PROTECT AND SERVE

Spring 2015

A publication of the Oklahoma Police Pension and Retirement System

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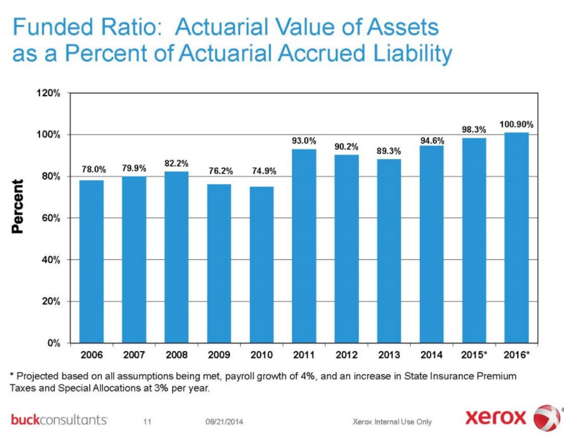
Letter from the Executive Director — Steven K. Snyder

Great News

We are extremely happy to announce that the status of the Oklahoma Police Pension and Retirement System ("OPPRS") is actuarially funded at almost 95%. This is the highest funded status that the OPPRS has ever attained. In addition, the OPPRS is on track to be over 100% actuarially funded in approximately 20 months (provided we meet all the actuarial assumptions). This is good news for the OPPRS, the members, and the State of Oklahoma. This increase could not have been attained without the dedication, conscientiousness, and hard work of the Board of Trustees, the OPPRS staff, the investment managers, consultants, and service providers, all of which contributed to this accomplishment. The chart below reflects the actuarial estimate of the OPPRS funded status through June 30, 2016.



The Board and the staff of the OPPRS will continue to strive for outstanding returns while at the same time protecting the system from dramatic down turns in the performance of portfolio investments. Rest assured that the paramount focus of the Board of Trustees, the staff and myself will be to ensure the success of the OPPRS in order that your retirement is secure and that hopefully your retirement benefits will grow as the assets of the OPPRS continues to grow.

NATIONAL INSTITUTE ON Retirement Security
Reliable Research. Sensible Solutions.

OKLAHOMA

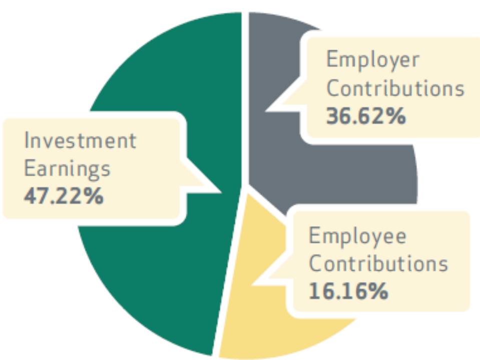
Pensionomics 2014:

Measuring the Economic Impact of DB Pension Expenditures

Overview

Expenditures made by retirees of state and local government provide a steady economic contribution to Oklahoma communities and the state economy. In 2012, 105,390 residents of Oklahoma received a total of $2 billion in pension benefits from state and local pension plans.

The average pension benefit received was $1581 per month or $18,967 per year. These modest benefits provide retired teachers, public safety personnel, and others who served the public during their working careers income to meet basic needs in retirement. Between 1993 and 2012, 36.62% of Oklahoma's pension fund receipts came from employer contributions, 16.16% from employee contributions, and 47.22% from investment earnings. Earnings on investments and employee contributions—have historically made me bulk of pension fund receipts.



Impact on Jobs and Incomes

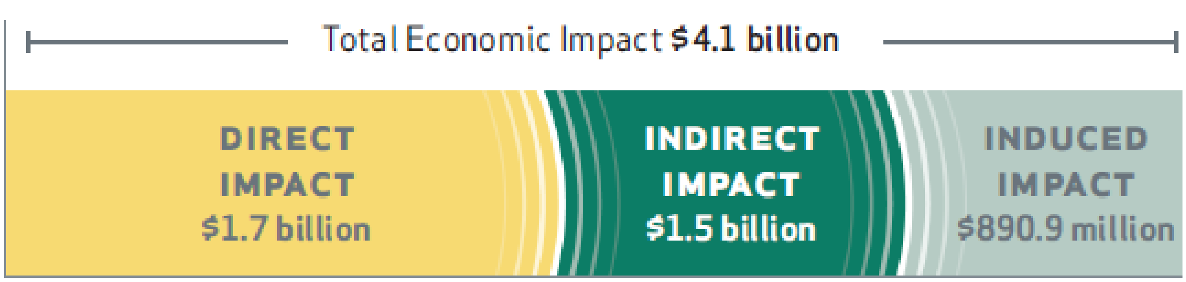
Retiree expenditures stemming from state and local pension plan benefits supported 28,364 jobs in the state. The total income to state residents supported by pension expenditures was $1.3 billion.

To put these employment impacts in perspective, in 2012 Oklahoma's unemployment rate was 5.4%. The fact that DB pension expenditures supported 28,364 jobs is significant, as it represents 1.6 percentage points in Oklahoma's labor force.

Economic Impact

State and local pension funds in Oklahoma and other states paid a total of $2.3 billion in benefits to Oklahoma residents in 2012. Retiree's expenditures from these benefits supported a total of $4.1 billion in total economic output in the state, and $2.3 billion in value added in the state.

$1.7 billion in direct economic impacts were supported by retiree's initial expenditures. An additional $1.5 billion in indirect impact resulted when these businesses purchased additional goods and services. $890.9 million in induced impacts occurred when workers employed by businesses as a result of the direct and indirect impacts made expenditures.



National Institute on Retirement Security
Pensionomics 2014: Measuring the Economic Impact of DB Pension Expenditures

OKLAHOMA

Economic Multipliers

Taxpayer Contribution Factor*

$1.00
contributed by taxpayers to Oklahoma pensions over 30 years

$4.96
total output

Each $1 in taxpayer contributions to Oklahoma's state and local pension plans supported $4.96 in total output in the state. This reflects the fact that taxpayer contributions are a minor source of financing for retirement benefits—investment earnings and employee contributions finance the lion's share.

Pension Benefit Multiplier

$1.00
pension benefits paid to retirees in Oklahoma

$1.82
total output

Each $1 in state and local pension benefits paid to Oklahoma residents ultimately supported $1.82 in total output in the state. This "multiplier" incorporates the direct, indirect, and induced impacts of retiree spending, as it ripples through the state economy.

*Caution should be used in interpreting these numbers. See the Technical Appendix of the full *Pensionomics* report for details.

Impact on Tax Revenues

State and local pension payments made to Oklahoma residents supported a total of $528.2 million in revenue to federal, state, and local governments. Taxes paid by retirees and beneficiaries directly out of pension payments totaled $53.7 million. Taxes attributable to direct, indirect and induced impacts accounted for $474.5 million in tax revenue.

Federal Tax	$284.5 million
State/Local Tax	$243.8 million
Total	**$528.2 million**

Economic Impacts by Industry Sector

The economic impact of state and local pension benefits was broadly felt across various industry sectors in Oklahoma. The ten industry sectors with the largest employment impacts are presented in the table below.

Industry	Employment Impact (# Jobs)	Labor Income Impact	Value Added Impact	Output Impact
Food Services and Drinking Places	2,207	$46,670,908	$67,289,090	$122,202,558
Real Estate Establishments	1,431	$19,832,757	$131,157,850	$171,151,467
Private Hospitals	1,149	$76,028,610	$83,694,420	$150,454,244
Physicians, Dentists, and other Health Practitioners	1,110	$92,929,703	$95,772,139	$140,953,837
Nursing and Residential Care Facilities	825	$26,946,290	$30,808,923	$45,990,596
Wholesale Trade Businesses	780	$52,908,226	$99,855,010	$156,007,890
Retail Stores - General Merchandise	665	$18,371,423	$29,618,347	$37,167,705
Retail Stores - Food and Beverage	562	$18,867,158	$24,289,978	$33,575,958
Employment Services	472	$14,714,565	$16,231,760	$19,214,849
Private Household Operations	411	$2,957,839	$2,957,839	$2,957,839

Industry totals include the first round of impacts from pension payments to state residents, and do not account for recaptured "leakage" to or from other states.

NRTA PENSION EDUCATION TOOLKIT

The Economy and Your Pension

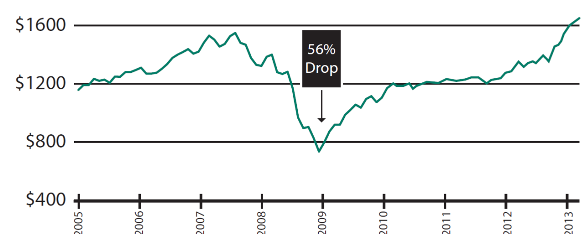
The recent economic downturn has negatively impacted Americans on many fronts. The unprecedented stock market decline of 2008-2009 hurt investors of all stripes—from large financial institutions, to pension fund, to individual families. Soon, the economy slowed to a halt, and even more Americans felt the pain as unemployment began to rise and states struggled to balance their budgets.

You may have wondered—what do these trends mean for my retirement? How have these trends impacted my pension plan? This fact sheet provides some basic information that might help.

Historic Market Decline and Recession

The stock market decline that began in the fall of 2007 and lasted through the spring of 2009 was unprecedented in recent history. The standard & Poor's 500 Index (a measure of the stock market value of 500 of the largest companies in the U.S.) fell from high of 1565 in October 2007 to just 676 in March 2009. **That's a 56% drop!**

Figure 1. **Performance of the Standard & Poor 500 Index**



According to The Wall Street Journal, the wealth of American families in 2008 plunged 18%, or $11 trillion during the market meltdown. The decline marked the biggest loss since the government began keeping track after World War 11. [1]

Although the market has rebounded since then, it will still take time for households and institutional investors alike to fully recover. Furthermore, the stock market crash was only the prelude to a long, deep recession that brought pain to every element of our economy—businesses, workers, and state and local governments.

The Impact of the Stock Market Drop on Pensions

Pre-funded pension plans (whether in the public or private sector) work like this: over the course of an employee's career, funds are set aside (by the employer, the employee, or both) and contributed to a group pension fund. These monies are invested by professionals in a range of assets—stocks, bonds, real estate, etc.—with the goal that by the time an employee retires, the initial contributions to the plan will have grown enough to pay benefits for the rest of the retiree's days.

Like all investors, pension plans were hurt in the stock market crash. According to figures from the Federal Reserve, public pensions saw their holdings fall in value by $889 billion between 2007 and 2008.[2] Since that time, as the stock market has rebounded, so has the value of the public pension fund—as of June 2013, their aggregate value was nearly $3 trillion.[3] But those gains have not fully made up for the huge prior losses.

One measure of a pension plan's financial health is its funding ratio—that is the ratio of assets held by the plan to the value of its benefits it is obligated to pay in the future. For example, if a fund is holding exactly the same amount of assets that it needs to pay all current and future benefits, the plan is 100% funded. If the plan has fewer assets, the funding ratio will be less than 100%. According to the National Association of State Retirement Administrators, the recent stock market decline has caused the aggregate funding ratio of the nation's largest public pension plans to fall from 86.7% in 2007 to 73.5% in 2012.[4]

One bright spot is that most states had done a good job of building up their pension reserves back when the economy was in better shape. Like the ant in Aesop's famous fable, states have socked away an average of about 87 cents for every dollar in future benefits they will need to pay before the recession hit.[5] This pre-funding strategy was in place to ensure that if (or when) the economy hit a rough patch (taking state budgets down with it), pension plans could keep on paying benefits as they come due.[6]

This pre-funding strategy has been a success—even during the worst days of the economic crisis, retirees have been able to count on their pension check arriving, just as always. Most public pensions have enough on hand to keep paying benefits for decades.[7]

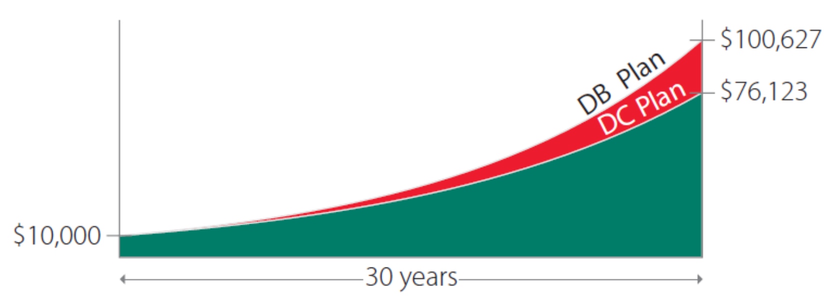
The other bit of good news is that a group of pension plans (also called "defined benefit" pensions) weathered the financial storm better than other investors, particularly, individual investors in so-called "defined contribution" plans. A recent analysis by the consulting firm Towers Watson found that defined benefit pensions outperformed defined contribution plans in 2011,[8] continuing a long-term trend of superior investment returns dating back to at least 1995.

That doesn't mean pensions are totally out of the woods though. Just as the stock market has yet to return many investors to their pre-cash levels, so pension funds have some work to do in recovering from the economic storm. Pensions might need additional contributions from employers, employees, or both. If employers and/or employees cant afford these additional contributions, pensions may need to make adjustments to the benefits they will pay in the future.

That doesn't mean pensions are totally out of the woods though. Just as the stock market has yet to return many investors to their pre-cash levels, so pension funds have some work to do in recovering from the economic storm. Pensions might need additional contributions from employers, employees, or both. If employers and/or employees cant afford these additional contributions, pensions may need to make adjustments to the benefits they will pay in the future.

For some public pension plans, the recovery process will be made more difficult by the tough shape of state budgets.

Figure 2. **How $10,000 Invested Grows Over 30 Years**



The Economic Crisis and State Budgets

The economic crisis has negatively impacted state budgets across the country in major ways. According to the National Conference on State Legislatures, states had a cumulative gap of $107 billion in their 2012 budgets and a gap of $55 billion in 2013, both of which they have managed to close.[9] States have implemented various changes in order to balance their budgets, including furloughs and layoffs for state employees.[10] However, significant challenges remain.

As a result, many state and local governments have been evaluating the need for, and even implementing, adjustments to their pension systems to ensure that they will be a strong footing for the long-term. Fortunately, because most states acted like Aesop's "ants" before the economic winter, there is ample time to make any additional modifications that may be prudent. But like the fabled "grasshopper", other states may have a harder time. The small number of states that were less diligent about pre-funding their pension plans will need to grapple with tough choices sooner and may have fewer options to manage through the tough times.

The good news is that legislatures around the country are, by and large, taking a careful approach to examining benefit levels and financing structures to ensure that pension plans will have what they need to be sustainable over time. While public pension systems have a long term horizon that allows for a patient approach, the uniqueness in plan design, benefit structure, and governance arrangements may dictate responses among different systems.[11]

According to the National Conference on State Legislatures, the actions taken by states to date have been quite substantive and varied. Five states enacted significant pension reforms in 2013, 10 states enacted reforms in 2012, 32 states enacted reforms in 2011, and 21 did in 2010. In 2013, 4 states increased employee contributions, 2009 and 2012, 30 states increased employee contributions and 32 states implemented higher age or service requirements.[12] Boston College finds that for the most states, the reforms already implemented should fully offset the effects of the economic downturn.[13]

Despite Tough Times, Pensions Are Keeping the Promise of Retirement Security

The Great Recession has presented some funding challenges to public pensions. However, the evidence suggests that employees and retirees who can count on group-based, defined benefit pensions are in the best position to weather tough economic storms.

Employees and retirees with pensions can count on a stable and secure retirement income that isn't subject to the volatility of Wall Street. This is possible because group pension plans can do something individual account plans cannot—provide better time diversification of financial market risks. This means that, because pension plans invest for very long time horizons, they are able to diversify their portfolios across broad time periods, and can better withstand market swings. Economists have shown that because of this ability, group pension plans can more effectively capture the excess returns that come from investing in stocks over long periods of time—to the benefit of employees, employers, and taxpayers.

The economic crisis has taught Americans many lessons about getting back into basics. Recent research reaffirms the importance of the traditional "three-legged stool" approach to retirement. A combination of Social Security and a group based defined benefit pension, supplemented with individual savings in a defined contribution plan or on their own, affords ordinary Americans the greatest chance to maintain their middle-class standard of living. Into retirement.[15]

Earned pension benefits are critical lifeline to America's middle class seniors. More than 4.5 million retired public employees and nearly 10 million retired private sector employees rely on a pension to make ends meet. Keeping these vital systems healthy should be a high priority for decision-makers at every level, so that pensions can continue to keep the promise for future generations.

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[1] Kalita, M. 2009. Americans see 18% of wealth vanish. *The Wall Street Journal*. March 13.

[2] Board of Governors, Federal Reserve System. 2010. *Flow of Funds Accounts of the United States*. Washington, DC: Board of Governors.

[3] Lambert, L. 2013. U.S. public pension investments jump, costs surge too. *Reuters*, September 23.

[4] Brainard, K. 2013. *Public Fund Survey Summary of Findings for 2012*. National Association of State Retirement Administrators.

[5] Brainard, K. 2012. *Public Fund Survey Summary of Findings for 2012*. National Association of State Retirement Administrators.

[6] Standard and Poor's. 2009. *No Immediate Pension Hardship For State And Local Governments*. Standard and Poor's, June.

[7] Brainard, K. 2009. *Public Fund Survey Summary of Findings for 2008*. National Association of State Retirement Administrators.

[8] Towers Watson. 2013. *Defined Benefit Plans Outperform Defined Contribution Plans Again*. July.

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[12] Martel, L. and Rivale, T. 2013. *State Retirement Reform Legislation: NCSL Legislative Summit*. Washington, DC: National Conference of State Legislatures.

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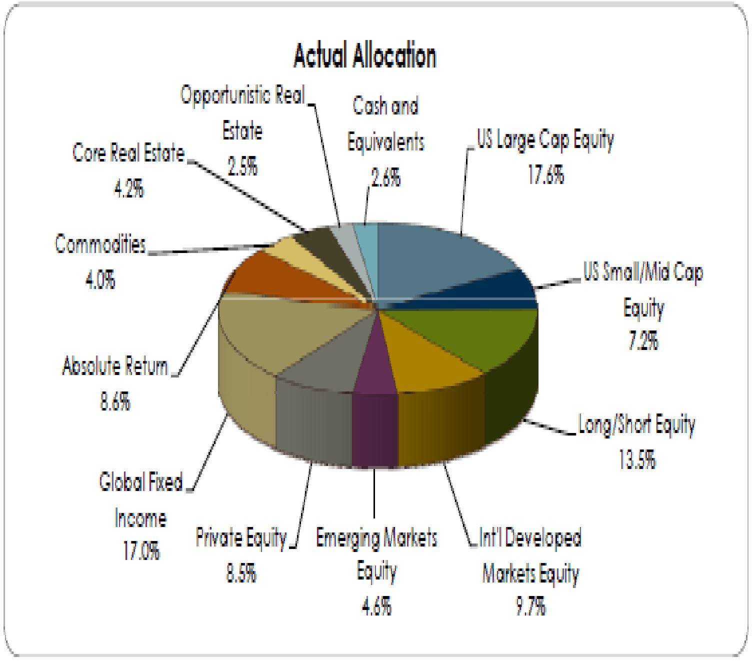
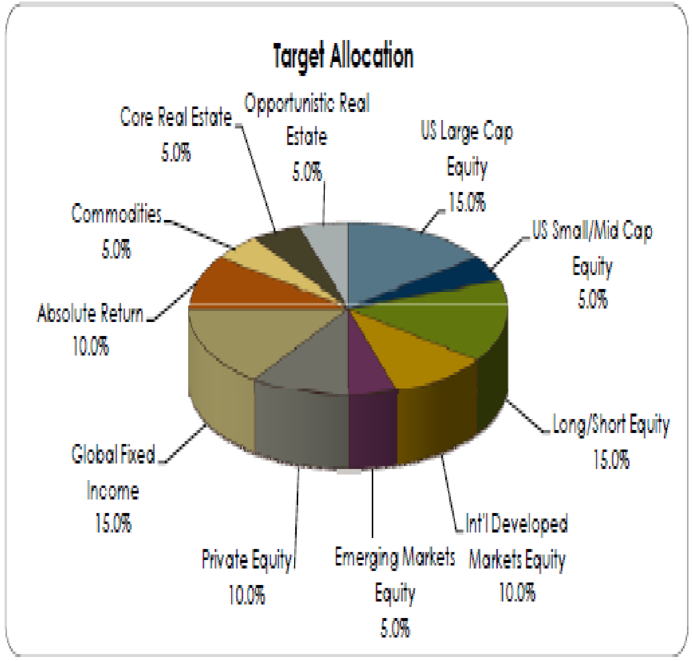
2015 Oklahoma Police Pension & Retirement Board Meeting Dates

January 21, 2015	May 20, 2015	September 16, 2015
February 18, 2015	June 17, 2015	October 21, 2015
March 25, 2015	July 15, 2015	November 18, 2015
April 15, 2015	August 19, 2015	December 16, 2015

Oklahoma Police Pension and Retirement System

For the Periods Ending March 31, 2015





	Market Value ($000s)	Actual Allocation (%)
Total Portfolio	2,238,790	100.00
Total Portfolio Net of Fees		
Total Fund Policy [1]		
Equity Composite	1,366,255	61.04
MSCI ACWI		
Fixed Income Composite [2]	575,253	25.68
Barclays Universal		
Real Assets Composite	239,975	10.72
Bloomberg Commodity		
NFI ODCE Net as of 12/14		
OK Invest	48,902	2.18
Cash	8,405	0.38

	Market Value ($000s)	Actual Allocation (%)	1 Month (%)	YTD (%)	FYTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)
Total Portfolio	2,238,790	100.00	-0.10	2.51	2.49	5.89	9.63	8.84	6.75
Total Portfolio Net of Fees			-0.13	2.40	2.18	5.45	9.19	8.46	6.46
Total Fund Policy [1]			*-1.03*	*1.73*	*0.35*	*4.56*	*8.83*	*9.36*	*6.32*

1 The Policy Index is comprised of the following indices: 60% MSCI ACWI, 30% Barclays Capital Universal, 5% NFI ODCE (net), and 5% Bloomberg Commidity as of August 1, 2014. From August 1, 2012 to July 31, 2014 the Policy Index was comprised of 65% MSCI ACWI, 30% Barclays Capital Universal and 5% NFI ODCE (net). 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% BC Aggregate, and 10% MSCI EAFE.

2 Total Fixed Income includes $591,993 for cash and illiquid securities in terminated account with Overseas CAP Partners.

Bureau of Labor Statistics

Unemployment Data

Measure	Not seasonally adjusted			Seasonally adjusted					
	Mar. 2014	Feb. 2015	Mar. 2015	Mar. 2014	Nov. 2014	Dec. 2014	Jan. 2015	Feb. 2015	Mar. 2015
U-1 Persons unemployed 15 weeks or longer, as a percent of the civilian labor force	3.7	2.7	2.6	3.4	2.7	2.6	2.7	2.6	2.4
U-2 Job losers and persons who completed temporary jobs, as a percent of the civilian labor force	3.7	3.0	2.9	3.5	2.9	2.8	2.7	2.7	2.7
U-3 Total unemployed, as a percent of the civilian labor force (official unemployment rate)	6.8	5.8	5.6	6.6	5.8	5.6	5.7	5.5	5.5
U-4 Total unemployed plus discouraged workers, as a percent of the civilian labor force plus discouraged workers	7.2	6.3	6.0	7.1	6.2	6.0	6.1	6.0	5.9
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	8.1	7.1	6.8	7.9	7.1	6.9	7.0	6.8	6.7
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	12.8	11.4	11.0	12.6	11.4	11.2	11.3	11.0	10.9

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

Active Member Statements

Please note that the OPPRS is no longer mailing annual active member statements. These statements may now be accessed by logging into your Web Member Services account through our website: www.opprs.ok.gov. Once you have logged into your account, you may view the statement by clicking on the "Member Statements" option from the menu on the left side of the screen. If you have yet to enroll in Web Members Services, don't worry! It only takes a couple of minutes to create an account, and then you will have 24/7 access to important account information, forms, and the benefit estimator.

Government Finance Officers Association
203 N. LaSalle Street—Suite 2700
Chicago, IL 60601

Phone (312) 977-9700 Fax (312) 977-4806

3/19/2015

NEWS RELEASE

For Information Contact:

Stephen Gauthier (312) 977-9700

(Chicago) — The Certificate of Achievement for Excellence in Financial Reporting has been awarded to Oklahoma Police Pension & Retirement System by the Government Finance Officers Association of the United States and Canada (GFOA) for its comprehensive annual financial report (CAFR). The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management.

An Award of Financial Reporting Achievement has been awarded to the individual(s), department or agency designated by the government as primarily responsible for preparing the award—winning CAFR. This has been presented to:

Oklahoma Police Pension & Retirement System, Oklahoma

The CAFR has been judged by an impartial panel to meet the high standards of the program including demonstrating a constructive "spirit of full disclosure" to clearly communicate its financial story and motivate potential users and user groups to read the CAFR.

The GFOA is a nonprofit professional association serving approximately 17,500 government finance professionals with offices in Chicago, IL, and Washington, D.C.

Election Results

District 1—Tom Custer
District 4—Jimmy Keesee

Serving 3 year Terms

ASSET CONSULTING GROUP

Consultant's Corner

When Does it Pay to Pay?

A topic that is often debated in the investment world relates to the costs of investing. While some costs associated with investing are difficult to quantify, others are more transparent. Fees paid to investment managers for managing your assets are readily available and can be evaluated in conjunction with a manager's performance.

There are multiple dimensions to consider when evaluating the costs/benefits of fees paid to investment managers. Simply selecting the low cost provider is not always the appropriate solution, nor do you always "get what you pay for". Therefore, it is important to assess:

- The likelihood, based on historical experience, of a particular strategy to beat "the market"
- The performance objective of the investment strategy
- The investment manager's historical track record
- The risk profile of the manager
- Size of assets invested
- Vehicle type
- How the manager's fees compare to its peers
- After-fee investment performance of the manager

Historically, certain categories of investments have given investment managers more difficulty than others in beating market benchmarks. This has traditionally included large company U.S. stocks, as measured by the S&P 500 Index, and certain categories of high quality bonds. When investors have a lower level of confidence in their managers outperforming market benchmarks, a low cost, passive style of investing may be appropriate. Other types of investments, like those outside of the U.S. or less traditional investment strategies, either don't offer a passive investment option or have a demonstrated track record of success in beating market averages, after paying their fees.

Ultimately, a diversified combination of strategies and styles is the most critical component to a successful investment program. This also applies to the implementation of the strategies, which may include both actively and lower cost, passively managed portfolios. While fees are an important consideration in choosing investments, factoring in the multitude of other key criteria helps to make the most informed investment decisions.

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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