 15, 2013, Oklahoma Police Pension Retirement System will be seeking appointment as lead plaintiff in the securities class action lawsuit involving Abiomed, Inc., Michael R. Minogue (the company's President, CEO and Chairman of the Board), and Robert L. Bowen (Abiomed's CFO, Vice President, and Treasurer). Abiomed's principle product is its Impella 2.5 system, which is a heart pump to assist patients after they experience a heart attack. In June 2010, the Food and Drug Administration, which granted Abiomed approval to sell its Impella 2.5 system, sent Abiomed a warning letter that it was marketing and selling the product for unapproved uses. Abiomed disclosed the letter and told investors that they cooperated with the FDA and had "resolved the matter." However, on November 1, 2012, Abiomed announced that the United States Department of Justice and the United States Attorney's Office were investigating Abiomed's marketing and selling of the Impella 2.5 for unapproved uses. On this news, Abiomed's stock price fell from $19.82 to $13.61 a 32% single day drop. The lawsuit charges that Abiomed misled investors when it said it had resolved the FDA's investigation when it clearly had not and that it was selling its principle product for unapproved uses. *See Simon v. Abiomed, Inc., et al.,* No. 1:12-cv-12137 (D. Mass.).

Oklahoma Police Pension files suit against Tempur-Pedic International INC

On December 3, 2012, Oklahoma Police Pension & Retirement System was appointed to serve as lead plaintiff together with Plymouth County Retirement System, Norfolk County Retirement System, and the Police and Fire Retirement System of the City of Detroit in a securities fraud class action against Tempur-Pedic International Inc. ("Tempur-Pedic"), styled Norfolk County Retirement System v. Tempur-Pedic International Inc., No. 5:12-cv-00195-KKC (E.D. Ky.).

Tempur-Pedic is a manufacturer, distributor, and retailer of specialty mattresses, bedding, and related products that incorporate the Company's proprietary formulation of "memory" foam. At issue in the action are alleged misrepresentations made by Tempur-Pedic about its financial condition in light of deteriorating market conditions and increasing competitive pressures between January 25, 2012 and June 5, 2012. The lead plaintiffs will argue that during that time frame, the Company's outlook for 2012 net sales and earnings per share were significantly worse than estimates provided to investors and that the Company lacked a reasonable basis for those estimates. The lead plaintiffs will also seek to demonstrate that as a result of the fraud alleged in the action, Tempur-Pedic investors incurred damages in excess of $1 billion.

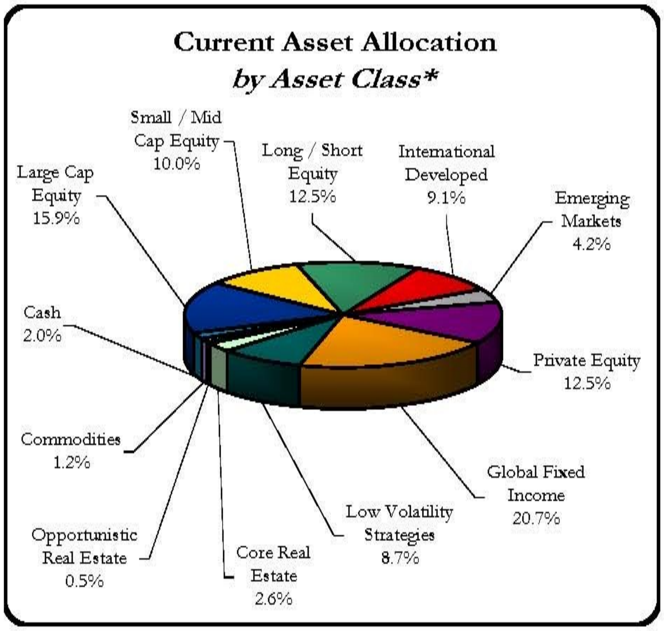
A consolidated complaint will likely be due for filing in the first quarter of 2013.

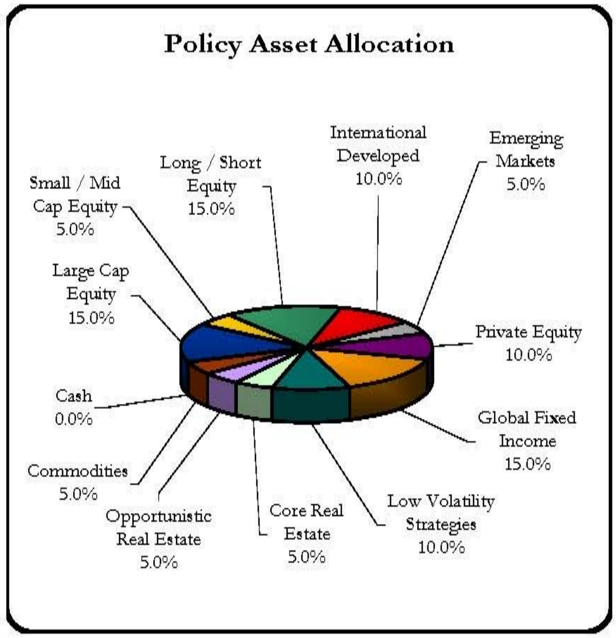
~ REMINDER ~

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, 2012





Asset Class Allocation	Market Values (000s)	% Total Portfolio	Policy %	Over/Under Target
Large Cap Equity	$293,755	15.9%	15.0%	0.9%
Small / Mid Cap Equity	$184,228	10.0%	5.0%	5.0%
Long / Short Equity	$230,634	12.5%	15.0%	(2.5%)
International Developed	$168,427	9.1%	10.0%	(0.9%)
Emerging Markets	$77,396	4.2%	5.0%	(0.8%)
Private Equity	$230,836	12.5%	10.0%	2.5%
Total Equity Composite	$1,185,276	64.3%	60.0%	4.3%
Global Fixed Income	$382,284	20.7%	15.0%	5.7%
Low Volatility Strategies	$159,553	8.7%	10.0%	(1.3%)
Fixed Income Composite[1]	$542,546	29.4%	25.0%	4.4%
Core Real Estate	$47,779	2.6%	5.0%	(2.4%)
Opportunistic Real Estate	$9,586	0.5%	5.0%	(4.5%)
Commodities	$22,128	1.2%	5.0%	(3.8%)
Real Assets Composite	$79,493	4.3%	15.0%	(10.7%)
Cash	$36,504	2.0%	0.0%	2.0%
Securities Lending Liability	($358)			
Total Portfolio[1]	$1,843,461			

**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]	$1,843,461			2.4%	(0.16)%	4.47 %	10.05 %	9.18 %	8.59 %	1.69 %	7.54 %
Total Portfolio Net of Fees					(0.19)%	4.36 %	9.77 %	8.86 %	8.30 %	1.47 %	7.30 %
Policy Index[2]					*(0.32)%*	*4.64 %*	*11.64 %*	*11.77 %*	*10.88 %*	*2.22 %*	*7.02 %*

[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: 65% MSCI ACWI, 30% Barclays Capital Universal and 5% NFI ODCE (net) as of August 1, 2012. From November 1, 2007 to July 31, 2012 the Policy Index was comprised of 55% Russell 3000, 10% MSCI EAFE, 30% Barclays Capital Universal, and 5% NFI ODCE (net). 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

NCPERS Study Finds Public Pensions Remain Solidly Funded, Funds Express High Confidence in Plan Sustainability

June 11, 2012

Washington, DC – The most comprehensive and up-to-date study addressing retirement issues for public pension plans finds state and local pension funds remain solidly funded, have strong confidence in their ability to address retirement trends and issues and continue to adopt organizational and operational changes to ensure their long-term sustainability.

The 2012 NCPERS Fund Membership Study, conducted by the National Conference on Public Employee Retirement Systems (NCPERS) and Cobalt Community Research, surveyed no less than 147 public pension funds in April and May. The vast majority – 84 percent – were local pension funds, while the remaining 16 percent were state pension funds. Those funds cover more than 7.5 million active and retired public employees and have assets exceeding $1.2 trillion.

"The data we collected – the most current data available – shows public pension funds are continuing their strong recovery from the historic market downturn of 2008-2009," said Hank Kim, Esq., NCPERS' Executive Director and Counsel. "The survey shows public pensions are managing their assets efficiently and effectively, making plan design changes to ensure sustainability, continuing to implement sound operational controls and are expressing strong and growing confidence about their readiness to address the challenges ahead."

Among the study's key findings:

- Participating funds reported a solid average funded level of 74.9 percent, only slightly below the 2011 average of 76.1 percent. According to its February 2011 report Enhancing the Analysis of U.S. State and Local Government Pension Obligations, Fitch Ratings considers a funded ratio of 70 percent or above to be adequate.

- Both one-year and 20-year returns reported by participating funds point to continuing long-term improvement in funded status. While one-year returns were slightly lower than 2011's (12.5 percent compared to 13.5 percent), all longer-term returns were higher: three-year returns jumped from negative one percent to 4.4 percent; five-year returns grew from 3.6 percent to 4.4 percent; 10-year returns increased from 4.0 percent to 5.3 percent, and 10-year returns grew from 8 percent to 8.7 percent.

- Pension funds are designed to pay off liabilities over an extended period of time (the amortization period), to ensure long-term stability and to make annual budgeting easier through more predictable contribution levels. This year's survey found that amortization period averages 24.6 years – down from 25.8 years in 2011.

- Asked about readiness to address retirement trends and issues, respondents provided an overall confidence rating of 7.7 on a 10-point scale – up from 7.4 in 2011.

- Market returns remained the largest source of fund income – 73 percent, while employer contributions accounted for 17 percent and member contributions amounted to 10 percent.

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

- Overall, funds reported domestic equity exposure at 36 percent (down from 39 percent in the 2011 study). International equity exposure remained steady at 17 percent. Over the next two years, funds plan to reduce domestic equity slightly and increase allocations to private equity/hedge funds, commodities and other investments.

- Funds with the highest 10-year investment returns had significantly lower allocations to domestic equity, international fixed income and high-yield bonds, but they had higher allocations to international equity, domestic fixed income and other asset classes.

- The overall average expense to administer the funds and pay investment manager fees was 73.1 basis points (100 basis points equal 1 percentage point). This is a very slight increase from the 2011 level of 69.2 basis points. According to the investment industry's 2011 Investment Company Fact Book, the average expenses and fees of most equity/hybrid mutual funds average 95 basis points. Funds with lower expenses, like public pension plans, provide a higher level of benefit to members and produce a higher beneficial economic impact for the communities those members live in than most mutual funds.

- Continued structural and operational changes to ensure long-term sustainability included increasing employee contributions, increasing age/service requirements, reducing wage inflation assumptions, tightening use of overtime in the calculation of benefits, tightening procedures for enhancing benefits, shortening the amortization period and closing the plan to new hires.

2013 Oklahoma Police Pension & Retirement Board
Meeting Dates

January 16, 2013

February 20, 2013

March 27, 2013

April 17, 2013

May 15, 2013

June 19, 2013

July 17, 2013

August 21, 2013

September 18, 2013

October 16, 2013

November 20, 2013

December 18, 2013

Bureau of Labor Statistics

Unemployment Data

Measure	Not seasonally adjusted			Seasonally adjusted					
	Oct. 2011	Sept. 2012	Oct. 2012	Oct. 2012	June 2012	July 2012	Aug. 2012	Sept. 2012	Oct. 2012
U-1 Persons unemployed 15 weeks or longer, as a percent of the civilian labor force	5.0	4.2	4.3	5.1	4.6	4.5	4.4	4.3	4.4
U-2 Job losers and persons who completed temporary jobs, as a percent of the civilian labor force	4.8	4.0	3.9	5.1	4.6	4.6	4.5	4.2	4.2
U-3 Total unemployed, as a percent of the civilian labor force (official unemployment rate)	8.5	7.6	7.5	8.9	8.3	8.3	8.1	7.8	7.9
U-4 Total unemployed plus discouraged workers, as a percent of the civilian labor force plus discouraged workers	9.1	8.0	8.0	9.5	8.7	8.8	8.6	8.3	8.4
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	10.0	9.0	9.0	10.4	9.7	9.7	9.6	9.3	9.3
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	15.3	14.2	13.9	16.0	14.9	15.0	14.7	14.7	14.6

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

The Impending "Fiscal Cliff" and Potential Implications

As we near the end of the year, all eyes are upon the president and congressional leaders, as we approach the edge of the "fiscal cliff". The fiscal cliff, as coined by Federal Reserve Chairman Ben Bernanke, refers to the double-edged combination of the expiration of Bush era tax cuts and automatic spending cuts as outlined by the Budget Control Act of 2011.

Complicating the fiscal cliff discussion, Congress is grappling with a national debt that exceeds $16 trillion and an annual budget deficit that has been difficult to shrink. Additionally, in the first quarter of 2013 there is the potential for another standoff regarding the raising of the federal debt ceiling.

It is hard to know the progress (or lack thereof) being made behind the scenes, but the political rhetoric is as expected – each side jockeying for position in the public domain. Whether to raise tax rates on the wealthiest 2%, or raise revenues by broadening the tax base and lowering deductions; whether to immediately extend the existing tax cuts for the middle class or making this issue part of a broader agreement; whether to make material reform to entitlement programs or make that part of a later discussion are all serving as the primary layer of impediments to tangible progress.

Investment markets seem to be pricing in to an extent the uncertainty of the outcome of these discussions. Our domestic stock market has posted a solid year thus far, but developments over the next three weeks could make a material impact one way or the other. As in most uncertain times, maintaining a strategic view through a broadly diversified portfolio, and resisting the urge to shift into/out of markets based upon speculation is the most prudent approach.

Going forward, investors may be less inclined to own dividend-paying stocks due to the expected tax increase on dividends, however, research has shown a loose correlation between tax rates and the performance of dividend-paying stocks. Additionally, if corporations are incented to use excess cash for reinvestment, stock buy backs and/or acquisitions, this can be supportive of stock prices.

Bond investments continue to produce positive returns this year, but given the national debt situation, quantitative easing employed by the Federal Reserve, the low level of interest rates and potential tax increases, this will become more challenging. Municipal bonds, with their tax advantage, would be expected to be more favorable investments for taxable investors. Additionally, a diversified portfolio of bonds that includes non-U.S. dollar denominated bonds, floating rate securities, and other non-U.S. Treasury securities should be considered for inclusion in diversified portfolios.

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

Summary of Membership Data	
Active Paid Members	4,441
Members with Deferred Benefits	126
Retired Members	2,368
Beneficiaries	642
Disabled Members	138
Refund Due to Members	660
Deferred Option Plan Members	37
TOTAL	8,412

Active Members Average Service: 11.9 years

Active Members Average Age: 39.6 years

Retirees/Beneficiaries/Disabled Members Average Annual Benefit: $28,970

Accrued Accounts Payable for Deferred Option Plan Members: $6.8 million

Investment Medium/Style	**Target Percentages Of Total Assets**	**Allocation Range**
Fixed Income	**25%**	15% - 35%
*Global Fixed Income	15%	10% - 20%
Low Volatility Hedge Funds	10%	5% - 15%
Equities	**60%**	50% - 70%
Large Cap	15%	10% - 20%
Small/Mid Cap	5%	0% - 10%
International Developed	10%	5%-15%
Emerging Markets	5%	0% - 10%
Long/Short Equity	15%	10% - 20%
Private Equity	10%	5% - 15%
Real Assets	**15%**	10% - 20%
Core Real Estate	5%	0% - 10%
Opportunistic Real Estate	5%	0% - 10%
Commodities	5%	0% - 10%

*Global fixed income may include U.S. & non-U.S. investment grade, U.S. & non-U.S. high-yield and U.S, non-U.S. and high income convertible bonds.

OKLAHOMA
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PROTECT & SERVE

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REMINDER

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

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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.

This publication, printed by the Department of Central Services, Central Printing, is issued by the Oklahoma Police Pension and Retirement System as authorized by its Executive Director. Seven thousand eight hundred copies have been printed at a cost of $3,432.00. Copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.