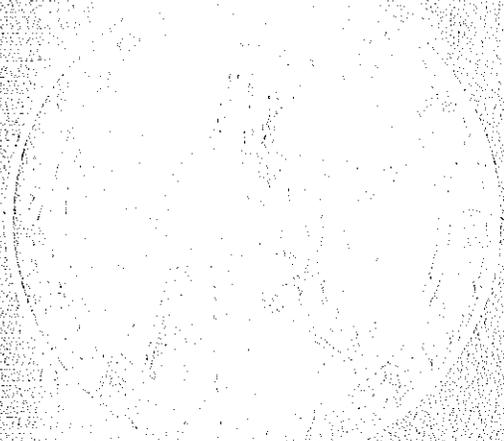


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**FORTY-SIXTH
ANNUAL REPORT**

June 30, 1989

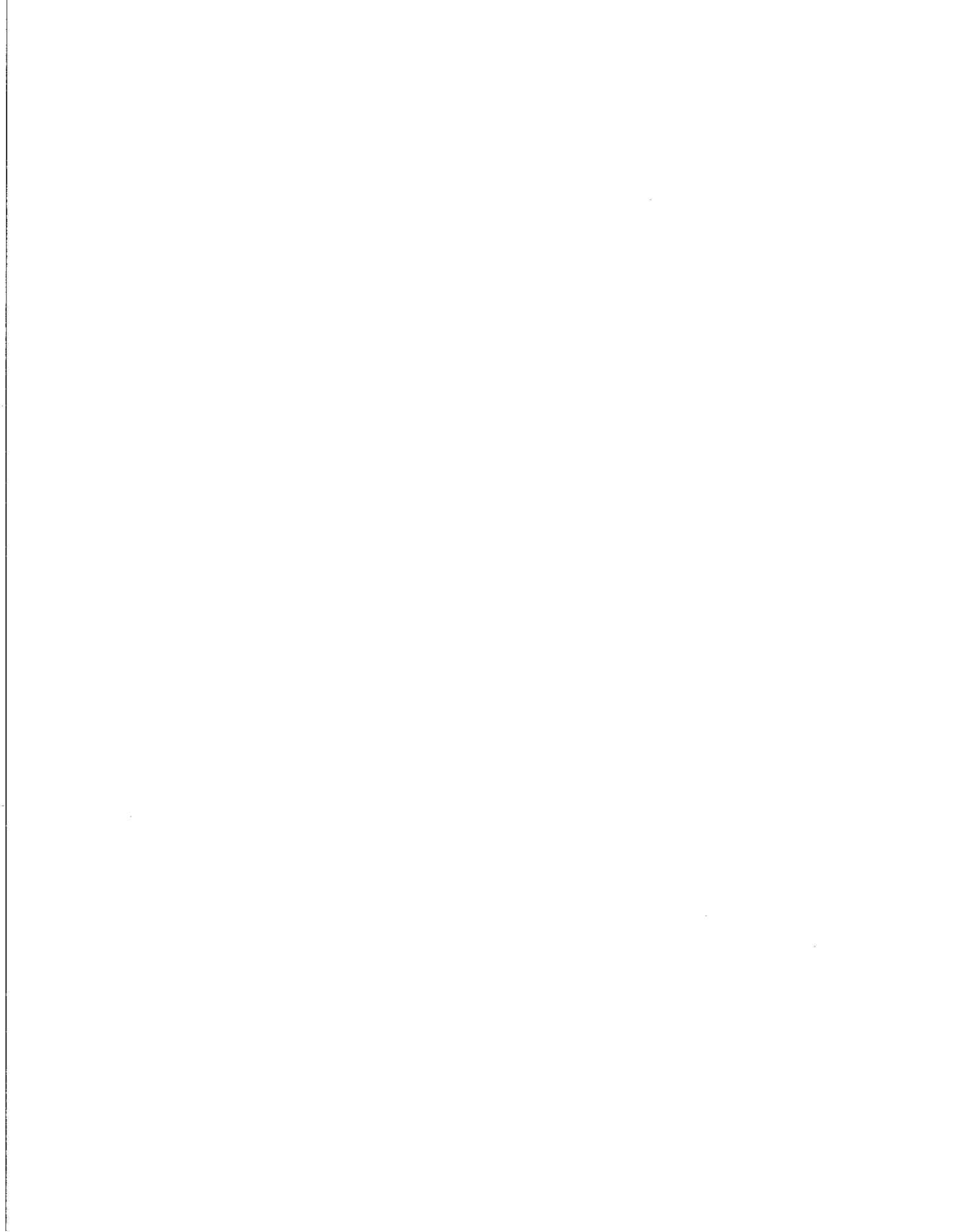
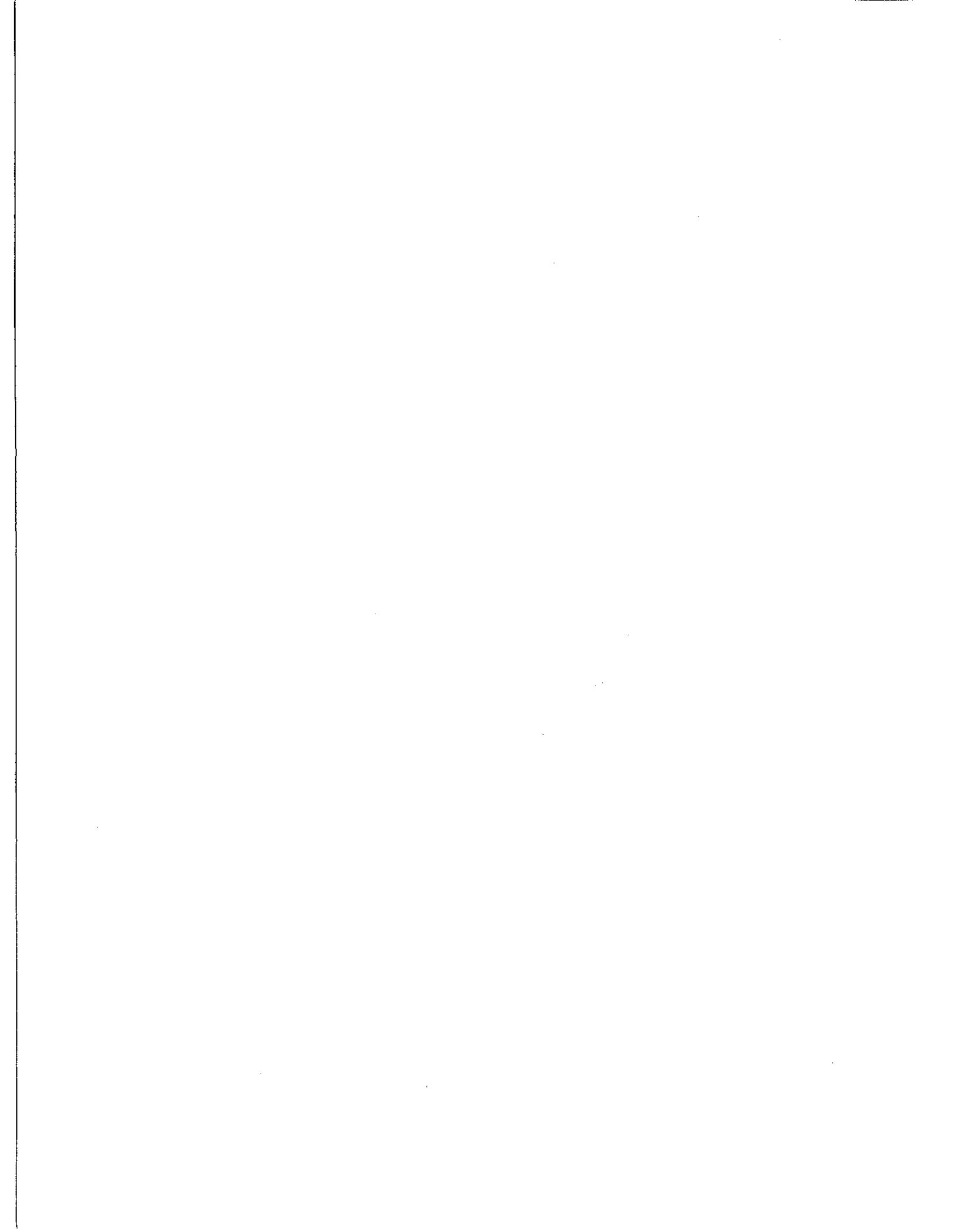


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The 46th Annual Report of the Teachers' Retirement System of Oklahoma is prepared in accordance with Title 70 O.S. Supp. 1988, Section 17-106.1; 5,000 copies have been printed by the Office of Public Affairs Central Printing Division at a cost of \$4,400. Copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.



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Financial Consultant

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Actuary

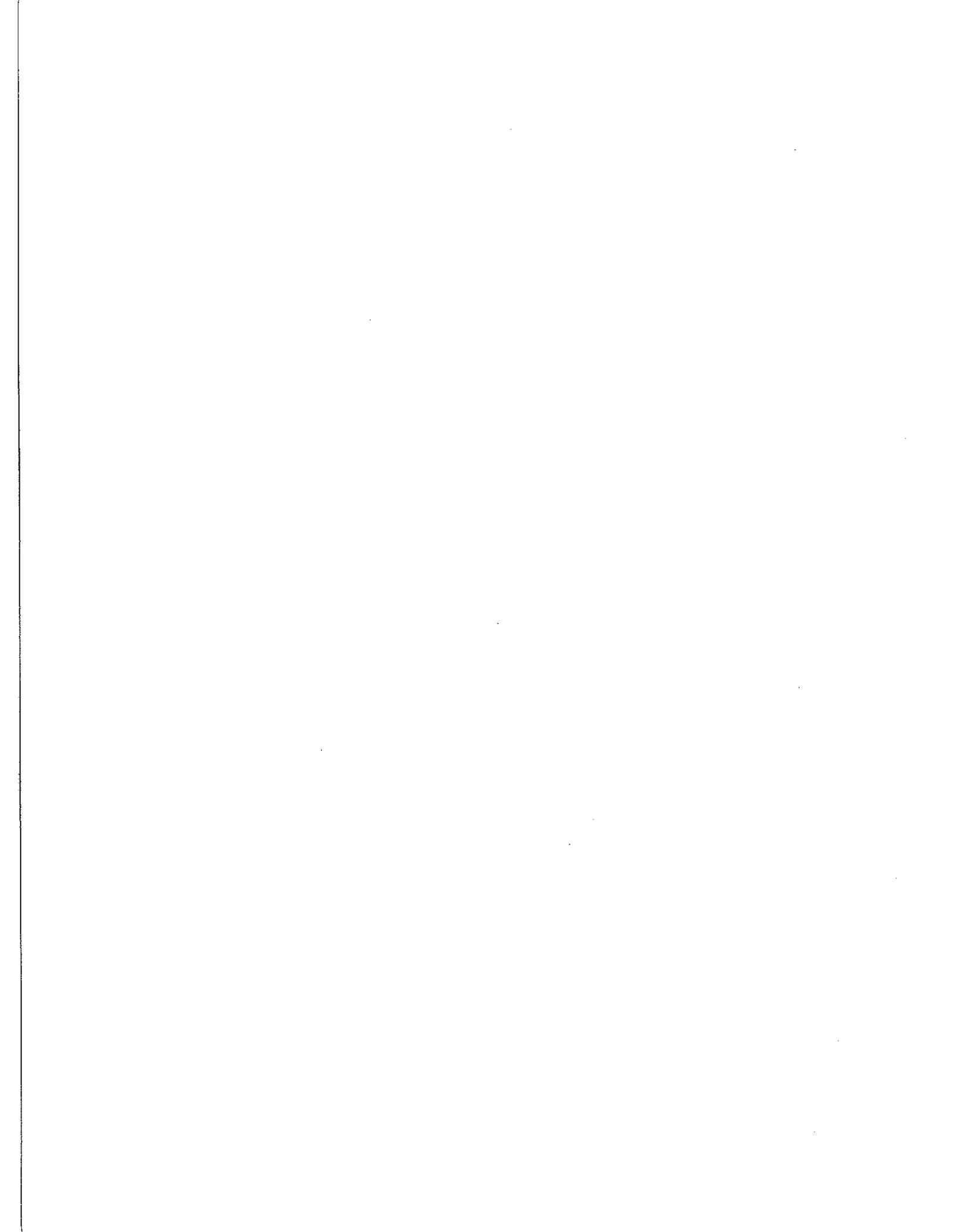
Mr. Ned Bastow
Legal Counsel

STAFF

Mr. Tommy C. Beavers
Executive Secretary

Ms. Sue Peterson
Assistant Executive Secretary

Mr. Randall Kopsa
Secretary/Treasurer



Administration

The Teachers' Retirement System of Oklahoma (TRS) was established July 1, 1943 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions. TRS is administrated by a 13 member board of trustees which acts as a fiduciary for investing the System's funds and governing the administration of the System.

Revenue

The three primary sources of revenue for TRS are contributions from active members, dedicated revenue from the State of Oklahoma, and investment income. Participating members are required to contribute 5% of their applicable earnings up to a maximum of \$25,000 and may elect to contribute 10% on the earnings in excess of \$25,000 up to \$40,000. Beginning July 1, 1989, these rates increase to 5 1/2% and 10 1/2%, respectively.

Membership

Membership is required for all teachers and other certified employees of common schools, faculty and administrators in public colleges and universities and administrative personnel of state educational boards and agencies. Membership is optional for all other regular employees of public educational institutions who work at least 15 hours per week.

Service Credit

To qualify for one year of membership, a member must work 6 full months. A school month is twenty school days consisting of 6 or more hours each. Subject to limitations, credit may be granted for out-of-state service, military service, and service prior to July 1, 1943.

Retirement Annuity

A member may retire at age 62, with unreduced benefits, upon completing at least 10 years of creditable Oklahoma service; or, a member with at least 10 years of creditable Oklahoma service may retire, with reduced benefits, as early as age 55. A member may also retire, with unreduced benefits, at the age at which the sum of the member's age and the number of years of creditable service total 80.

The monthly benefit is determined by the average salary of any of the three highest years of contributory service multiplied by 2% times the years of service divide by 12. Depending on the plan option selected by the member, this benefit may be subject to reduction. Under certain plan options, the beneficiary is entitled to receive benefits after the member's death.

A member is fully vested after 10 years of contributory Oklahoma membership service and entitled to any benefits for which eligibility requirements have been satisfied.

Disability Benefits

Any member who is actively employed in the Oklahoma public education system, and who has at least ten years of contributory Oklahoma membership service, may be retired by the Board of Trustees on a disability retirement allowance. A medical board comprised of 3 physicians review a member's application for disability retirement to determine if the member is incapable of performing the duties of employment.

Death Benefits

Upon the death of an active member, the designated beneficiaries, or estate, shall be entitled to survivor benefits consisting of an \$18,000 death benefit, accumulated contributions, plus statutorily required interest. A surviving spouse of a deceased member who had 10 or more years of service and reached the age 55, or had obtained an age and service totaling 80 may chose a monthly benefit in lieu of a lump sum payment. The beneficiaries of a retired member are entitled to the balance of the member's account along with a \$4,000 death benefit. Certain retirement plan options provide the surviving spouse with a continuing monthly retirement benefit.

Refunds

TRS will refund a member's contributions provided the member has officially terminated employment in the public schools of Oklahoma and an application is

submitted no earlier than four months from the last day of employment. The refund consists of all contributions made by the member or on behalf of the member by the employer, plus the applicable portion of interest earnings. When the member accepts a refund, all credit with the System is forfeited. Credit may be re-established if the member returns to eligible employment for at least one full year and repays the withdrawn contributions plus interest.

Medical Benefits

A member may enroll in the State and Education Employees Group Health Insurance Plan within thirty days of termination of employment. Dependent coverage is available on an optional basis, as is dental coverage. Coverage for dependent care after the initial enrollment period is subject to insurability and other conditions as determined by the State and Education Employees Group Insurance Board. TRS currently pays the first \$75 of monthly premiums for each participating retiree.

BENEFITS SECTION



Active Personnel

Selected Plan Options

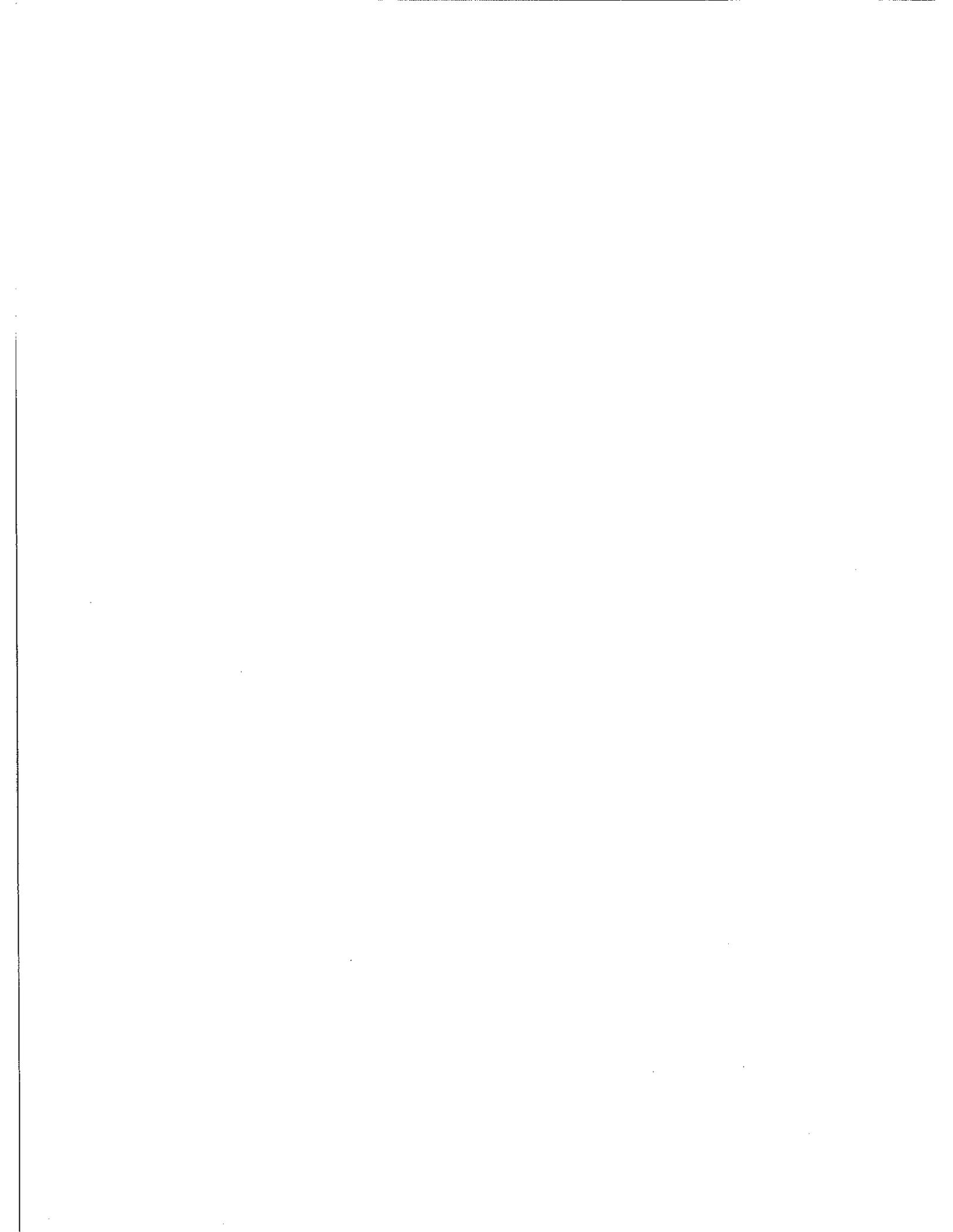
Distribution By Years of Service

Distribution By Age At Retirement

Distribution By Retiree Age

Average Monthly Retirement Income

Distribution By Monthly Income



ACTIVE PERSONNEL

Years of Service	* All Active Personnel	* Classified Personnel	* Unclassified Personnel
Under 5 yrs.	29,230	15,761	13,469
5-9	16,169	12,047	4,122
10-14	13,209	10,966	2,243
15-19	10,147	8,874	1,273
20-24	5,938	5,326	612
25-29	2,490	2,335	155
30-34	874	835	39
35-39	267	257	10
40-44	71	69	2
45-49	8	7	1
50-54	2	2	0
TOTALS	78,405	56,479	21,926

Salary Range	All Active Personnel	Classified Personnel	Unclassified Personnel
0-\$5,000	489	66	423
5001-10,000	5,213	408	4,805
10,001-15,000	6,435	660	5,775
15,001-20,000	11,143	7,128	4,015
20,001-25,000	18,696	16,847	1,849
25,001-30,000	12,321	11,507	814
30,001-35,000	5,800	5,406	394
35,001-40,000	3,157	2,982	175
40,001-45,000	1,798	1,700	98
45,001-50,000	1,045	996	49
50,001-55,000	708	678	30
55,001-60,000	443	417	26
60,001-65,000	346	334	12
65,001-70,000	217	212	5
70,001-75,000	159	148	11
75,001 and Above	227	223	4
TOTALS	68,197	49,712	18,485

* Includes members who have terminated employment but have not withdrawn their account.

Average Age	43.1	42.3	45.7
Average Salary	\$24,031	\$27,432	\$14,883
Average Service	9.4	10.8	5.6

SELECTED PLAN OPTIONS

Option	Retired Members			Average Monthly Payment	% of Total
	Male	Female	Total		
Maximum	1,256	6,309	7,565	\$902.95	34.54%
Option 1	2,876	7,216	10,092	964.56	46.08%
Option 2	1,383	287	1,670	1,044.59	7.62%
Option 3	982	295	1,277	1,207.45	5.83%
Option 4	102	94	196	954.17	0.89%
Options 5, 6 & 7	460	44	504	634.28	2.30%
Disabled	187	412	599	716.19	2.73%
TOTALS	7,246	14,657	21,903	\$949.06	100.00%

DISTRIBUTION BY YEARS OF SERVICE

Years of Creditable Service	Retired Members			Average Monthly Payment
	Male	Female	Total	
Under 10	58	159	217	\$182.51
10-14	500	1,639	2,139	296.76
15-19	717	1,940	2,657	485.75
20-24	843	2,465	3,308	725.92
25-29	1,008	2,349	3,357	983.11
30-34	1,593	2,588	4,181	1,146.51
35-39	1,526	1,903	3,429	1,312.16
40-44	905	1,319	2,224	1,451.47
45-49	93	292	385	1,521.24
50 and Over	3	3	6	2,282.03
TOTALS	7,246	14,657	21,903	\$949.06

DISTRIBUTION BY AGE AT RETIREMENT

Age at Retirement	Retired Members			Average Monthly Payment	Average Length of Service
	Male	Female	Total		
40 and Under	10	21	31	\$457.00	13.5
41-45	20	29	49	619.16	16.5
46-50	48	70	118	889.74	22.7
51-55	870	793	1,663	1,123.66	27.4
56-60	1,673	2,926	4,599	963.65	26.9
61-65	4,072	9,689	13,761	941.61	28.3
66-70	497	1,033	1,530	845.15	25.9
71-75	44	82	126	583.53	23.1
76-80	10	13	23	535.37	23.0
Over 80	2	1	3	300.34	18.3
TOTALS	7,246	14,657	21,903	\$949.06	27.7

DISTRIBUTION BY RETIREE AGE

Age	Total Retired Members	Average Length of Service	Average Monthly Payment
Under 50	63	16.2	\$637.23
50-54	431	27.8	1,278.46
55-59	1,722	26.4	1,125.06
60-64	3,570	25.9	1,009.00
65-69	4,211	25.8	920.71
70-74	3,808	26.8	863.47
75-79	3,496	28.8	913.38
80-84	2,776	30.6	937.16
85-89	1,336	31.6	928.36
Over 90	490	30.9	931.39
TOTALS	21,903	27.6	\$949.06

Average age of retired members is 71.2

AVERAGE MONTHLY RETIREMENT INCOME

Date	Regular Annuitants	Date	Regular Annuitants	Special Annuitants
June 30, 1948	\$33.04	June 30, 1978	\$344.87	
June 30, 1954	75.33	June 30, 1979	364.83	
June 30, 1960	83.00	June 30, 1980	382.25	
June 30, 1966	128.72	June 30, 1981	432.46	
June 30, 1969	147.71	June 30, 1982	479.87	
June 30, 1970	178.77	June 30, 1983	591.85	
June 30, 1971	201.07	June 30, 1984	600.07	
June 30, 1972	209.09	June 30, 1985	683.33	
June 30, 1973	217.35	June 30, 1986	760.85	150.00
June 30, 1974	225.71	June 30, 1987	836.93	158.89
June 30, 1975	248.10	June 30, 1988	907.10	159.00
June 30, 1976	296.72	June 30, 1989	949.06	158.84
June 30, 1977	320.90			

Note that the June 30, 1989 figure does not include the \$75.00 per month Medical Benefit.

DISTRIBUTION BY MONTHLY INCOME

Monthly Income	Retired Members	Total Payment	Average Payment
Under \$100	71	\$5,763.18	\$81.17
\$101-200	595	94,017.02	158.01
\$201-\$300	1,114	279,676.93	251.06
\$301-\$400	1,273	444,055.47	348.83
\$401-\$500	1,298	585,564.16	451.13
\$501-\$600	1,323	726,896.08	549.43
\$601-\$700	1,325	859,712.36	648.84
\$701-\$800	1,452	1,087,967.31	749.29
\$801-\$900	1,494	1,272,768.09	851.92
\$900-\$1,000	1,716	1,632,129.87	951.12
\$1,001-\$1,100	1,692	1,777,632.04	1,050.61
\$1,101-\$1,200	1,780	2,046,010.57	1,149.44
\$1,201-\$1,300	1,877	2,347,357.56	1,250.59
\$1,301-\$1,400	1,571	2,120,337.79	1,349.67
\$1,401-\$1,500	1,099	1,590,028.03	1,446.80
\$1,501-\$1,600	741	1,145,466.76	1,545.84
\$1,601-\$1,700	480	789,870.80	1,645.56
\$1,701-\$2,000	663	1,211,945.98	1,827.97
\$2,001-\$2,500	276	602,728.84	2,183.80
Over \$2,500	63	167,330.24	2,656.04
TOTALS	21,903	\$20,781,495.90	\$948.80

INVESTMENT SECTION



Asset Allocation

Investment Portfolio Summary

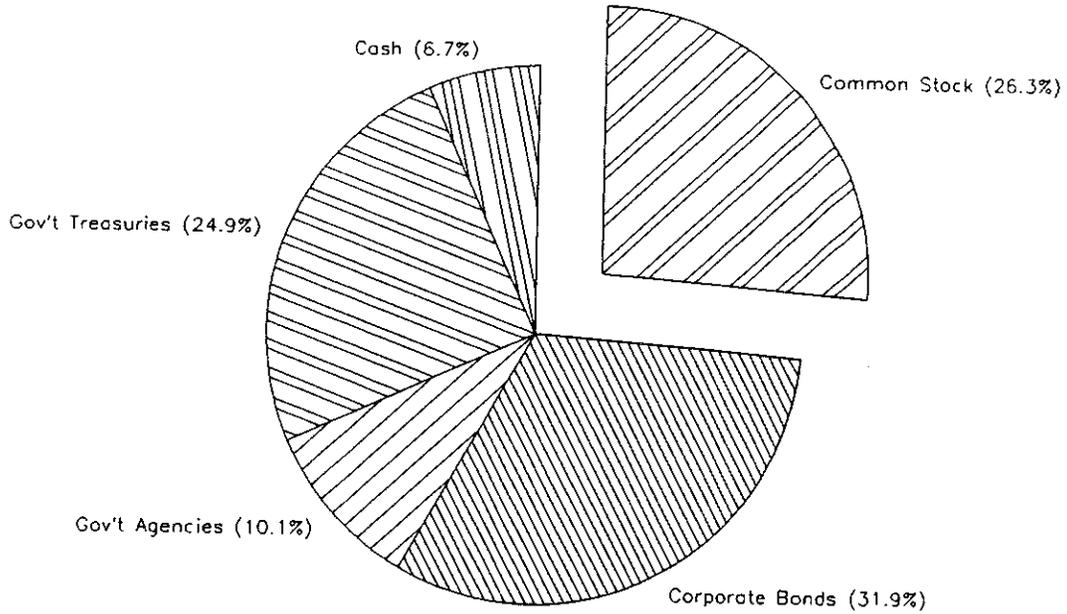
Economic Overview

Investment Policy Overview

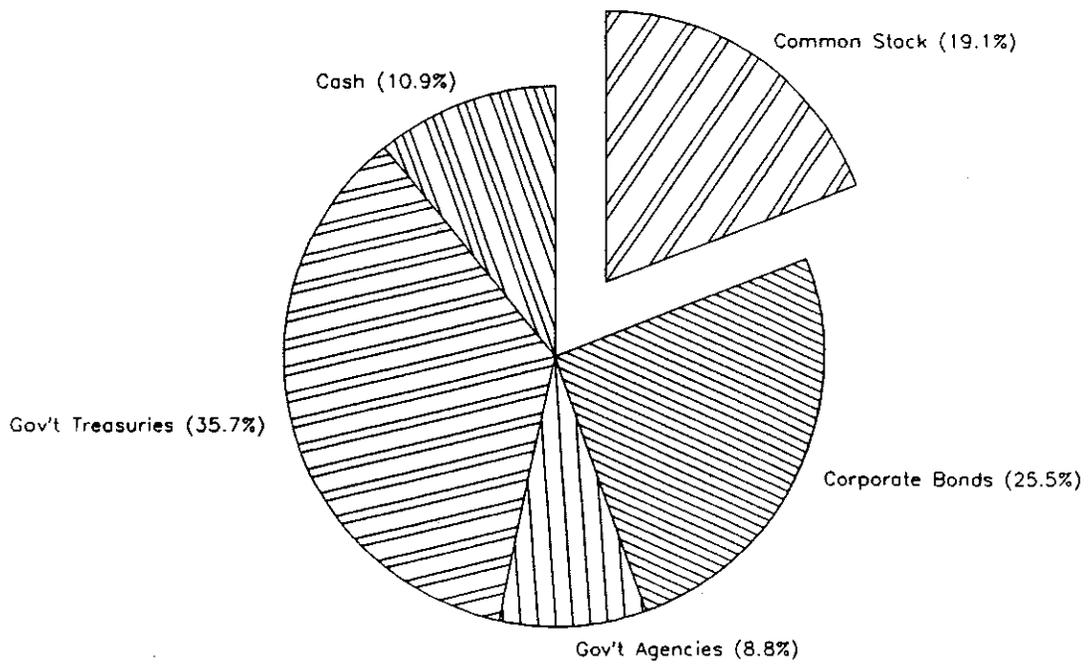
Investment Performance

ASSET ALLOCATION---MARKET VALUE

June 30, 1989



June 30, 1988



INVESTMENT PORTFOLIO SUMMARY

June 30, 1989

	<u>Book Value</u>	<u>% of Total Book Value</u>	<u>Market Value</u>	<u>% of Total Market Value</u>
Government Obligations:				
U.S. Government	\$462,533,765	25%	\$477,408,893	25%
Federal Agency	<u>192,273,925</u>	11%	<u>194,072,334</u>	10%
Total Government Obligations	654,807,690	36%	671,481,227	35%
Corporate Obligations:				
Public Utilities Bonds	107,424,333	6%	108,275,613	6%
Telephone Bonds and Debentures	67,449,252	4%	66,543,985	3%
Corporate Industrial Bonds	<u>434,163,580</u>	24%	<u>435,798,250</u>	23%
Total Corporate Obligations	609,037,165	33%	610,617,848	32%
Total Fixed Income Securities	1,263,844,855	69%	1,282,099,075	67%
Equities	438,463,043	24%	503,288,214	26%
Short-Term Investments	<u>127,806,283</u>	7%	<u>128,757,078</u>	7%
Total Investment Portfolio	\$1,830,114,181	100%	\$1,914,144,367	100%

INVESTMENT PORTFOLIO SUMMARY

June 30, 1988

	<u>Book Value</u>	<u>% of Total Book Value</u>	<u>Market Value</u>	<u>% of Total Market Value</u>
Government Obligations:				
U.S. Government	\$626,710,646	35%	\$633,403,259	36%
Federal Agency	<u>160,007,023</u>	9%	<u>156,536,947</u>	9%
Total Government Obligations	786,717,669	44%	789,940,206	45%
Corporate Obligations:				
Public Utilities Bonds	86,045,116	5%	81,291,258	5%
Telephone Bonds and Debentures	39,994,112	2%	35,388,872	2%
Corporate Industrial Bonds	<u>340,042,108</u>	19%	<u>335,055,197</u>	19%
Total Corporate Obligations	466,081,336	26%	451,735,327	25%
Total Fixed Income Securities	1,252,799,005	71%	1,241,675,533	70%
Equities	325,036,522	18%	339,104,841	19%
Short-Term Investments	<u>192,951,079</u>	11%	<u>193,662,188</u>	11%
Total Investment Portfolio	\$1,770,786,606	100%	\$1,774,442,562	100%

INVESTMENT REPORT

ECONOMIC OVERVIEW

The U.S. economy continues to move along the same general course as it has over the past several years. Economists have been projecting a recession for many quarters now, but the economy has shown considerable resilience. The Federal Reserve has demonstrated the ability to balance the scales between inflation and recession by easing and tightening monetary policy in small enough doses to stay within their guidelines.

Over the past year, interest rates have declined, with long bond yields down over 1.0%. The dollar is stronger, and the Dow Jones Industrial Average has continued its climb.

The personal savings rate is at a healthy 5.7% rate, payroll employment is strong, and the trade deficit has made major inroads in spite of the increasing strength of the dollar.

While all this sounds quite optimistic, there are mixed signals in the economy, and many of the concerns that loomed over the economy last year continue to exist today. They seem, however, to point to the fact that the economy will continue at either the same or slower pace as last year.

It is widely believed that the equity and bond markets will continue to be volatile during the

coming year. The Board of Trustees for the System will persist in maintaining high quality securities to lessen this volatility.

INVESTMENT POLICY OVERVIEW

In the past, state statutes prohibited the System from exceeding a 25% maximum exposure in common stocks. There have been times when this has been a positive factor to the System, and times when this level of commitment to stocks has been an impediment. October, 1987, the Dow Jones Industrial Average created an all-time high level of awareness of the potential volatility in the equity markets. During that year, the Dow Jones Industrial Average hit an all time high of 2722, and a few months later, moved to 1739. Yet, for the four quarters that calendar year, the market had a net gain of 5%.

Many factors are responsible for market volatility, therefore the long-term institutional investor must establish a *tolerance* or *comfort* level in determining investment strategy. During this period, most pension plans did not reduce their exposure to equities, but rather, some increased their levels of commitment. One important lesson learned was the significance of the asset allocation process and portfolio diversification.

Over the years, studies have shown that as an asset class, equities have outperformed the bond market by a significant margin. Equities have generated 6% to 8% *real* returns to investors while bonds have averaged *real* returns of 2% annually. This means that common stocks should outperform the bond markets by 4% to 6% over long periods of time. Over shorter periods of time, however, this has not always been true.

While equities may provide investors with the highest returns over time, they also have the highest volatility of the major asset classes. During the last twenty years, the returns of equities have ranged from -26% to a +37%. These swings can impede the budgeting and planning processes, so a mix of assets producing less volatility is needed.

The asset allocation process involves combining two or more asset classes whose rates of return move in different manners or directions to smooth out volatility. Since 1983, the System's Board of Trustees has been moving toward portfolio diversification to meet this objective.

In mid-1988, the Oklahoma State Legislature removed the 25% maximum limitation on common stocks, giving discretion to the Board of Trustees to determine the asset allocation of the invest-

ment portfolio. Since that time, the Board has developed and implemented a new Statement of Investment Policies, Objectives and Guidelines which states that the System's exposure to common stocks will not exceed 40%, while maintaining approximately 60% in fixed income securities. This determination was made after analyzing risk-tolerance levels, return needs and expectations and cash flow requirements.

INVESTMENT PERFORMANCE

Over the past five years, the investments held by the Oklahoma Teachers' Retirement System earned an annualized time-weighted rate of return of 15.05%. This figure is a composite of the equity, fixed in-

come and short-term investment fund portfolios, with the equity portfolio earning approximately 20% and the the fixed income portion earning 15.15%. Analyzing the returns over the last five years on a cumulative basis, the System earned an overall return of 101.6%, with equities earning 148.48% and fixed income earning 102.48%.

Investments made during the most recent fiscal year ending June 30, 1989, earned an overall rate of return of 13.31%, with common stocks generating a return of 20.42% and fixed income returning 11.33%. The last six months of the fiscal year, January 1, through June 30, 1989, was a very strong two quarter period for the System in both equities and the fixed

income, earning cumulative returns of 16.1% and 8.3% respectively.

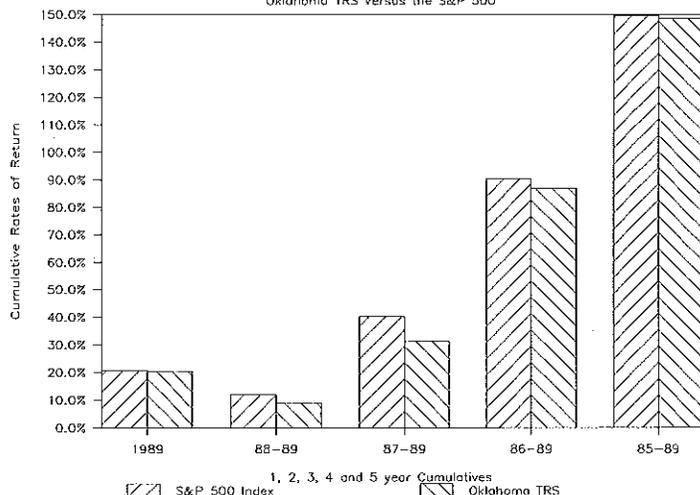
The illustrations shown below graphically exhibit how the System has compared to industry standards over the past five years. The common stocks owned by the System have performed comparably to the Standard and Poor 500, an index of 500 large capitalization stocks on the New York Stock Exchange.

The fixed income portion of the portfolio has exceeded the performance of the industry standard Shearson Lehman index which is comprised of Corporate and government fixed income securities.

ANNUALIZED RATES OF RETURN July 1, 1984 through June 30, 1989				CUMULATIVE RATES OF RETURN July 1, 1984 through June 30, 1989			
Fiscal Year Ending	Total Portfolio	Equity Portfolio	Fixed Income Portfolio	Fiscal Year Ending	Total Portfolio	Equity Portfolio	Fixed Income Portfolio
June 30, 1985	15.05%	19.97%	15.15%	June 30, 1985	101.60%	148.48%	102.48%
June 30, 1986	11.89%	16.93%	11.29%	June 30, 1986	56.75%	86.92%	53.37%
June 30, 1987	8.86%	9.36%	8.24%	June 30, 1987	29.32%	31.15%	27.12%
June 30, 1988	8.59%	4.40%	9.39%	June 30, 1988	17.91%	8.99%	19.65%
June 30, 1989	13.31%	20.42%	11.33%	June 30, 1989	13.31%	20.42%	11.33%

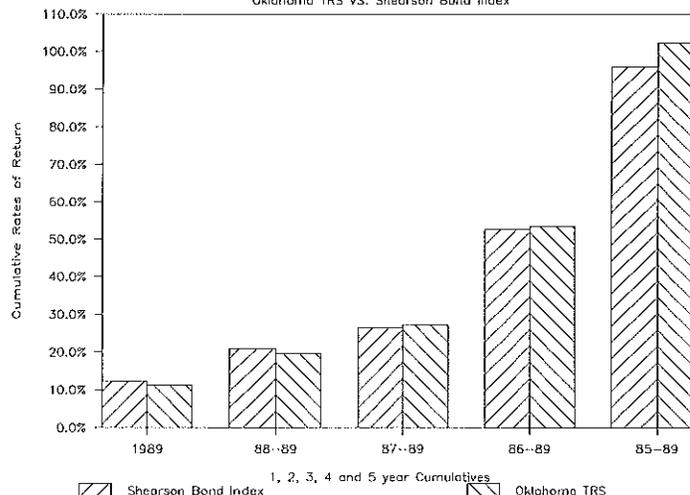
CUMULATIVE EQUITY RATE COMPARISON

Oklahoma TRS Versus the S&P 500



CUMULATIVE BOND RATE COMPARISON

Oklahoma TRS VS. Shearson Bond Index



FINANCIAL SECTION



Balance Sheets

*Statements of Revenues, Expenditures
and Changes*

Statements of Funds

Notes to Financial Statements



OKLAHOMA TEACHERS' RETIREMENT SYSTEM

BALANCE SHEETS
June 30, 1988 and 1989

	<u>1988</u>	<u>1989</u>
<u>CURRENT ASSETS:</u>		
Cash	1,715,650.67	\$1,387,873.90
Fixed Income Securities (See note 2)	1,318,224,353.32	1,281,335,900.96
Equities (See note 2)	325,036,521.92	438,463,043.43
U.S. Treasury Bills	113,525,730.65	7,684,129.73
Repurchase Agreements	14,000,000.00	0
Commercial Paper	0.00	96,259,859.78
Discount Notes	0.00	6,371,246.88
Real Estate	187,616.00	187,616.00
Accrued Interest	<u>25,457,392.01</u>	<u>25,280,385.07</u>
Total Current Assets	\$1,798,147,264.57	\$1,856,970,055.75
<u>CAPITAL ASSETS:</u>		
Office Furniture & Equipment	<u>\$516,244.25</u>	<u>\$532,151.39</u>
TOTAL ASSETS	\$1,798,663,508.82	\$1,857,502,207.14
<u>CURRENT LIABILITIES:</u>		
Teachers' Savings Fund	\$504,677,442.86	\$667,501,231.44
Retirement Benefit Fund	1,113,323,959.73	992,652,596.89
Interest Fund	0.00	0.00
Accrued Interest (Earned, Not Collected)	25,457,392.01	25,280,385.07
Permanent Retirement Fund	0.00	0.00
Expense Fund	2,274,455.45	5,988,745.24
Suspense Fund	610,686.40	1,893,569.83
Reserve for Investment Fluctuations Fund	35,419,484.44	36,602,283.62
Membership Annuity Reserve Fund	0.00	0.00
Teachers' Deposit Fund	<u>116,383,843.68</u>	<u>127,051,243.66</u>
Total Current Liabilities	\$1,798,147,264.57	\$1,856,970,055.75
OTRS Capital Investment	<u>\$516,244.25</u>	<u>\$532,151.39</u>
TOTAL LIABILITIES AND CAPITAL INVESTMENT	\$1,798,663,508.82	\$1,857,502,207.14

OKLAHOMA TEACHERS' RETIREMENT SYSTEM

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES
June 30, 1988 and 1989

	<u>1988</u>	<u>1989</u>
Balance of Cash and Investments Beginning of Period	\$1,674,829,897.79	\$1,772,689,872.56
<u>RECEIPTS:</u>		
Members' Deposits	\$84,427,718.14	\$92,051,369.14
Members' Tax-Sheltered Annuity Deposits	9,695,852.24	8,805,930.72
Membership Fees	1,969.00	1,070.00
Federal Matching from Schools	3,236,336.35	3,806,080.71
Reimbursements	248,352.57	304,694.61
Interest Income on Bonds	97,456,401.23	104,306,574.01
Dividends	10,676,904.07	13,080,659.19
Interest on Short-term Investments	14,076,359.00	13,271,066.64
Accretion of Discount	3,726,198.04	4,647,805.24
Net Realized Gain/(Loss)	7,034,386.42	12,085,005.73
Dedicated Revenue	116,967,688.61	128,470,030.96
Employers Contributions from OPERS	<u>1,264,876.57</u>	<u>32,440.79</u>
TOTAL RECEIPTS	\$348,813,042.24	\$380,862,727.74
<u>DISBURSEMENTS:</u>		
Administrative Expense	\$1,808,476.05	\$1,680,020.75
Retirement Benefits	224,154,659.42	249,920,831.69
Education Employees Group Insurance	3,300,000.00	36,300,000.00
Insurance Premiums Paid for Retirees	0.00	9,735,450.00
Death Benefits	4,440,684.43	4,363,021.74
Withdrawals of Accounts	10,298,441.78	10,469,549.56
Tax-Sheltered Annuity Withdrawals	5,345,777.33	7,865,062.23
Investment Expense	<u>1,605,028.46</u>	<u>1,528,993.65</u>
TOTAL DISBURSEMENTS	\$250,953,067.47	\$321,862,929.62
Balance of Cash and Investments End of Period	\$1,772,689,872.56	\$1,831,689,670.68
NET INCREASE	\$97,859,974.77	\$58,999,798.12

TEACHERS' SAVINGS FUND

June 30, 1989

Balance July 1, 1988		\$504,677,442.86
RECEIPTS:		
Members' Contributions	92,051,369.14	
Reimbursement	1,134.00	
Transfer from Retirement Benefit Fund	<u>96,290,707.43</u>	
TOTAL RECEIPTS FY'89		188,343,210.57
DISBURSEMENTS:		
Withdrawals of Accounts	10,469,549.56	
Transfer to Interest Fund	841.37	
Transfer to Suspense Fund	1,282,883.43	
Transfer to Retirement Benefit Fund	<u>13,766,147.63</u>	
TOTAL DISBURSEMENTS FY'89		<u>25,519,421.99</u>
Balance June 30, 1989		<u>\$667,501,231.44</u>

The Teachers' Savings Fund represents the accumulation of members' contributions, including certain interest earnings. Funds are transferred to the Retirement Benefit Fund upon a member's retirement in an amount sufficient to pay retirement benefits.

TEACHERS' DEPOSIT FUND

June 30, 1989

Balance July 1, 1988		\$116,383,843.68
RECEIPTS:		
Members' Deposits	8,805,930.72	
Transfer from Interest Fund	<u>9,726,531.49</u>	
TOTAL RECEIPTS FY'89		18,532,462.21
DISBURSEMENTS:		
Tax-Sheltered Annuity Withdrawals		<u>7,865,062.23</u>
Balance June 30, 1989		<u>\$127,051,243.66</u>

The Teachers' Deposit Fund represents contributions and interest earnings related to the 403(b) tax-sheltered annuity plan.

RETIREMENT BENEFIT FUND

June 30, 1989

Balance July 1, 1988		\$1,113,323,959.73
RECEIPTS:		
Employer Contributions from OPERS	32,440.79	
Dedicated Revenue	128,470,030.96	
Federal Matching	3,806,080.71	
Reimbursements	303,434.33	
Transfer from Teachers' Savings Fund	13,766,147.63	
Transfer from Interest Fund	<u>129,560,513.60</u>	
TOTAL RECEIPTS FY'89		275,938,648.02
DISBURSEMENTS:		
Retirement Benefits	249,920,831.69	
Death Benefits	4,363,021.74	
Education Employees Group Insurance Reserve Fund	36,300,000.00	
Insurance Premiums Paid for Retirees	9,735,450.00	
Transfer to Teachers' Savings Fund	<u>96,290,707.43</u>	
TOTAL DISBURSEMENTS FY'89		<u>396,610,010.86</u>
Balance June 30, 1989		<u>\$992,652,596.89</u>

The Retirement Benefit Fund consists of monies received from state dedicated revenues, state appropriations, if any, federal matching funds and accumulation of annuity amounts transferred from the Teachers' Savings Fund. Monthly retirement benefits and certain death benefits are disbursed from this fund.

RESERVE FOR INVESTMENT FLUCTUATIONS FUND

June 30, 1989

Balance July 1, 1988		\$35,419,484.44
RECEIPTS:		
Transfer from Interest Fund (2% Cap Adjustment)		<u>1,182,799.18</u>
Balance June 30, 1989		<u>\$36,602,283.62</u>

The Reserve for Investment Fluctuations Fund represents the accumulation of investment earnings and realized profits from the sale of securities. This fund must be maintained at an amount equal to 2% of the investment portfolio.

INTEREST FUND
June 30, 1989

Balance July 1, 1988		\$0.00
RECEIPTS:		
Reimbursement	85.74	
Interest Income, Bonds	104,306,574.01	
Interest Income, Short-term Investments	13,271,066.64	
Dividends	13,080,659.19	
Accretion of Discount	4,647,805.24	
Net Realized Gain/(Loss)	12,085,005.73	
Transfer from Teachers' Savings Fund	<u>841.37</u>	
TOTAL RECEIPTS FY'89		147,392,037.92
DISBURSEMENTS:		
Investment Expense	1,528,993.65	
Transfer to Teachers' Deposit Fund	9,726,531.49	
Transfer to Expense Fund	5,393,200.00	
Transfer to Retirement Benefit Fund	129,560,513.60	
Transfer to Reserve for Investment Fluctuations Fund	<u>1,182,799.18</u>	
TOTAL DISBURSEMENTS FY '89		<u>147,392,037.92</u>
Balance June 30, 1989		\$0.00

The Interest Fund is the annual accumulation of all income derived from deposits and investments. As of June 30, this fund is transferred to other funds.

EXPENSE FUND

June 30, 1989

Balance July 1, 1988		\$2,274,455.45
RECEIPTS:		
Membership Fees and Redeposits	1,110.54	
Transfer from Interest Fund	<u>5,393,200.00</u>	
TOTAL RECEIPTS FY'89		5,394,310.54
DISBURSEMENTS:		
Administrative Expenses:		
Salaries and Personnel Service	1,015,558.01	
Consultant and Professional Services	101,133.74	
Travel and Per Diem	27,844.38	
Office Expense	139,472.84	
Communications	124,913.27	
Furniture and Equipment	31,703.73	
Data Processing Operations	139,845.78	
Rent	<u>99,549.00</u>	
TOTAL DISBURSEMENTS FY '89		<u>1,680,020.75</u>
Balance June 30, 1989		<u>\$5,988,745.24</u>

The Expense Fund consists of the funds accumulated to pay for the expense of administering and maintaining the System.

SUSPENSE FUND

June 30, 1989

Balance July 1, 1988		\$610,686.40
RECEIPTS:		
Transfer from Teachers' Savings Fund		<u>1,282,883.43</u>
Balance June 30, 1989		<u>\$1,893,569.83</u>

The Suspense Fund is the accumulation of dormant accounts transferred under the provisions of state statute and represent obligations of the retirement system which cannot be legally discharged.

MEMBERSHIP ANNUITY RESERVE FUND

June 30, 1989

Balance July 1, 1988	\$0.00
Balance June 30, 1989	<u>\$0.00</u>

The Membership Annuity Reserve Fund represents the accumulation of teachers' contributions and state matching funds for those members who retired prior to August 2, 1968.

PERMANENT RETIREMENT FUND

June 30, 1989

Balance July 1, 1988	\$0.00
Balance June 30, 1989	<u>\$0.00</u>

The Permanent Retirement Fund denotes the accumulation of gifts, awards, and bequests made to the retirement system.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies(a) Basis of Accounting

The System's accounting records are presented on a cash basis except for accruals of interest income.

(b) Investments

The System utilizes seven investment counselors to assist in the investment of retirement funds. Funds not invested by the investment counselors are temporarily invested by the System's internal investment group. The investing of TRS's funds are diversified in order to minimize the risks of large losses, and are subject to internal investment guidelines.

Investments are stated at cost, net of premium or discount.

(c) Property and Equipment (Non-Investment Assets)

Property and equipment is stated at cost. Depreciation, which is not considered material, is not provided for on these items.

(d) Federal Income Tax Status

The System is exempt from Federal and State income taxes under Section 401(a) of the Internal Revenue Code.

(e) Net Assets Available for Plan Benefits

The System is comprised of the following major funds:

- * Teacher's Saving Fund represents the accumulation of members' contributions, including certain interest earnings. Funds are transferred to the Retirement Benefit Fund upon a member's retirement in an amount sufficient to pay retirement benefits.
- * The Retirement Benefit Fund consists of monies received from state dedicated revenues, state appropriations, if any, federal matching funds and accumulation of annuity amounts transferred from the Teachers' Savings Fund. Monthly retirement benefits and certain death benefits are disbursed from this fund.
- * The Teachers' Deposit Fund represents contributions and interest earnings related to the 403(b) tax-sheltered annuity plan.
- * The Expense Fund consists of the funds accumulated to pay for the expense of administering and maintaining the System.
- * The Interest Fund is the annual accumulation of all income derived from deposits and investments. As of June 30, this fund is transferred to other funds.
- * The Permanent Retirement Fund denotes the accumulation of gifts, awards and bequests made to the retirement system.

(e) Net Assets Available for Plan Benefits-continued

* The Suspense Fund is the accumulation of dormant accounts transferred under the provisions of state statute and represent obligations of the retirement system which cannot be legally discharged.

* The Reserve for Investment Fluctuations Fund represents the accumulation of investment earnings and realized profits from the sale of securities. This fund must be maintained at an amount equal to 2% of the investment portfolio.

* The Membership Annuity Reserve Fund represents the accumulation of teachers' contributions and state matching funds for those members who retired prior to August 2, 1968.

(f) Actuarial Valuations

An independent actuary performs an actuarial valuation of the fund annually. The actuarial valuation is based upon the "frozen liability" cost method, and is based on the following assumptions.

Rate of Return on investments	7 1 /2%
Average age at retirement	Rates applied based on the experience of the System.
Rate of turnover	A scale of graduated rates becoming progressively lower as age advances, consistent with the System's experience.
Mortality basis:	
Nondisabled	1975 Group Annuity Mortality Table
Disabled	1965 Railroad Retirement Board Totally Disabled Annuitants Mortality Table
Salary rate increases	A scale of graduated rates becoming progressively lower as age advances, consistent with the System's experience.
Asset Valuation	Debt securities are valued at their amortized value. Equity securities are valued at prevailing market values. The asset valuation excludes balances in the tax-sheltered annuity program and certain administrative expense accounts.

The foregoing actuarial assumptions are based on the presumption that the System will continue. Were the System to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits and credited projected benefits.

(g) Plan Termination

In the event the plan terminates, the Board of Trustees will distribute the net assets of the System to provide the following benefits in the order indicated:

(i) Accumulated contributions will be allocated to each respective participant, former participant, retired member, joint annuitant or beneficiary then receiving payments.

(ii) The balance of such assets, if any, will be allocated to each person then having an interest in the System, the excess of their retirement income under the plan less the retirement income which is equal to the actuarial equivalent of the amount allocated to them under (i) above in the following order:

- * Those retired members, joint annuitants, or beneficiaries receiving payments,
- * Those members eligible to retire,
- * Those members eligible for early retirement,
- * Former participants electing to receive a vested benefit, and
- * All other members.

(2) Investments

	June 30, 1988		June 30, 1989	
	<u>Book Value</u>	<u>Market Value</u>	<u>Book Value</u>	<u>Market Value</u>
Government Obligations:				
U.S. Government	\$626,710,646	\$633,403,259	\$462,533,765	\$477,408,893
Federal Agency	<u>160,007,023</u>	<u>156,536,947</u>	<u>192,273,925</u>	<u>194,072,334</u>
Total Government Obligations	786,717,669	789,940,206	654,807,690	671,481,227
Corporate Obligations:				
Public Utilities Bonds	86,045,116	81,291,258	107,424,333	108,275,613
Telephone Bonds and Debentures	39,994,112	35,388,872	67,449,252	66,543,985
Corporate Industrial Bonds	<u>340,042,108</u>	<u>335,055,197</u>	<u>434,163,580</u>	<u>435,798,250</u>
Total Corporate Obligations	<u>466,081,336</u>	<u>451,735,327</u>	<u>609,037,165</u>	<u>610,617,848</u>
Total Fixed Income Securities	1,252,799,005	1,241,675,533	1,263,844,855	1,282,099,075
Equities	325,036,522	339,104,841	438,463,043	503,288,214
Short-Term Investments	<u>192,951,079</u>	<u>193,662,188</u>	<u>127,806,283</u>	<u>128,757,078</u>
Total Investment Portfolio	<u>\$1,770,786,606</u>	<u>\$1,774,442,562</u>	<u>\$1,830,114,181</u>	<u>\$1,914,144,367</u>

Investments are held by the System's agent in the name of the System.

(3) Funding Status and Progress

The amount shown below as "pension benefit obligation" (PBO) is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems (PERS). The measure is independent of the funding method used to determine contributions to the PERS.

The PBO as determined as part of the latest actuarial valuation dated July 1, 1988 is as follows:

Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits		\$2,174,313,000
Current employees:		
Vested		1,030,310,000
Nonvested		<u>121,528,000</u>
Total pension benefit obligation		3,326,151,000
Net assets available for benefits, at cost		<u>1,798,664,000</u>
Unfunded pension benefit obligation		<u>1,527,487,000</u>

The above PBO is a cash basis presentation instead of an accrual basis. As of July 1, 1988, the audited PBO based on Generally Accepted Accounting Principles was \$1,528,545,552.

The vested and nonvested PBO for current employees includes \$504,677,000 accumulated employee contributions.

State contributions totaling \$116,968,000 were made during 1988. The actuarial determined contribution to be made by the State in 1988 was \$151,470,000 consisting of (a) \$18,992,000 normal cost and (b) \$132,478,000 amortization of the unfunded actuarial accrued liability. The actuarial determined contribution approximates 10% of the current year covered payroll. The actual contribution was approximately 7.8% of the current year covered payroll.

(4) Required Supplementary Information-Revenue by Source and Expenditures by Type

REVENUE BY SOURCE

Fiscal Year	Member Contributions	Investment Income (net)	State and Federal Sources	Total
1989	\$100,890,811	\$145,862,117	\$132,276,112	\$379,029,039
1988	95,390,416	131,365,220	120,204,025	346,959,661
1987	82,432,408	172,673,570	114,243,109	369,349,087
1986	96,442,486	142,339,465	128,211,082	366,993,033
1985	69,005,747	125,523,976	127,870,696	322,400,419
1984	70,845,732	105,262,467	127,614,166	303,722,365
1983	76,358,854	99,241,175	127,669,257	303,269,286
1982	48,098,129	62,006,898	182,672,844	292,777,871
1981	43,037,884	55,420,186	128,057,821	226,515,891
1980	36,353,300	31,955,470	95,486,976	163,795,746

(4) Required Supplementary Information-Revenue by Source and Expenditures by Type
(Continued)

EXPENDITURES BY TYPE

Fiscal Year	Retirement Benefits	Death Benefits, Withdrawals	Insurance Fund	Administrative Expenses	Total
1989	\$259,351,587	\$22,697,634	\$36,300,000	\$1,680,021	\$320,029,242
1988	223,906,307	20,084,903	3,300,000	1,808,476	249,099,686
1987	187,763,792	15,293,433	0	1,309,972	204,367,198
1986	149,876,975	12,704,866	0	1,340,394	163,922,235
1985	128,547,340	13,114,848	0	1,177,453	142,839,641
1984	120,098,773	10,123,129	0	1,314,393	131,536,294
1983	115,503,755	9,082,477	0	1,241,236	125,827,467
1982	84,885,933	9,723,704	0	1,081,950	95,691,587
1981	77,560,453	7,662,574	0	942,636	86,165,664
1980	65,590,340	7,196,713	0	614,080	73,401,133

(5) Required Supplementary Information-Analysis of Funding Progress

Fiscal Year	(1) Net Assets Available for Benefits (at cost)	(2) Pension Benefit Obligation	(3) Percentage Funded (1)/(2)	(4) Unfunded Pension Benefit Obligation (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded Pension Benefit Obligation as Percentage of Covered Payroll (4)/(5)
1988	1,798,664,000	3,326,151,000	54.1%	1,527,487,000	1,500,000,000	101.8%
1987	1,699,265,000	2,992,093,000	56.8%	1,292,828,000	1,500,000,000	86.2%

The summary is shown only for the two years available. Additional years will be added as data becomes available.

The above schedule is a cash basis presentation instead of an accrual basis. The audited PBO based on Generally Accepted Accounting Principles was \$1,528,545,552 in 1988 and \$1,289,662,675 in 1987.