



PROTECT AND SERVE

Spring/Summer 2013

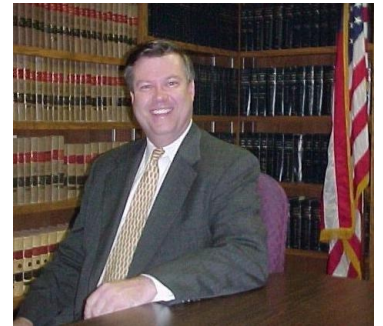
A publication of the Oklahoma Police Pension and Retirement System

Letter from the Executive Director

Steven K. Snyder

If it isn't broke, don't fix it!!

As many of you are aware, there is talk at the Capitol of pension reform and the consolidation of the state retirement systems, as well as the systems' boards of trustees. The Oklahoma Police Pension and Retirement System ("OPPRS") believes it is important to make our members, member employers, and the general public aware of the facts surrounding these issues.



To begin, it is imperative to understand that the OPPRS is a financially stable and well-funded retirement system. From a relatively modest beginning in 1981 of less than \$68 million in net assets and a funded ratio of less than 18% to today, where your pension system, holds almost \$2.0 billion in net assets and has a funded ratio of over 90%, (thereby making it the top funded system among the five major state retirement systems in Oklahoma). The OPPRS Unfunded Actuarial Accrued Liability ("UAAL") was valued at \$200 million, which accounted for only 1.7% of the total \$11.6 billion UAAL for all Oklahoma state retirement systems combined.* Simply put, this means that the OPPRS accounts for less than 2 cents of every dollar making up the combined unfunded liability for all Oklahoma state retirement systems.

Over the past twenty-seven years, the OPPRS investment portfolio has produced an annualized return of 8.4%, which is well above the 7.5% actuarial assumed rate of return. Over the past ten years, the risk of the portfolio has been lower than 98% of all funds with similar equity allocation, while the risk adjusted returns have been greater than 93% of similar funds. The total investment management cost has been 17% lower than the average of similarly positioned institutional investment portfolios. In layman's terms, the OPPRS has historically outperformed its expected rate of return by more than 10%, while exposing itself to 24% less market risk compared to similar funds.**

There has been much discussion regarding the potential cost savings associated with the consolidation of the state retirement systems and boards. Proponents of consolidation have estimated the potential cost savings would be at least 15% of \$80 million to \$100 million annually.*** The combined administrative costs for all state retirement systems for 2012 totaled \$13.9 million.

Continue page 2

The Board of Trustees

Tom Custer
District 1

Craig Akard
District 2

Rick Smith
District 3

Jimmy Keese
District 4

J. Ryan Perkins
District 5

Randy Scott
District 6

W. B. Smith
District 7

Tony Davenport
Oklahoma Municipal
League Appointee

Charles Kerr
Speaker of the House
Appointee

Susan Knight
Senate President Pro
Tempore Appointee

Brandy Manek
Director of State
Finance Designee

Andy McPherson
Governor's Appointee

Frank Stone
Insurance Commissioner
Designee

Inside this Issue:

Active/Retire Membership	3
ASAP-ACG	4
Expense Analysis	5
Unemployment Data	6
Consultant's Corner	7

A 15% reduction in these annual costs would only save \$2 million, which means any additional cost savings would have to come from the reduction of investment expenses. Since 1981, the OPPRS Board of Trustees has directed investments to ensure the financial stability of the fund by implementing strategies to meet the actuarial assumed rate of return with the minimum amount of market risk.

One key to the Board's success has been its ability to properly diversify the fund over many asset classes, which has also helped to protect the fund during economic downturns. Exposure to these varying asset classes comes at a price, which results in higher fees. The only way to significantly reduce investment costs would be to decrease the diversification of the fund, making it more susceptible to economic downturns and less sustainable in the long term. In the years following the recent economic recession, it has become apparent that market instability is now present more than ever, and that protection against market downturns is as important, if not more important than solely focusing on returns and fees.

There are seven important points in this article that we would like for you to use when discussing this issue with your family, friends, elected officials and others:

1. the OPPRS is the most well funded large plan in the State of Oklahoma;
2. the funded status of OPPRS is 93% as of 7/1/11;
3. the OPPRS Board of Trustees have historically implemented the investment portfolio in a much more risk averse (less risk) manner than the other State of Oklahoma systems that are not nearly as well funded;
4. from 9-1-1985 through 12-31-2012, (the past 27 years), the OPPRS investment portfolio has produced an annualized return of 8.4% per year, which far exceeds our actuarial assumed return of 7.5% per year;
5. the **10 year portfolio risk** of the OPPRS is **lower than 98%** of all funds with a similar equity allocation (meaning that our portfolio risk is better than 98% of all pension systems with a similar equity allocation);
6. the **10 year risk adjusted returns** of the OPPRS are **better than 93%** of all pension funds with similar equity allocations;
7. the total investment management cost is well below the average of similarly positioned institutional investment portfolios (64.9 basis points versus 79 basis points)

The funded status of 93%, risk lower than 98% of all pension funds, and risk adjusted returns that are better than 93% of all similarly situated pension funds are evidence as to the soundness of the long term investment approach implemented by your pension system's Board of Trustees. Your pension system's staff, consultants and Board of Trustees are doing it right and have been doing so for more than 30 years!

The bottom line is that the old adage, "you get what you pay for" has proven true for the OPPRS. Our Board of Trustees has followed financially prudent investment principles to ensure the stability and sustainability of the fund. While the implementation of particular strategies, like increasing asset class diversification, results in higher investment fees, the end result is a financially healthier, stronger, and better protected retirement system. The fact that the OPPRS has outperformed its actuarial assumed rate of return while assuming far less risk compared to similar funds over the course of nearly three decades proves that these strategies work. Meaningful pension reform should focus on implementing financially prudent long term investment strategies to meet each retirement system's specific objectives. Since each retirement system has its own unique set of considerations, assumptions, and expectations based on the characteristics of its members, the consolidation of these uniquely designed systems is not the answer.

Sources:

*2012 OK State C.A.F.R.

**Asset Consulting Group Report

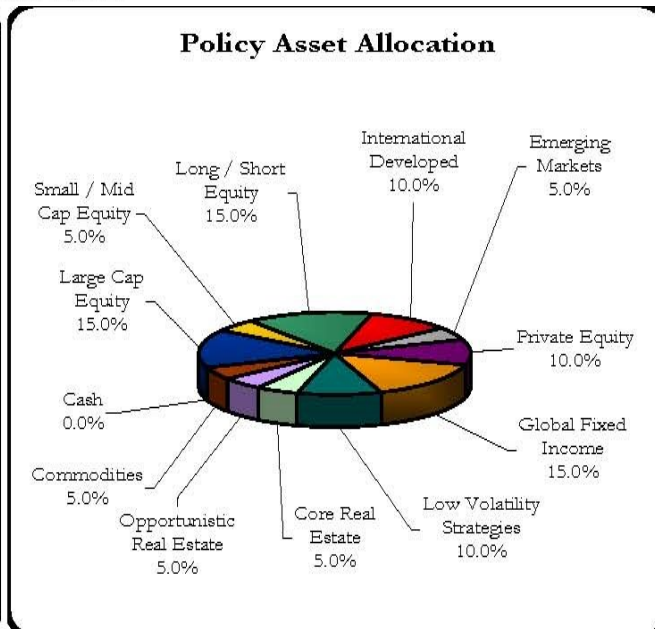
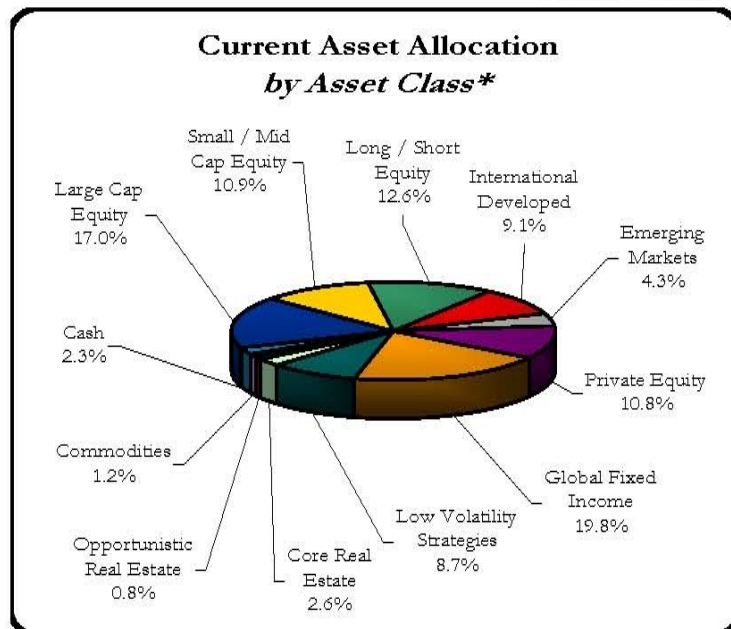
***O.E.R. 2/28/13

Active/Retired Membership by City/Town

(as of April 23, 2013)

Ada	67	Drummond	0	Lindsay	18	Sallisaw	31
Altus	62	Drumright	11	Madill	13	Sand Springs	39
Alva	9	Duncan	83	Mangum	6	Sapulpa	75
Anadarko	19	Durant	53	Mannford	9	Sawyer	1
Arapaho	1	Edmond	158	Marlow	13	Sayre	8
Ardmore	81	El Reno	54	McAlester	77	Seminole	19
Atoka	19	Elk City	33	Miami	67	Shawnee	112
Bartlesville	105	Enid	167	Midwest City	173	Skiatook	28
Bethany	53	Eufaula	11	Moore	103	Spencer	11
Bixby	25	Forest Park	8	Muskogee	166	Stigler	11
Blackwell	21	Fort Gibson	9	Mustang	25	Stillwater	115
Blair	0	Frederick	8	Newcastle	19	Sulphur	14
Boynton	0	Garber	0	Newkirk	9	Tahlequah	38
Bristow	17	Glenpool	20	Nichols Hills	31	Tecumseh	9
Broken Arrow	166	Grandfield	1	Nicoma Park	11	The Village	37
Catoosa	15	Granite	2	Noble	14	Tishomingo	6
Chandler	8	Grove	20	Norman	263	Tonkawa	10
Checotah	10	Guthrie	25	Nowata	5	Tulsa	1480
Chickasha	47	Guymon	23	Okeene	1	Tuttle	8
Choctaw	18	Harrah	12	Oklahoma City	1916	Valley Brook	0
Claremore	62	Haskell	6	Okmulgee	47	Vinita	21
Cleveland	13	Henryetta	23	Owasso	52	Warner	3
Clinton	30	Hinton	4	Pauls Valley	22	Warr Acres	25
Collinsville	10	Hobart	7	Pawhuska	11	Watonga	10
Comanche	4	Hominy	2	Perkins	6	Waurika	0
Commerce	3	Hugo	17	Perry	12	Weatherford	20
Coweta	17	Idabel	23	Piedmont	8	Weleetka	1
Cromwell	0	Jenks	24	Ponca City	115	Wetumka	4
Cushing	25	Jones	8	Poteau	35	Wewoka	9
Davis	7	Kingfisher	11	Prague	5	Wister	1
Del City	68	Krebs	6	Pryor	39	Woodward	39
Dewey	11	Lawton	324	Purcell	24	Yukon	53
Disney	0	Lexington	1	Ringling	1		

Oklahoma Police Pension & Retirement System
Periods Ending March 31, 2013



Asset Class Allocation	Market Values (000s)	% Total Portfolio	Policy %	Over/Under Target
Large Cap Equity	\$331,934	17.0%	15.0%	2.0%
Small / Mid Cap Equity	\$213,974	10.9%	5.0%	5.9%
Long / Short Equity	\$246,662	12.6%	15.0%	(2.4%)
International Developed	\$177,418	9.1%	10.0%	(0.9%)
Emerging Markets	\$84,067	4.3%	5.0%	(0.7%)
Private Equity	\$212,093	10.8%	10.0%	0.8%
Total Equity Composite	\$1,266,149	64.8%	60.0%	4.8%
Global Fixed Income	\$386,901	19.8%	15.0%	4.8%
Low Volatility Strategies	\$169,509	8.7%	10.0%	(1.3%)
Fixed Income Composite¹	\$561,995	28.5%	25.0%	3.5%
Core Real Estate	\$50,330	2.6%	5.0%	(2.4%)
Opportunistic Real Estate	\$14,796	0.8%	5.0%	(4.2%)
Commodities	\$22,797	1.2%	5.0%	(3.8%)
Real Assets Composite	\$87,923	4.5%	15.0%	(10.5%)
Cash	\$44,469	2.3%	0.0%	2.3%
Securities Lending Liability	(\$258)			
Total Portfolio¹	\$1,960,278			

*Excludes Securities Lending Liability

¹ Fixed Income Composite and Total Fund includes \$5,585,152 for cash and illiquid securities in terminated account with Overseas CAP Partners. This figure was revised from \$709,117 after receipt of proceeds from the Lehman Brothers bankruptcy receivable in January 2013.

	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	\$1,960,278			3.3%	1.43 %	4.68 %	11.50 %	10.09 %	8.47 %	4.44 %	8.20 %
Total Portfolio Net of Fees					1.42 %	4.62 %	11.27 %	9.78 %	8.18 %	4.20 %	7.96 %
Policy Index ²					1.26 %	4.32 %	11.96 %	10.13 %	10.14 %	5.40 %	7.86 %

¹ Total Fund includes \$5,585,152 for cash and illiquid securities in terminated account with Overseas CAP Partners. This figure was revised from \$709,117 after receipt of proceeds from the Lehman Brothers bankruptcy receivable in January 2013.

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 Aggregate, 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.

³ Due to contributions and withdrawals in this account, the returns may differ from the performance of the fund.

Expense Analysis of Oklahoma's Pension Trust Funds Versus Other Regional Pension Plans (expressed in thousands)
As of June 30, 2012

	COMPARISON - Missouri State Employees'	COMPARISON - Kansas Public Employees	COMPARISON - Arkansas Public Employees	OKLAHOMA COMBINED All Pension Plans*
June 30, 2012 Ending Net Assets	7,581,882	13,086,744	5,692,416	21,524,909
FY 2012 Administrative Expenses	7,017	9,694	6,795	13,906
FY 2012 Investment Expenses **	111,595	43,531	20,085	69,449
Total 2012 Expenses	118,612	53,225	26,880	83,355
2012 Total Expenses as a % of assets:	1.56%	0.41%	0.47%	0.39%
Funded Ratio at June 30, 2012 ***	73.20%	59.00%	68.90%	64.92% (c)
Actuarial value of assets at June 30, 2012	7,897,167	13,379,020	5,625,000	21,469,846 (a)
Actuarial Accrued Liability June 30, 2012	10,793,652	22,607,170	8,163,000	33,072,541 (b)
UAAAL at June 30, 2012	2,896,484	9,228,150	2,538,000	11,602,794
Regional plans of similar size to several Oklahoma plans, selected at random.	Selected at random. (MSEP)	Selected at random. (KPERS)	Selected at random. (APERS)	

* - Includes Oklahoma Teachers, Public Employees, Firefighters, Police, Law Enforcement, Judges and Wildlife (all 7 State plans).

** - Investment expenses includes securities lending costs. Investment expenses are presumed to include all custodial and investment mgmt. costs.

*** - Actuarial as of 12/31/2011 for the KPERS system, pension component only (KPERS also administers a death and disability fund not included here)

(a) - For Oklahoma, the actuarial value of assets is the combination of all state plans, including the Wildlife Plan.

(b) - For Oklahoma, the actuarial accrued liability is the combination of all state plans, including the Wildlife Plan.

(c) - The funded ratio for Oklahoma is the dollar-weighted ratio across all plans (actuarial assets/actuarial accrued liability)

Kansas's KPERS system is an umbrella system that administers the Public Employees, the Police & Fire, and the Judges retirement systems.

(KPERS had a total membership of 281,757 per it's 2012 CAFR, 27,959 inactive, not eligible for benefits)

(KPERS public employees include - State of Kansas, all Kansas school districts, all Kansas counties and most municipalities, and several local govt's.)

Sources:

Each Oklahoma plans' CAFR, annual audit or actuarial report or the State's CAFR for the period ended June 30, 2012.

Missouri's June 30, 2012 CAFR. (Missouri's system is MSERS, but for comparison only the State Employee plan (MSEP) is presented)

Kansas's June 30, 2012 CAFR.

Arkansas's June 20, 2012 Annual Financial Report.

Bureau of Labor Statistics

Unemployment Data

Measure	Not seasonally adjusted			Seasonally adjusted					
	Mar. 2012	Feb. 2013	Mar. 2013	Mar. 2012	Nov. 2012	Dec. 2012	Jan. 2013	Feb. 2013	Mar. 2013
U-1 Persons unemployed 15 weeks or longer, as a percent of the civilian labor force	4.9	4.3	4.3	4.6	4.3	4.3	4.2	4.2	4.1
U-2 Job losers and persons who completed temporary jobs, as a percent of the civilian labor force	4.8	4.6	4.3	4.5	4.1	4.1	4.3	4.2	4.1
U-3 Total unemployed, as a percent of the civilian labor force (official unemployment rate)	8.4	8.1	7.6	8.2	7.8	7.8	7.9	7.7	7.6
U-4 Total unemployed plus discouraged workers, as a percent of the civilian labor force plus discouraged workers	8.9	8.6	8.1	8.7	8.3	8.5	8.4	8.3	8.1
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	9.7	9.6	9.0	9.6	9.2	9.4	9.3	9.2	8.9
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	14.8	14.9	13.9	14.5	14.4	14.4	14.4	14.3	13.8

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**Pension Fund Objectives and Good Governance**

Good governance of pension assets requires fiduciaries to have a long term outlook that is consistent with the long term nature of the liabilities. The OPPRS has a detailed Investment Policy Statement that outlines the System's investment objectives, philosophy and process by which the System intends to reach its stated objectives over time. The primary objective and purpose of any defined benefit plan is having sufficient assets to meet current and long term liabilities. Attaining this objective requires a thoughtful plan and process that involves saving, investing and spending.

The investment policy of the Oklahoma Police Pension & Retirement Board has been developed from a comprehensive study and evaluation of many alternatives investigated. The primary investment objective of the System is to implement a plan of action which will result in the highest probability of maximum investment return from the Fund's assets available for investment within an acceptable level of risk. The cornerstone of the policy rests upon the proposition that there is a direct correlation between risk and return for any investment alternative.

Meeting the Fund's investment goals finances an optimal package of retirement benefits for the members of the Oklahoma Police Pension & Retirement System and maximizes the utilization of the employees' contributions and the State's contributions. A central tenet to the philosophy that the Oklahoma Police Pension Board has adhered to for many years is a focus on risk and specifically portfolio volatility. The Oklahoma Police Pension & Retirement System is the most well funded of the large State Systems in Oklahoma as a result of the good governance practices and strategies implemented by the Oklahoma Police Pension & Retirement System Board of Trustees. The focus on portfolio volatility has served the System and the State of Oklahoma well over the years as is evidenced by the fact that the System is 93% funded as of June 2011. Comparing the State pension systems in Oklahoma on any measure other than funded status is inappropriate. Funding the obligations promised to participants is the primary objective of any pension system. Over the course of the last 27 years the System has generated an 8.4% annualized return which is well in excess of the 7.5% target rate of return for the Fund. Over the last ten years the risk within the investment strategy as measured by the volatility of the assets is less than 98% of institutional investors with a similar allocation to equities, and the Risk Adjusted Returns which measures how efficient the portfolio is being managed is better than 93% of institutional investors with a similar allocation to equities. The Oklahoma Police Pension & Retirement System Board of Trustees recognizes the importance of growing the assets over time but has purposely pursued a course of action that is less risky (volatile) than other less well funded systems that need to take on more risk in order to attempt to move toward the level of financial soundness that the Police Pension System finds itself in today through years of good governance.



1001 NW 63rd Street, Suite 305
Oklahoma City, OK 73116-7335

REMINDER

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

CONTACT OPPRS

Mailing Address:

Oklahoma Police Pension & Retirement System
1001 NW 63rd Street, Suite 305
Oklahoma City, OK 73116-7335

Local Phone: (405) 840-3555

Toll Free Phone: (800) 347-6552

Fax: (405) 840-8465

Website: www.opprs.ok.gov

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 \$5,124.90. Copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.