

# **OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM**

## **24th ANNUAL REPORT**

### **REPORT TO MEMBERS June 30, 2005**

#### **EXECUTIVE DIRECTOR'S LETTER**

Dear Member:

The Board of Trustees is pleased to submit the 24th Annual Report of the Oklahoma Police Pension and Retirement System for the year ended June 30, 2005. This report is furnished in accordance with Section 50-105.4 of Title 11 of the Oklahoma Statutes.

The purpose of this brochure is to provide comprehensive information about the retirement plan including audited financial statements, actuarial information, historical and statistical data on active members, annuitants and benefit payments.

The Oklahoma Police Pension and Retirement System's fiscal year end actuary and audit reports have been completed respectively by Buck Consultants, Inc., and Finley & Cook, PLLC. Both reports are available for review at the office of the Oklahoma Police Pension and Retirement System.

Respectfully,

Robert J. Wallace  
Executive Director

## **INTRODUCTION**

The Oklahoma Police Pension and Retirement System was established January 1, 1981, to provide pension and other specified benefits for qualified police officers of the participating municipalities.

The Oklahoma Police Pension and Retirement Board is a thirteen (13) member Board. Seven Board members are elected by members of the System (six are active police officers, and one is a retired member). One Board member is appointed by the Governor, one by the Speaker of the House, one by the President Pro Tempore of the Senate and one by the President of the Oklahoma Municipal League. The two remaining Board members are the State Insurance Commissioner or the Commissioner's designee and the Director of State Finance or the Director's designee.

The System provides retirement benefits to all retirees. The four primary sources of revenue for the System are contributions from active members, local municipalities, dedicated revenue and investment income. In order to fulfill their fiduciary responsibilities, the Board hires an actuary to prepare an annual evaluation. This report is submitted to the Governor and the Legislature. The Board hires investment managers to assure that the assets of the fund are being adequately invested at all times. Performance measurement is provided by an investment consulting firm. This firm compares the management of funds and the investment rate of return of the System against similar funds and trusts.

The agency maintains records pertaining to active members, retirees and beneficiaries. The agency also monitors the investments of the System.

The mission of the System is to provide secure retirement benefits for members and their beneficiaries.

**FINLEY & COOK, PLLC**  
**Certified Public Accountants**

We have audited the accompanying statements of plan net assets of the Oklahoma Police Pension and Retirement Plan (the "Plan"), administered by the Oklahoma Police Pension and Retirement System, which is a part of the State of Oklahoma financial reporting entity, as of June 30, 2005 and 2004, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Plan as of June 30, 2005 and 2004, and the changes in net assets of the Plan for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information contained in Management's Discussion and Analysis, the Schedule of Funding Progress, and the Schedule of Contributions from the Employer and Other Contributing Entities is not required as part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

In accordance with Government Auditing Standards, we have also issued a report dated August 24, 2005, on our consideration of the Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Finley & Cook, PLLC  
August 24, 2005

**FINANCIAL HIGHLIGHTS**  
**Selected Financial Information, at Fair Value**

	Year Ended June 30	
	<u>2005</u>	<u>2004</u>
	(Amounts in Thousands)	
Net Assets	\$ 1,386,113	\$ 1,288,525
Net Investment (Loss) Income	113,964	174,962
Total Contributions	62,965	37,327
Total Revenues	176,929	212,289
Retirement and Other Benefits	77,269	74,492
Administrative Expenses	2,072	2,227
Total Expenses	79,341	76,719
Fund Balance (Decrease) Increase	97,588	135,570

Selected Investment Information

	Year Ended June 30	
	<u>2005</u>	<u>2004</u>
	(Amounts in Thousands)	
US Government Securities	\$ 31,665	\$ 37,153
International Gov. Securities	24,919	38,042
Domestic Corporate Bonds	209,655	211,589
International Corp. Bonds	11,285	11,189
Domestic Stocks	614,341	573,238
International Stocks	80,222	63,981
Alternative Investments	401,862	366,385
Real Estate	3,100	2,650
Warrant	1,600	920
Security Lending Collateral	<u>62,984</u>	<u>67,617</u>
Total Investment Portfolio	<u>\$1,441,633</u>	<u>\$1,372,764</u>

**BUCK CONSULTANTS, INC.**  
**Actuary's Certification**

We have prepared an actuarial valuation of the Oklahoma Police Pension and Retirement System as of July 1, 2005, for the plan year ending June 30, 2005. The results of the valuation are set forth in this report, which reflects the provisions of the System as amended and effective on July 1, 2005.

The valuation is based on employee and financial data which were provided by the Oklahoma Police Pension and Retirement System and the independent auditor, respectively, and which are summarized in this report.

All costs, liabilities and other factors under the System were determined in accordance with generally accepted actuarial principles and procedures, in accordance with the provisions of current State Statutes and regulations issued thereunder, using an actuarial cost method which we believe is appropriate. In our opinion, the actuarial assumptions are reasonable and represent our best estimate of the anticipated experience under the System. This report fully and fairly discloses the actuarial position of the System on an ongoing basis.

There have been no changes in actuarial methods or assumptions. The changes in benefit provisions since the last valuation of the System as of July 1, 2004 are summarized on page 3 and the financial impact, if any, are incorporated in this report.

We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate.

September 20, 2005  
Richard A. Mackesey, F.S.A.  
R. Ryan Falls, F.S.A.

**MEMBER HIGHLIGHTS**  
**RETIREES AND AVERAGE BENEFITS**

	<u>2005</u>	<u>2004</u>
Retired Members	1,866	1,788
Average Annual Benefit	\$ 26,925	\$26,577
Beneficiaries	433	432
Average Annual Benefit	24,715	23,759
Disabled Members	148	153
Average Annual Benefit	16,422	15,927
Deferred Option Plan Members	247	284
Average Annual Benefit	31,585	31,533
Vested Terminated Members	79	74
Average Annual Deferred Benefit	13,580	12,941

Selected Actuarial Information

Actuarial Valuation as of July 1

	<u>2005</u>	<u>2004</u>
Actuarial Accrued Liability	\$1,811,572,114	\$1,727,162,602
Actuarial Value of Asset	1,423,834,000	1,399,975,000
Unfunded Liability	387,738,114	327,187,602
<b>Funded Ratio</b>	<b>78.6%</b>	<b>81.1%</b>

**Ten-Year Projected Cash Flow**  
**(Retirement Benefit Payments)**

Fiscal year			
<u>Ending</u>	<u>Actives</u>	<u>Retirees (1)</u>	<u>Total</u>
06/30/2006	6,306,783	71,177,695	77,484,478
06/30/2007	13,400,893	72,374,656	85,775,549
06/30/2008	18,634,548	73,440,386	92,074,934
06/30/2009	23,823,513	74,457,003	98,280,516
06/30/2010	29,241,431	75,360,334	104,601,765
06/30/2011	35,420,952	76,291,707	111,712,659
06/30/2012	41,844,311	77,125,374	118,969,685
06/30/2013	48,361,827	77,905,728	126,267,555
06/30/2014	54,901,416	78,706,615	133,608,031
06/30/2015	61,443,075	79,331,331	140,774,406

Includes Deferred Option Plan Members, Disabled Members, Beneficiaries and Terminated Vested Members.

## Contribution Requirement Summary

	<u>Year ended June 30</u>		<u>% Change</u>
	<u>2005</u>	<u>2004</u>	
<b>Unfunded Liability</b>	<b>\$ 387,738,114</b>	<b>\$ 327,187,602</b>	<b>18.5%</b>
Amortization of			
Unfunded Liability	46,052,144	37,197,357	23.8%
Normal Cost	51,967,880	48,276,293	7.6%
Budgeted Exp.	2,479,296	2,327,290	6.5%
<b>Required Contribution</b>	<b>100,499,320</b>	<b>87,800,940</b>	<b>14.5%</b>
Est. Employee Contr.	15,107,876	14,044,743	7.6%
Est. Municipality Contr.	24,550,299	22,822,707	7.6%
DOP Members	1,149,000	1,233,000	(6.8%)
State Contribution			
Previous Year	23,730,000	0	N/A
<b>Total Contribution</b>	<b>64,537,175</b>	<b>38,100,450</b>	<b>69.0%</b>

**POLICE PENSION AND RETIREMENT SYSTEM  
BOARD OF TRUSTEES**

**July 2005**

Joe Perkins, Chairman  
District 5

Tom Custer, Vice Chairman  
District 1

Charles Kerr, Member  
District 2

Rick Smith, Member  
District 3

Paul Swenson, Member  
District 4

Steve Cain, Member  
Speaker of the House Appointee

Ralph Gibson, Member  
District 6

W.B. Smith, Member  
District 7

David Been, Member  
Governor Appointee

Frank Stone, Member  
Designee of State Insurance Commissioner

Tony Davenport, Member  
Appointee of OML President

James Wilbanks, Member  
Designee of State Finance Director

Neil Vickers, Member  
Senate President Pro Tempore Appointee

## STAFF

Robert J. Wallace, Executive Director  
Steven K. Snyder, Deputy Exec. Dir./General Counsel  
Judy Q. Cong, Comptroller  
Dusty A. Brassfield, Pension Administration Coordinator  
Linda C. Ruckman, Administrative Officer  
Debra A. Wells, Information Systems Coordinator  
Lynetta R. Sanders, Administrative Assistant  
Elizabeth A. Moore, Accountant  
Laura K. Luttrell, Pension Analyst  
Marqueta L. Brown, Pension Analyst  
Nancy I. Nethercutt, Customer Assistance Representative

## PROFESSIONAL SERVICE PROVIDERS

Mellon Trust of New England  
Master Custodian  
Asset Consulting Group  
Investment Consultant  
Buck Consultants  
Actuarial Consultant  
Finley & Cook, PLLC  
Independent Auditor

## INVESTMENT MANAGERS

### DOMESTIC EQUITY MANAGERS

One Focus – Technology Opportunity Partners, LP  
Fund of Fund  
Boston Partners Asset Management  
Small-Mid Capitalization Value  
CapitalWorks Investment Partners  
Small Capitalization Growth  
Mellon Capital Management  
Large Core Index Fund  
State Street Global Advisors  
Large Cap Enhanced Index  
CapitalWorks Partners, LP  
Hedge Fund

## **INTERNATIONAL EQUITY MANAGER**

Julius Baer Investment Management, LLC  
Mondrian Investment Partners Limited

## **DOMESTIC FIXED INCOME MANAGER**

Oaktree Capital Management  
Enhanced Fixed Income  
Agincourt Capital Management  
Core Fixed Income

## **INTERNATIONAL FIXED INCOME MANAGER**

Fischer Francis Trees & Watts, Inc.

## **SPECIAL STRATEGY MANAGERS**

Columbus Square  
Mount Lucas Management Corporation  
Oaktree Capital Management Partners Fund II , III , IV  
& V, LP  
Prudential Timber Investments, Inc.  
Goldner Hawn Johnson & Morrison, Inc.  
Weiss, Peck & Greer Investments Fund V & VI, LP  
Pequot Capital Management Fund II & III, LP  
Accel Europe, LP  
Venture Lending & Leasing Fund III, LLC  
Overseas Cap Partners, Inc. (Formerly BBT)  
Hicks, Muse, Tate & Furst Equity Fund V, LP  
Fremont Partners Fund III, LP  
Pacific Alternative Asset Management Co., LLC  
Arsenal Capital Partners, LP  
Levine Leichtman Capital Partners, LP  
Siguler Guff & Company, LLC  
TCW/Crescent Mezzanine Partners Fund II & III, LP  
Grosvenor Capital Management, LP  
Knightsbridge Advisers Inc.

## **LEGISLATION**

The following Legislation affecting the Oklahoma Police Pension and Retirement System became effective July 1, 2005.

HB 1547 Provides procedures to refund the System for reduced allocations of insurance premium taxes resulting from increases in insurance premium tax credits effective July 1, 2006.

SB 529 Brings the System into compliance with federal requirements.

There was no actuarial impact from the changes indicated above.