

**Component Unit Financial Report  
for the  
Fiscal Year Ended June 30, 1994**

**Prepared by the Retirement System Staff**

**Teachers' Retirement System  
of  
Oklahoma**

**The Teachers' Retirement System of Oklahoma  
2801 North Lincoln Boulevard  
Oklahoma City, Oklahoma  
(405) 521-2387**

**Mailing Address:  
P.O. Box 53524  
Oklahoma City, OK 73152**



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STATE OF OKLAHOMA  
TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

**TO THE BOARD OF TRUSTEES OF THE TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA:**

The Management of the Oklahoma Teachers' Retirement System (known collectively as TRS or the System) presents the Component Unit Financial Report for the year ended June 30, 1994.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Teachers' Retirement System of Oklahoma for its component unit financial report for the fiscal year ended June 30, 1993. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized component unit financial report, whose contents conform to program standards. Such CUFR must satisfy both generally accepted accounting principles and applicable legal requirements.

The Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

Established by legislation, the System began operation July 1, 1943, and concluded its fifty-first year on June 30th. The System provides retirement allowances and other benefits to public education employees in the common schools, vocational-technical schools, colleges and universities and other local and state educational agencies of the State of Oklahoma. At the close of business on June 30, 1994, the System had 651 participating employers, 76,280 active members, 10,767 inactive members and 28,012 retired members and beneficiaries receiving monthly benefits.

The 1994 Component Unit Financial Report is presented in five sections: the Introductory, Financial, Actuarial, Statistical, and Investment. Responsibility for the accuracy of the data, the completeness and fairness of the presentation, including all disclosures, rests with the management of the System. To the best of our knowledge and belief, all data in the report are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operation of the System. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included.

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## ECONOMIC CONDITION AND OUTLOOK

The year ending June 30, 1994 was a troublesome period for capital markets. While the economy is still doing well, it is not as robust as it was six months ago. Rising interest rates during the second half of the fiscal year hurt the performance of both bond and equity markets. The near term trend of growth for the U.S. economy is expected to be in the area of 2.5% to 3.0%, with inflation running about 2.5%. Short term interest rates are expected to continue upward movement but long rates are projected to be more stable. Rate increases will continue to have some impact on equities, but stock prices should benefit from rising corporate earnings and the improved competitive position of U.S. companies. The 1994 *Oklahoma Economic Outlook* published by the Oklahoma State University College of Business Administration predicts an increase in the Gross State Product of 2.4% to 2.8%.

## MAJOR INITIATIVES

On July 1, 1992, several major changes in legislation became effective. Senate Bill 568, enacted in May 1992, changed the funding method to provide the System with a guaranteed percentage of employees' pay. During the year ending June 30, 1994, the System received 7.5% of employees' pay from the State and local employers. This was in addition to the contribution required by each member, which many employers pay under Section 414(h) of the Internal Revenue Code. Senate Bill 568 requires local school districts and other employers to supplement the State's (employer) contribution from the tax on natural gas by making the contribution necessary to reach the statutory 7.5%. During Fiscal Year 1994, the State's contribution represented 5.5% of employees' pay and local employers contributed 2%. The combined State and employer contribution rate will gradually increase from 7.5% to 18% by the year 2004. Retirement eligibility requirements were modified for members joining the System after June 30, 1992, by extending the "Rule of 80" to a "Rule of 90" for new members and eliminating credit for unused sick leave for new members. The \$40,000 salary "cap" on contributions and retirement benefits will be removed for service performed after June 30, 1995, and member contribution rates will change to a straight 7% of compensation after June 30, 1997. Another provision of SB 568 allows members who elected to contribute on only the first \$25,000 of compensation to "buy up" on compensation above \$25,000 for the period between 1987 and 1995. This will allow those members to receive the same benefit calculation provided to members who had originally elected to contribute on salaries above \$25,000. Senate Bill 505 removed statutory restrictions on international investments.

During the 1994 Legislative session, several bills affecting the Teachers' Retirement System became law. Senate Bill 767 provides for transfers of employee and employer contributions and member's service credits between the Teachers' Retirement System and the Oklahoma Public Employees Retirement System when a teacher or state employee's employment status changes. Senate Bill 768 added a "pop-up" provision to the joint-survivor retirement options. When a retiree's

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spouse dies before the member, the member's reduced retirement benefit is increased to the level to which the member would be entitled under the maximum benefit. House Bill 2228 provided an increase in benefits to retirees. The increase averaged 2.5%, but ranged from 1.3% to 4.0% depending on the final average salary of the retiree. This was the first increase in retirement benefits since July 1990.

In 1994 the Board of Trustees employed a new investment manager to invest \$135 million in international stocks and bonds. This initial investment represents approximately 5% of the total investment portfolio. The Board implemented an investment strategy to achieve a target asset allocation of 55% in U.S. equities, 5% in international equities, 35% in U.S. fixed income and 5% in international fixed income.

## **FINANCIAL INFORMATION**

A system of internal controls is in place to safeguard the System's assets and promote its efficient operation. TRS is audited annually. The System also has its own internal audit program with an Internal Auditor who reports directly to the Executive Secretary and provides written and oral reports to the Board of Trustees on a regular basis. The System operates according to an administrative budget approved annually by the Board of Trustees. Although revenue is not appropriated from the State General Fund, the administrative budget is submitted to the Legislature as part of the Governor's recommended budget. TRS operates under the same budgetary controls which apply to all state agencies. Administrative expenses of the System are processed in accordance with state statutes and regulations of the Office of State Finance and Department of Central Services.

The financial statements of the Teachers' Retirement System are prepared in conformity with generally accepted accounting principles (GAAP).

## **REVENUE AND FUNDING**

The major sources of revenue for TRS are member contributions, investment income and employer contributions from local schools and the State of Oklahoma. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Active member contributions for FY 1994 were \$148 million, which represented approximately 6.8% of covered payroll. This compares to \$147 million for the year ending June 30, 1993. Total contributions increased less than in previous years because the contribution rate on members' salaries between \$25,000 and \$40,000 decreased from 11% to 9%.

Contributions from employers for FY 1994 were \$199.5 million, compared to \$198.8 million for 1993. TRS receives 55% of the natural gas tax collected by the State of Oklahoma and this represents the employer contributions made by the state. During FY 1994, state and local employers met the statutory funding requirements established by passage of Senate Bill 568.

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The results of the actuarial valuation conducted by the System's actuary as of June 30, 1994, are included in the Actuarial section. The System's funded position for the year ending June 30, 1994 is about what was expected. Although there were several minor sources of actuarial gains and losses, including the granting of an ad hoc increase to retirees, when combined, the gains and losses roughly offset one another. The actuarial yield on assets at 6.54% was less than the 8% actuarial assumed rate of return for the first time in a number of years. The System's unfunded actuarial accrued liabilities increased \$151 million from June 30, 1993 to June 30, 1994, while actuarial assets grew by \$128 million. The actuary's report stresses the importance of the future income stream that will be provided by Senate Bill 568. Without the increased level of employer contributions, the System's funding status will continue to deteriorate and could eventually impact the System's ability to pay benefits.

The actuarial report shows assets available to pay benefits to be 40.0% of actuarial accrued liabilities (AAL). This is a slight improvement from the 1993 figure of 39.8%. Another measure of funded status is obtained by calculating the Pension Benefit Obligation (PBO) developed in accordance with the Governmental Accounting Standards Board's Statement No. 5 (GASB No. 5). The PBO is calculated differently than the AAL, but provides a useful measure to compare the status of two pension plans. The System's PBO funding ratio of 42.4%, up from 41.0% one year ago, is a positive step but is well below average for state-wide pension systems. It has been reported in the national media that the System is one of the five worst-funded public pension plans among 88 state-wide teacher and/or public employee retirement systems. The funding provisions of Senate Bill 568, if maintained, should correct the System's underfunded status by the year 2014.

## **EXPENSES**

Expenditures of the Teachers' Retirement System are attributable to retirement benefit payments including health insurance subsidies, death and survivors benefits, refunds of member contributions and administrative expenses. During the year ended June 30, 1994, the System paid \$16.7 million more in retirement and health benefits than the preceding year. Refunds decreased by \$600,000 and administrative expenses increased by \$218,000. The increase in retirement and insurance benefits is attributed to a net increase in the number of retired members.

## **INVESTMENTS**

Investment income and realized gains on investments of \$251 million during FY 1994 were positive contributors to the fund's financial status. Investments totaled \$2.9 billion at market value on June 30, 1994. The System's investment portfolio mix at market value was 46.15% fixed income, 46.47% equities and 7.38% short-term investments. As trustee for members' funds, the System is responsible for investment of the funds under the prudent person standard. This standard permits the System to allocate trust funds across a broad group of asset classes. The Board of Trustees elected to limit investments to stocks and bonds, Guaranteed Investment Contracts (GICs), Treasury Bills and Notes, Commercial Paper and bank deposits collateralized by U.S. Government securities.

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The System's time-weighted rate of return for the year ending June 30, 1994, was 2.4%. This is down significantly from the 1993 return of 13.5%. The difference is attributed to market conditions reacting to rising interest rates and falling stock prices between February and June of 1994. Annualized three-year and five-year total returns were 9.7% and 9.8%, respectively. The System's long-term goal to exceed the rate of inflation, measured by the CPI, by 3% has been achieved for both the three-year and five-year periods. A summary of the System's investment activities during FY 1994 and historic performance results is presented in the Investment Section.

## **INDEPENDENT AUDIT**

The Teachers' Retirement System is audited annually by independent auditors retained for this purpose by the State Auditor and Inspector. In addition to the audit of the System's financial statements, state statutes require the auditor to perform tests of the System's compliance with certain provisions of laws and regulations. The Independent Auditors' Report is contained in the Financial Section.

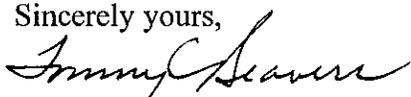
## **ACKNOWLEDGMENTS**

This report reflects the combined efforts of the TRS staff under the leadership of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions and as a means for determining responsible stewardship for the assets contributed by the members and their employers.

The success of any organization is directly attributable to the dedication, commitment, and proficiency of the personnel. I would like to take this opportunity to express my gratitude to the Board of Trustees, the staff, the advisors, and the many people who have worked so diligently to assure the successful operation and improvement of the financial soundness of the Teachers' Retirement System of Oklahoma.

This report is being mailed to the Governor, members of the Oklahoma Legislature, the Oklahoma State Pension Commission and to each school site of the participating employers of the Teachers' Retirement System. Copies of the report are available upon request by active and retired members of the System and interested parties. We hope that you find this report informative and helpful.

Sincerely yours,



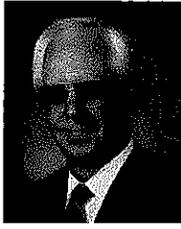
Tommy C. Beavers

Executive Secretary

December 1, 1994

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**The Teachers' Retirement System of Oklahoma  
Board of Trustees**



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Chairman



Mr. Tommy G. Fulton  
Del City  
Vice Chairman



Miss Mary Evelyn Adams  
Enid  
Secretary



Mr. Steve M. Dodson  
Tulsa  
Member



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Norman  
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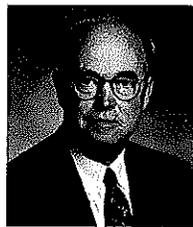
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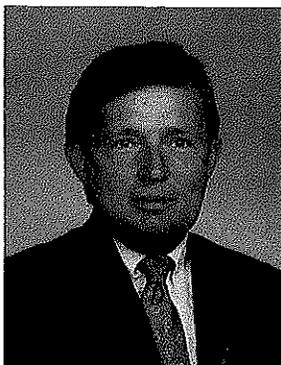
Mr. John Morris Williams  
Yukon  
Member



Dr. Gregory Z. Winters  
Choctaw  
Member

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# **Organization of The Teachers' Retirement System of Oklahoma**



Tommy C. Beavers  
Executive Secretary



Sue Peterson  
Assistant Executive Secretary

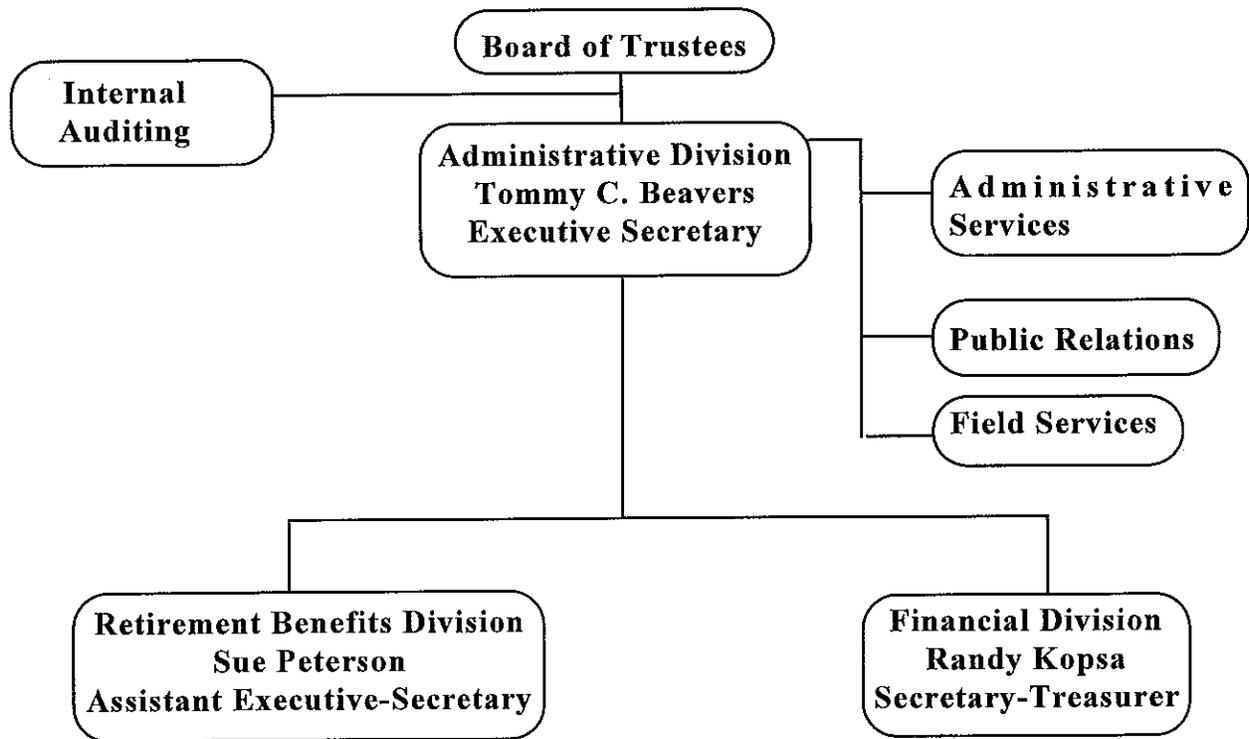


Randall L. Kopsa  
Secretary-Treasurer

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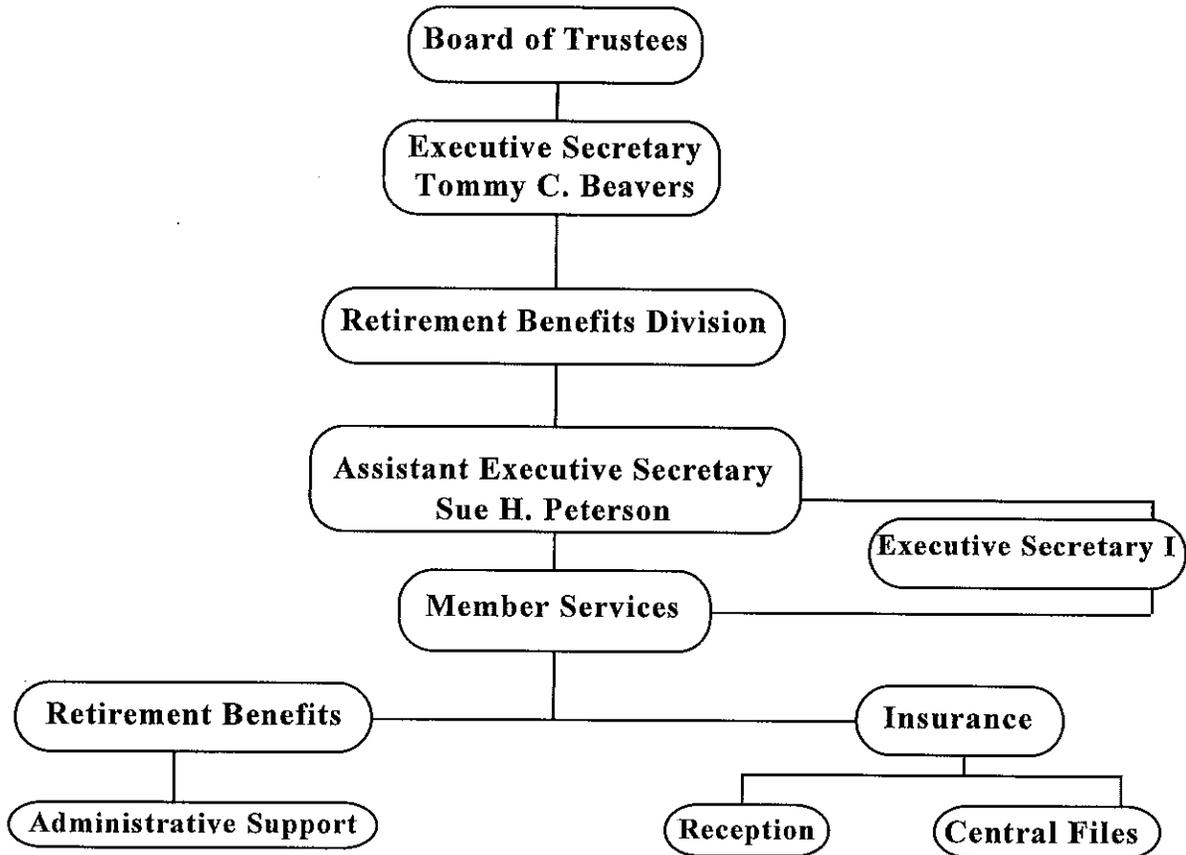
# Organizational Chart

## The Teachers' Retirement System of Oklahoma



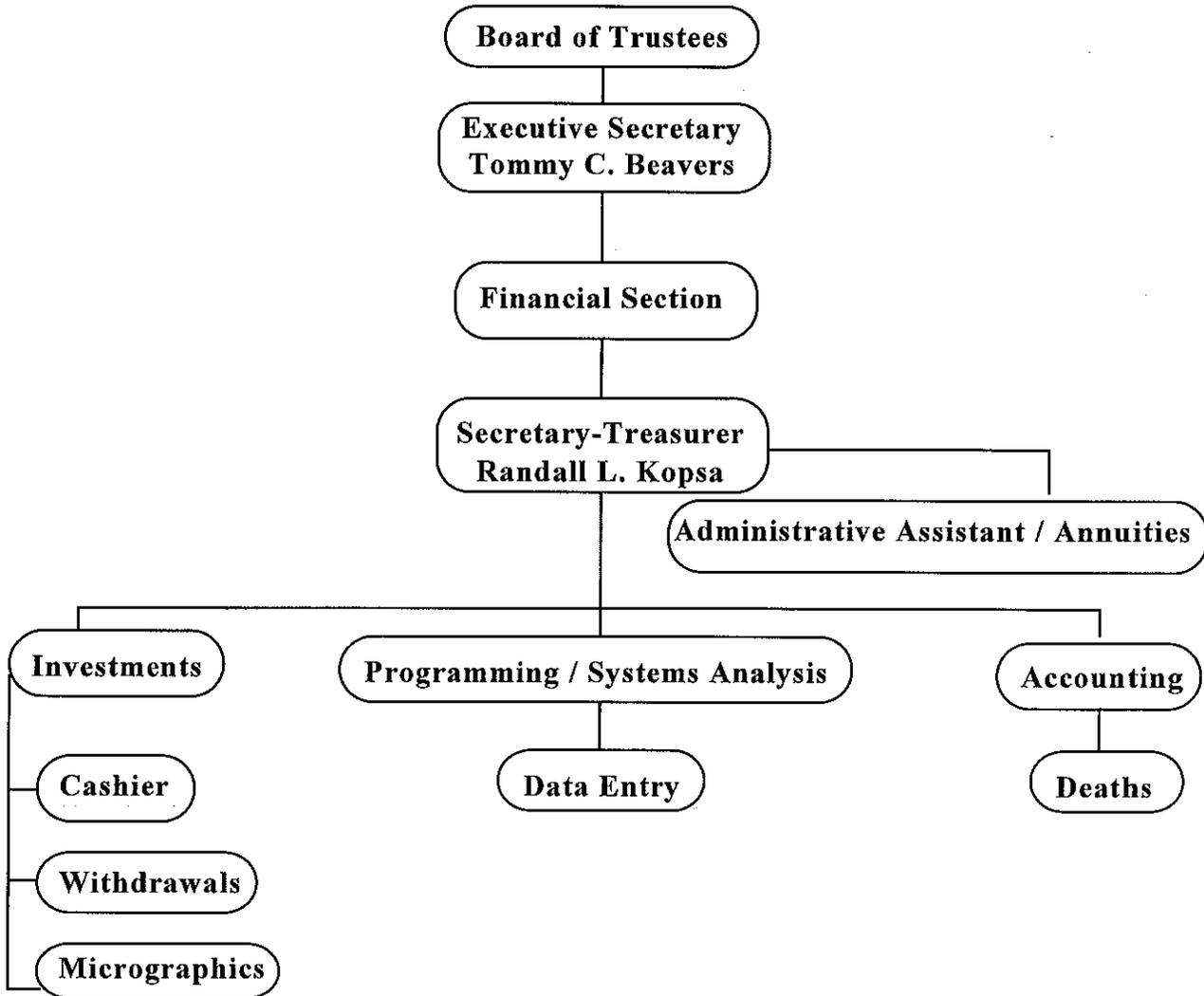
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**The Teachers' Retirement System of Oklahoma  
Retirement Benefits Division  
Organizational Chart**



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# The Teachers' Retirement System of Oklahoma Financial Division Organizational Chart



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# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Teachers' Retirement System of Oklahoma

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 1993

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

## Professional Consultants and Advisers

Brinson Partners  
International Equity and Fixed Income Manager

The Chicago Corporation  
Equity Investment Manager

Eagle Asset Management, Inc.  
Equity Investment Manager

Hotchkis and Wiley  
Equity Investment Manager

Investment Advisers, Inc.  
Fixed Income Investment Manager

Liberty National Bank & Trust Company  
Fixed Income Investment Manager

Mellon Bond Associates  
Fixed Income Investment Manager

Mitchell Hutchins Asset Management, Inc.  
Equity Investment Manager

Neuberger & Berman Pension Management  
Fixed Income Investment Manager

TCW Asset Management Company  
Convertible Securities Investment Manager

Tom Johnson Investment Management, Inc.  
Equity Investment Manager

William M. Mercer Asset Planning, Inc.  
Financial Consultant

Bankers Trust Company  
Bank Custodian

The Wyatt Company  
Actuary

Office of the Oklahoma Attorney General  
Legal Counsel

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## Plan Summary

### Beginnings

The Teachers' Retirement System of Oklahoma (TRS) was established July 1, 1943, to provide retirement allowances and other specified benefits for qualified employees of state-supported educational institutions.

### Administration

A 13-member Board of Trustees oversees the administration of the System and acts as fiduciary for investing its funds.

### Revenue

The four primary sources of revenue for TRS are contributions from active members, contributions from local schools, dedicated revenue from the State of Oklahoma, and investment income. Participating members contribute 6% of their applicable earnings up to a maximum of \$25,000 and may elect to contribute 8% on earnings over \$25,000, up to a maximum of \$40,000. The \$40,000 cap will be removed in 1995. By 1997, all members will contribute 7% of total earnings, with the requirement being 6.5% for 1993-95. The law also requires employers to contribute a percentage of applicable employee earnings. The total employer contribution rate for 1993-94 was 7.5%. The total employer contribution rate for 1994-95 is 8%, but will increase annually until it reaches 18% by the year 2004. Contributions required from local schools are reduced by revenue TRS receives from the natural gas tax.

### Membership

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 who are employed at least half-time must join TRS. Membership is optional for all other regular employees of public educational institutions who work at least 20 hours per week.

### Service Credit

A member must work six full school months to qualify for one year of membership. A school month is 20 school days of at least six hours. Partial credit is granted for employment of less than six months or part-time employment of four hours per school day. Members also may receive credit for out-of-state service, military service, service with certain Oklahoma governmental entities, and employment in Oklahoma schools before their date of membership.

### Retirement Annuity

A vested member can receive benefits after satisfying eligibility requirements. Members are fully vested after 10 years of contributory Oklahoma membership service. Members may retire at age 62 *with unreduced benefits* after completing 10 years of Oklahoma service. Members also may retire *with unreduced benefits* when their age and the number of years of creditable service total 80. *For members joining TRS after June 30, 1992, the age and number of years of creditable service must total 90.* Members may retire as early as age 55 with reduced benefits if they have at least 10 years of creditable Oklahoma service. The monthly benefit is determined by multiplying the average salary of the three highest years of contributory service by 2%, times years of service, divided by 12. *For membership established after June 30, 1992, the benefits will be computed based on an average salary of the five highest consecutive years.* TRS offers members five retirement options, which provide a life benefit to the member and either lump sum or continued payments to the surviving spouse or a beneficiary.

### Disability Benefits

Any vested member who is actively employed in the Oklahoma public education system may be retired on a disability retirement allowance by meeting certain requirements. A medical board composed of three physicians reviews a member's application to determine if he or she qualifies for a disability retirement.

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## Medical Benefits

A vested member who retires or terminates employment prior to July 1, 1995, may enroll in the State and Education Employees Group Health and Dental Insurance Plan within 30 days after employment terminates. Employees who retire after June 30, 1995, may continue coverage in the insurance program provided by their employer. TRS will pay the first \$70 to \$75 of monthly premiums for each participating retiree. The actual amount paid by TRS is determined by total service and average salary of the member at retirement. Dependent and dental coverage is available if members are enrolled in the State and Education Employees Group Health and Dental Insurance Plan. If members are not enrolled in the state plan, coverage is subject to the provisions of the plan in which they are enrolled.

Non-vested members have certain rights under federal law to continue health insurance coverage after their employment ends. They should request information about continued coverage from their school's payroll office or TRS before termination.

## Death Benefits

A member's designated beneficiary or estate is entitled to survivor benefits if he or she is a TRS member at the time of death. The amount of those benefits depends upon whether the member is an active in-service, inactive, or a retired member when he or she dies, and when he or she joined TRS. "Active, in-service" is defined in the TRS Rules, but generally means a member currently employed by an Oklahoma public education institution.

For an active, in-service member who joined TRS before July 1, 1992, the death benefits are a return of accumulated contributions, plus interest, and an \$18,000 death benefit. If the member has 10 or more years of service and has reached age 55, or the age and service total 80, the surviving spouse may choose a monthly benefit instead of the lump sum payment. *The surviving spouse option and \$18,000 death benefit are available only to members who joined TRS before July 1, 1992.*

The death benefit due beneficiaries of inactive members and members joining TRS after June 30, 1992, is the member's contributions plus accumulated interest. Inactive members and members joining TRS after June 30, 1992, do not qualify for the \$18,000 death benefit or the monthly retirement benefit payable to the surviving spouse of active, in-service members.

If a member is retired when he or she dies, the beneficiary is entitled to a \$4,000 death benefit, plus the survivor benefits provided by the member's chosen retirement plan. Certain retirement plan options provide the surviving spouse with a continuing monthly retirement benefit.

## Withdrawal of Contributions

If a member terminates employment in Oklahoma's public schools, he or she may request a refund of contributions. A member must be terminated from employment for at least four months but may file an application three months from the last day of employment. The refund includes all contributions made by the member or on the member's behalf by the employer, plus any applicable portion of interest earnings. When the member accepts a refund, he or she forfeits all TRS service credit.

Withdrawing contributions cancels a member's TRS membership. If a member returns to employment, he or she may redeposit withdrawn accounts after completing 12 months of contributions to TRS. If the member redeposits the entire amount of the contributions that he or she withdrew, the initial membership date will be reinstated. If the member rejoins TRS but does not redeposit the withdrawn contributions, the official date of membership will be the date the first contributions are made under his or her current membership account.

Optional members (support personnel) may terminate membership in TRS without terminating employment, but can never rejoin TRS if they withdraw under these circumstances. In addition, contributions made on behalf of the employee on a *pre-taxed basis* cannot be refunded until the employee terminates employment. (This is an IRS rule.)

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### **Tax-Sheltered Annuity Plan**

The System administers a tax-sheltered annuity program qualified under section 403(b) of the Internal Revenue Code. TRS members may deposit funds into this plan if their local Board of Education or other governing board adopts a resolution making the plan available to its employees and the member signs an amended contract with his or her employer for the express purpose of buying an annuity with TRS. Contributions to the annuity plan are restricted to an annual "exclusion allowance" determined by the IRS Code. Withdrawals from the plan are subject to various withdrawal restrictions and tax penalties mandated by the Internal Revenue Code.

### **Rights and Responsibilities**

*Members* are responsible for resolving any questions about their retirement account. TRS publications provide answers to general questions. Members are entitled to counseling from the TRS staff concerning any question they have about their retirement accounts. *TRS will not be held accountable for information that is contrary to statutes or administrative rules, regardless of who provides that information.*

*The general information provided here is to summarize the basic benefits available to members of TRS. If any conflict arises between information contained in this summary and state statutes or official TRS rules, the law and/or rule takes precedence.*



FRANK KEATING  
GOVERNOR

STATE OF OKLAHOMA  
TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

**From the Chairman of the Board of Trustees . . .**

**TO THE MEMBERS OF THE RETIREMENT SYSTEM**

When members of the Board of Trustees reflect on the events of Fiscal 1994, it is likely that two areas of activity will overshadow all the rest: the performance of the investment portfolio and the task of bringing the retirement plan and the tax sheltered annuity program into compliance with the Internal Revenue Code.

The Board ordinarily spends more time and attention on the investment portfolio than any other single responsibility, because income from the portfolio is so important to the success and fiscal health of the Retirement System.

The Board constantly monitors the performance of the money managers who have been retained to manage the investment portfolio. The money managers' task is to meet or exceed certain benchmarks or indexes that have been agreed to in advance. In one instance, the Board terminated a money manager who failed over a period of time to meet the selected benchmark.

Concerns of the Board were amplified when, during part of 1994, the bond and equity markets performed so poorly. However, even in the relatively poor market of 1994, our



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money managers were able to achieve a positive yield of 2.42 percent for the fiscal year.

The Board of Trustees is responsible for seeing that the retirement plan and the tax sheltered annuity program remain in compliance with the requirements of the Internal Revenue Code. This is absolutely essential to protect the tax advantages that members of the system enjoy. Activity required to bring the system into compliance was begun during fiscal 1994. This required the hiring of a law firm that specializes in such matters and the adoption of some new rules required by the IRS. Very soon, the Board expects to receive a Letter of Determination for the regular retirement plan and a private letter ruling for the Tax Sheltered Annuity Plan from the IRS, stating that the retirement plan and the annuity program are in full compliance.

These two areas of activity are illustrative of the Board's commitment to its responsibilities and to the overall task of protecting the integrity and safety of the Oklahoma Teachers' Retirement System.

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# Financial Section



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# **Teachers' Retirement System of Oklahoma**

**Financial Statements  
June 30, 1994 and 1993**

**(With Independent Auditors' Report Thereon)**



700 First Oklahoma Tower  
Oklahoma City, OK 73102-5671

1600 One Williams Center  
Tulsa, OK 74172-0168

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Teachers' Retirement System of Oklahoma:

We have audited the accompanying balance sheets of the Teachers' Retirement System of Oklahoma (the System), a component unit of the State of Oklahoma, as of June 30, 1994 and 1993, and the related statements of revenues, expenses and changes in fund balance for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards* (1988 Revision) 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 financial position of the Teachers' Retirement System of Oklahoma at June 30, 1994 and 1993, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

The historical information included in Schedule 1 is not a required part of the basic financial statements of the System, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

*KPM & Peat Marwick LLP*

Oklahoma City, Oklahoma  
October 4, 1994

# TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

## Balance Sheets

June 30, 1994 and 1993

<u>Assets</u>	<u>1994</u>	<u>1993</u>
Cash	\$ 1,975,432	3,022,081
Short-term investments	211,885,366	273,323,290
Long-term investments:		
Fixed income (amortized cost):		
U.S. government	598,066,078	602,055,678
U.S. government agency securities	333,495,820	264,483,546
Corporate	376,550,296	345,705,626
International	78,207,614	-
Guaranteed investment contracts	28,640,682	71,082,311
Equities (cost):		
Domestic	1,092,151,974	988,843,707
International	58,091,414	-
Total long-term investments	<u>2,565,203,878</u>	<u>2,272,170,868</u>
Accrued interest and dividends receivable	26,578,569	22,341,096
Receivable from State of Oklahoma	11,541,936	12,348,836
Due from brokers for securities sold	18,116,995	78,967,751
Land, furniture and fixtures	1,039,650	1,024,035
Total assets	<u>2,836,341,826</u>	<u>2,663,197,957</u>
<u>Liabilities</u>		
Benefits in process of payment	15,300,105	14,902,807
Due to brokers for securities purchased	37,220,948	88,810,029
Total liabilities	<u>52,521,053</u>	<u>103,712,836</u>
Net assets	<u>\$ 2,783,820,773</u>	<u>2,559,485,121</u>
<u>Fund Balance</u>		
Reserved:		
Teachers' deposit fund	195,401,301	178,968,753
Expense fund	10,813,833	9,897,245
Furniture and fixtures fund	852,034	836,419
Total reserved fund balance	<u>207,067,168</u>	<u>189,702,417</u>
Net assets available for retirement benefits:		
Actuarial present value of projected benefits payable to current retirees and beneficiaries	3,187,539,900	2,926,059,300
Actuarial present value of projected benefits payable to terminated vested employees	102,540,989	90,191,876
Actuarial present value of credited projected benefits for active employees:		
Accumulated employee contributions	1,467,903,110	1,333,135,420
Employer-financed portion	1,318,245,890	1,433,699,580
Total actuarial present value of credited projected benefits	6,076,229,889	5,783,086,176
Unfunded actuarial present value of credited projected benefits	<u>(3,499,476,284)</u>	<u>(3,413,303,472)</u>
Net assets available for retirement benefits	<u>2,576,753,605</u>	<u>2,369,782,704</u>
Total fund balance	<u>\$ 2,783,820,773</u>	<u>2,559,485,121</u>

See accompanying notes to financial statements.

## TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

### Statements of Revenues, Expenses and Changes in Fund Balance

Years ended June 30, 1994 and 1993

	<u>1994</u>	<u>1993</u>
Revenues:		
Contributions:		
Members	\$ 147,887,923	147,016,766
Employer	41,762,035	39,596,167
State of Oklahoma and various federal sources	<u>157,752,704</u>	<u>159,199,746</u>
Total contributions	<u>347,402,662</u>	<u>345,812,679</u>
Investment income:		
Interest	96,627,054	102,538,808
Dividend	34,594,651	30,215,433
Net gain on investments	120,742,821	115,175,775
Less investment expenses	<u>(4,771,902)</u>	<u>(4,892,509)</u>
Net investment income	<u>247,192,624</u>	<u>243,037,507</u>
Other revenue	<u>275,097</u>	<u>-</u>
Total revenues	<u>594,870,383</u>	<u>588,850,186</u>
Expenses:		
Retirement, death, survivor, and health benefits	348,889,153	332,087,795
Refund of member contributions and annuity payments	19,208,770	19,809,556
Administrative expenses	<u>2,436,808</u>	<u>2,137,540</u>
Total expenses	<u>370,534,731</u>	<u>354,034,891</u>
Net increase in fund balance	224,335,652	234,815,295
Fund balance:		
Beginning of year	<u>2,559,485,121</u>	<u>2,324,669,826</u>
End of year	<u>\$ 2,783,820,773</u>	<u>2,559,485,121</u>

See accompanying notes to financial statements.

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# TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

## Notes to Financial Statements

June 30, 1994 and 1993

### (1) Description of the System

The following brief description of the Teachers' Retirement System of Oklahoma (the System) is provided for general information purposes only. Participants should refer to Title 70 of the Oklahoma Statutes, 1981, sections 17-101 through 116.9 as amended.

The System was established as of July 1, 1943, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions. The System is a component unit of the State of Oklahoma, which is combined with other similar funds to comprise the fiduciary-pension trust funds of the State of Oklahoma. The supervisory authority for the management and operation of the System is a 13-member board of trustees which acts as a fiduciary for investment of the funds and the application of plan interpretations. The System is a multiple-employer, cost-sharing public employee retirement system which is a defined benefit pension plan covering all employees of the public school system.

The System's membership consisted of the following as of June 30:

	<u>1994</u>	<u>1993</u>
Retirees and beneficiaries currently receiving benefits	28,012	27,003
Terminated vested participants	2,774	2,467
Active participants	<u>76,280</u>	<u>75,599</u>
	<u>107,066</u>	<u>105,069</u>

In addition, there were 7,993 and 9,037 of nonvested inactive participants at June 30, 1994 and 1993, respectively, who are entitled to a refund of their accumulated contributions. Such amounts are included in the determination of the pension benefit obligation and are accounted for by the System in the Suspense Fund which amounted to approximately \$6,953,000 and \$4,809,000 at June 30, 1994 and 1993, respectively.

The System provides defined retirement benefits based on members' final compensation, age, and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members. Benefit and funding provisions include:

- Members become 100% vested in retirement benefits earned to date after ten years of credited Oklahoma service. Members who joined the System on June 30, 1992, or prior, are eligible to retire at maximum benefits when age and years of creditable service total eighty. Members joining the System after June 30, 1992, are eligible for maximum benefits when their age and years of creditable service total ninety. Members whose age and service do not equal the eligible limit may, at age 62, receive full benefits or reduced benefits as early as age 55. The maximum retirement benefit is equal to 2% of final compensation for each year of credited service. Final compensation for members who joined the System on June 30, 1992, or prior, is defined as the average salary for the three highest years of

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## TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

### Notes to Financial Statements, Continued

compensation. Final compensation for members joining the System after June 30, 1992, is defined as the average of the highest five consecutive years of annual compensation in which contributions have been made. The maximum final average compensation is \$25,000, unless the member elects to make contributions on amounts above \$25,000 in which case the maximum final average compensation is \$40,000.

- A member is eligible for disability benefits after ten years of credited Oklahoma service. The disability benefit is equal to 2% of final compensation for each year of credited service.
- Upon separation from the System, members' contributions are refundable with interest based on certain restrictions provided in the plan, or by the Internal Revenue Code.
- Members may elect to make additional contributions to a tax-sheltered annuity program up to the exclusion allowance provided under the Internal Revenue Code under Code section 403(b).
- The contribution requirements of the System are an established rate determined by the Oklahoma Legislature and are not an actuarial calculation. Participating members are required to contribute 6.0% of their applicable earnings up to a maximum of \$25,000 and may elect to contribute 9.0% on the earnings in excess of \$25,000 limited to \$40,000. In 1994 and 1993, employers are required to contribute 7.5% and 7%, respectively, of a members earnings up to the maximum compensation level. Contributions received by the System from the State of Oklahoma are used to offset required employer contributions. In 1994 and 1993, employers contributed 2% of member earnings while the State of Oklahoma contributed the remaining 5.5% and 5%, respectively. Current appropriations require the State of Oklahoma to contribute 5/7ths of 78% of the natural and casinghead gas tax collected each year. The System received approximately \$150,000,000 and \$152,000,000 from the State of Oklahoma and approximately \$8,000,000 and \$7,000,000 from federal sources in 1994 and 1993, respectively. Member contributions were approximately \$148,000,000 and \$147,000,000 in 1994 and 1993, respectively, while employer contributions were approximately \$42,000,000 in 1994 and \$40,000,000 in 1993.

For retirees that elect to obtain health insurance coverage through the Oklahoma State and Education Employees Group Insurance Board (the Board), the System pays between \$70 and \$75 per month to the Board for each retiree, depending on the members' years of service. Such amounts were approximately \$19,000,000 and \$18,500,000 in 1994 and 1993, respectively, and are included in retirement, death and survivor benefits.

#### (2) Summary of Significant Accounting Policies

##### (a) Basis of Accounting

The System's accounting records are on a cash basis except for accruals of interest income. The financial statements have been adjusted to the accrual basis and are in conformity with the statements of the Governmental Accounting Standards Board, including the provisions of Statement No. 6, "Pension Accounting and Financial Reporting," issued by the National Council on Governmental Accounting.

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## TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

### Notes to Financial Statements, Continued

#### (b) Investments

The System utilizes 11 investment counselors to perform security transactions. In addition, one bank trust department functions as the System's custodian. Funds not invested by the investment counselors are temporarily invested by the System's internal investment group in commercial paper, repurchase agreements, treasury bills and notes, and other obligations of U.S. government agencies purchased from various primary dealers. Funds may be invested in certificates of deposit, commercial paper, repurchase agreements, equity securities, high grade corporate fixed income securities, government fixed income securities, and international investments.

The Plan's equity securities are reported at cost subject to adjustment for market declines judged to be other than temporary. Fixed-income securities are reported at amortized cost with discounts or premiums amortized using the effective interest rate method. Investment income is recognized as earned. Gains and losses on sales and exchanges of investment securities are recognized on the trade date. Translation gains or losses are recognized based on current exchange rates. The Plan intends and believes it has the ability to hold such investments on an ongoing basis.

#### (c) Land, Furniture and Fixtures

Land, furniture and fixtures are stated at cost. Depreciation, which is not considered significant in amount, is not provided on these items.

A reconciliation of land, furniture and fixtures for the years ended June 30, 1994 and 1993, respectively, is as follows:

	<u>Land</u>	<u>Furniture and Fixtures</u>	<u>Total</u>
Balance at June 30, 1992	\$ 187,616	823,106	1,010,722
Additions during 1993	<u>—</u>	<u>13,313</u>	<u>13,313</u>
Balance at June 30, 1993	187,616	836,419	1,024,035
Additions during 1994	<u>—</u>	<u>15,615</u>	<u>15,615</u>
	<u>\$ 187,616</u>	<u>852,034</u>	<u>1,039,650</u>

The System has commitments to lease building space from the Oklahoma State School Board Association, as well as leases on certain equipment. The future minimum commitments for operating leases as of June 30, 1994, is approximately \$130,000. The System's leases are one year renewable contracts. Rental expense for all operating leases amounted to approximately \$130,000 and \$129,000 for the years ended June 30, 1994 and 1993, respectively.

#### (d) Income Taxes

The System is exempt from federal and state income taxes and has received a favorable determination from the Internal Revenue Service under Code section 401(a).

The System's 403(b) Plan is also tax-exempt and has received a favorable determination from the Internal Revenue Service.

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## TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

### Notes to Financial Statements, Continued

#### (e) Compensated Absences

The System's employees are allowed, by statute, to accrue between 240 and 480 hours of compensated absences. Accrued compensated absences at June 30, 1994 and 1993, were approximately \$115,000 and \$107,000, respectively.

#### (f) Net Assets Available for Retirement Benefits

Net assets available to pay regular retirement benefits were approximately \$2,577,000,000 and \$2,370,000,000 at June 30, 1994 and 1993, respectively. Such amounts are included in the Teachers' Savings Fund, the Retirement Benefit Fund, the Reserve for Investment Fluctuations Fund, and the Suspense Fund. Amounts included in the Teachers' Deposit Fund, the Expense Fund, and the Furniture and Fixtures Fund, which approximate \$207,000,000 and \$190,000,000 at June 30, 1994 and 1993, respectively, are not available to pay regular retirement benefits and, accordingly, are presented on the accompanying balance sheet as reserved fund balance. A brief description of the major funds is as follows:

- Teachers' Savings Fund represents accumulation of members' contributions, including certain interest earnings.
- The Retirement Benefit Fund consists of monies received from state dedicated revenues, state appropriations, if any, federal matching funds, and transfers from the Teachers' Savings Fund. Most retirement payments are paid from this fund.
- Reserve for Investment Fluctuations Fund represents accumulated investment income which must be maintained at an amount equal to 2% of the investments.
- The Suspense Fund represents amounts accumulated for dormant accounts.
- The Teachers' Deposit Fund represents funds in the tax-sheltered annuity program.
- The Expense Fund represents funds accumulated to pay for the expense of administering and maintaining the System.
- The Furniture and Fixtures Fund represents amounts used to purchase various furniture and fixtures for the System.

#### (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.

# TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

## Notes to Financial Statements, Continued

(ii) The balance of such assets, if any, will be allocated to each person then having an interest in the System based upon 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.

### (h) Reclassifications

Certain reclassifications have been made to prior years' financial statements to conform to their 1994 presentation.

### (3) Investments and Deposits

Governmental Accounting Standards Board Statement No. 3 requires disclosure of certain information about the market risks associated with the System's investment securities. In accordance with Statement No. 3, the System's investment securities would generally be categorized into one of three separate categories. Category 1 includes securities that are insured or registered, and for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered securities for which the securities are held by the broker or agent in the System's name. Category 3 includes uninsured and unregistered securities for which the securities are held by the broker or agent, but not in the System's name.

Investments as of June 30, 1994 and 1993, are categorized as follows:

	1994		1993	
	Book Value	Market Value	Book Value	Market Value
<b>Short-term investments:</b>				
Commercial paper (category 1)	\$ 190,603,733	190,604,000	146,949,448	146,949,000
U.S. government (category 1)	19,316,097	19,316,000	29,072,826	29,073,000
Money market account (not categorized)	<u>1,965,536</u>	<u>1,965,000</u>	<u>97,301,016</u>	<u>97,301,000</u>
Total short-term investments	<u>211,885,366</u>	<u>211,885,000</u>	<u>273,323,290</u>	<u>273,323,000</u>
<b>Long-term investments (category 1):</b>				
<b>Fixed income:</b>				
U.S. government	349,365,821	342,811,000	354,264,050	374,741,000
U.S. government agency securities	333,495,820	331,373,000	264,483,546	288,094,000
Corporate	277,994,693	273,867,000	251,238,011	264,569,000
Convertible debt securities	65,254,781	63,867,000	56,698,000	59,901,000
International	64,249,021	60,621,000	-	-
<b>Equities:</b>				
Preferred stock	8,457,304	10,519,000	1,140,715	1,078,000
Convertible preferred stock	26,496,125	28,301,000	26,747,626	33,723,000
Common stock	1,041,414,382	1,160,524,000	944,978,185	1,122,727,000
Common stock-international	<u>48,366,776</u>	<u>44,855,000</u>	<u>-</u>	<u>-</u>
Total long-term investments (category 1)	<u>2,215,094,723</u>	<u>2,316,738,000</u>	<u>1,899,550,133</u>	<u>2,144,833,000</u>

# TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

## Notes to Financial Statements, Continued

	1994		1993	
	Book Value	Market Value	Book Value	Market Value
Long-term investments (not categorized):				
Investments held by broker dealers under collateralized securities lending program:				
Fixed income:				
U.S. government	\$ 248,700,257	242,815,000	247,791,628	273,592,000
Corporate	33,300,822	31,691,000	37,769,615	40,038,000
International	13,958,593	14,082,000	-	-
Equities:				
Domestic	15,784,163	17,386,000	15,977,181	20,019,000
International	<u>9,724,638</u>	<u>9,777,000</u>	<u>-</u>	<u>-</u>
Total investments held by broker dealers under collateralized securities lending program	321,468,473	315,751,000	301,538,424	333,649,000
Guaranteed investment contracts	<u>28,640,682</u>	<u>28,641,000</u>	<u>71,082,311</u>	<u>71,082,000</u>
Total long-term investments (not categorized)	<u>350,109,155</u>	<u>344,392,000</u>	<u>372,620,735</u>	<u>404,731,000</u>
Total long-term investments	<u>2,565,203,878</u>	<u>2,661,130,000</u>	<u>2,272,170,868</u>	<u>2,549,564,000</u>
Total investments	<u>\$ 2,777,089,244</u>	<u>2,873,015,000</u>	<u>2,545,494,158</u>	<u>2,822,887,000</u>

Included in short-term investments at June 30, 1994 and 1993, are \$1,965,536 and \$97,301,016 of commingled trust funds of Banker's Trust Company (BTC). One such fund is allocated on the basis of \$1.00 for each unit. The other fund is valued weekly based on a unit method. The funds are composed of high-grade financial instruments with very short maturities including U.S. government instruments, U.S. government-sponsored enterprise instruments, U.S. government agency instruments, and repurchase agreements. Each participant in the funds shares the risk of loss on the fund in proportion to their respective investment in the fund.

The System is authorized by state statute to contractually loan securities to investment brokers. The securities subject to the agreement are commingled with the securities of other lenders. Under the agreement, the borrowed securities are initially collateralized at a minimum of 102% of their market values. Collateral consists of U.S. government securities, certificates of deposit, commercial paper, bankers' acceptances, repurchase agreements, floating rate notes, participation notes, money market funds, and bank letters of credit. The collateral is marked-to-market daily such that at the close of trading on any business day the value of collateral shall not be less than 100% plus accrued interest on the borrowed securities. The market value of the securities on loan was approximately \$315,750,000 and \$333,648,000 at June 30, 1994 and 1993, and the collateral under the agreement had a market value of approximately \$329,512,000 and \$341,628,000 at June 30, 1994 and 1993. The loan premium paid by the borrower of the securities and the proceeds received from the invested collateral is apportioned between the parties to the agreement in accordance with the agreement.

Cash includes amounts on deposit with the Office of the State Treasurer (State Treasurer) in a pooled account, which is required to be insured or collateralized by the Oklahoma Statutes that cover deposits of public funds by the State Treasurer.

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## TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

### Notes to Financial Statements, Continued

The System is authorized by statute to engage in international investing activities. Such investments include fixed income securities, equity securities, and forward foreign currency exchange contracts. The System enters into these contracts to hedge possible declines in foreign currency exchange rates in which the System invests. The net foreign currency transaction gain on international activities amounted to approximately \$1,200,000 and is included in net gain on investments in the statements of revenues, expenses and changes in fund balance. Such amount includes a net exchange rate loss on open forward foreign currency exchange contracts of approximately \$5,100,000.

In August 1994, the issuer of certain guaranteed investment contracts held by the System was put into receivership by its regulatory authorities. Guaranteed investment contracts held by the System from this issuer amounted to approximately \$15,000,000. The System has obtained certain financial information and estimates it will ultimately recognize approximately \$12,800,000 upon final resolution of this receivership. Accordingly, the System wrote down its guaranteed investment contracts by \$2,200,000. Such write-down is reflected in the statements of revenues, expenses and changes in fund balance, in net gain on investments.

#### (4) Contributions Required and Contributions Made

As described in note 1, the Oklahoma Legislature determines contribution requirements. Actuarially determined employer contributions, which include contributions from the various school districts, federal sources, and the State of Oklahoma, are calculated in accordance with Title 70, Section 17-106 of the Oklahoma Statutes; however, such amounts are not used for the purpose of determining actual contributions made.

Actuarially determined employer contribution requirements consist of an amount for normal cost which is the estimated amount necessary to finance benefits earned by the members during the current service year and an amount for amortization of the unfunded actuarial accrued liability over a period of the original 40-year amortization period beginning July 1, 1987. Such amounts are determined using the entry-age-normal cost method adopted in 1990 which assumes similar actuarial assumptions that were used to calculate the pension benefit obligation in note 5. To the extent that the System's actual experience does not match the actuarial assumptions, gains or losses occur. Such gains or losses reduce or increase the unfunded actuarial accrued liability.

The actuarial determined employer contribution requirements as determined by the System's consulting actuaries in their actuarial valuations as of June 30, 1994 and 1993, were approximately \$386,000,000 and \$372,000,000, respectively. These amounts represent employer contributions, determined in accordance with Title 70, Section 17-106 of the Oklahoma Statutes, projected at the beginning of the year for the years ending June 30, 1995 and 1994, respectively. Actuarially determined employer contributions for the years ended June 30, 1994 and 1993, were approximately 16.5% and 17% of covered payroll, respectively. Actual employer contributions made during 1994 and 1993 of approximately \$199,500,000 and \$198,800,000 were approximately 9.1% and 9.4% of covered payroll, respectively.

In 1992, the Oklahoma Legislature passed Senate Bill #568 which resulted in changes in the amount and manner in which employer contributions are determined and made. For years beginning July 1, 1992, employer contributions are fixed at certain percentages of annual compensation. Contributions from the State of Oklahoma, through the dedicated natural and casinghead gas tax, will be used to reimburse the employers for a portion of the contributions required under Senate Bill #568. The employer is now responsible for making

# TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

## Notes to Financial Statements, Continued

up any difference in the dedicated tax from the State of Oklahoma and the required employer contribution. Because the employer contribution rates are fixed under Senate Bill #568, the period of amortization of the unfunded actuarial accrued liability is considered a more meaningful indicator of contribution requirements than the actuarially determined contribution requirement in accordance with Title 70, Section 17-106 of the Oklahoma Statutes.

The actuarial accrued liability is the difference between the total present value of future benefits and the actuarial present value of future normal costs. The unfunded actuarial accrued liability is the excess of the actuarial accrued liability over the actuarial value of assets. An analysis of the unfunded actuarial accrued liability is as follows:

	<u>1994</u>	<u>1993</u>
Unfunded actuarial accrued liability at the beginning of the year	\$ 3,887,700,000	3,796,300,000
Expected increase based on required contribution from prior actuarial valuation	210,200,000	218,800,000
Loss (gain) on assets	37,500,000	(107,100,000)
Difference between actual and expected contributions	(50,600,000)	(77,400,000)
Experience loss (gain)	(113,400,000)	64,700,000
Impact of legislative changes	<u>67,400,000</u>	<u>(7,600,000)</u>
Unfunded actuarial accrued liability at the end of the year	\$ <u>4,038,800,000</u>	<u>3,887,700,000</u>

In their actuarial valuation as of June 30, 1994, the System's consulting actuaries have determined that the funding period to amortize the unfunded actuarial accrued liability is approximately 19.5 years.

### (5) 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. The measure is independent of the funding method used to determine contributions to the System as discussed in notes 1 and 4.

The PBO was determined as part of an actuarial valuation as of June 30, 1994. Significant actuarial assumptions used in the valuation were (a) the assumed rate of return on investments, which was 8% per year, compounded annually; (b) retirement age and termination assumptions consistent with the experience of the System; (c) life expectancy of participants based upon published mortality tables for retired participants and consistent with the experience of the System for active participants; (d) salary rate increases based on a merit and promotional component consistent with the experience of the System, plus a 5% inflation component; and (e) a payroll growth rate assumption of 5%.

# TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

## Notes to Financial Statements, Continued

At June 30, 1994 and 1993, the unfunded pension benefit obligations, as determined by the System's consulting actuaries, are as follows:

	<u>1994</u>	<u>1993</u>
Pension benefit obligations:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 3,290,080,889	3,016,251,176
Active employees:		
Accumulated employee contributions	1,467,903,110	1,333,135,420
Employer-financed vested	1,258,700,110	1,366,396,050
Employer-financed nonvested	<u>59,545,780</u>	<u>67,303,530</u>
Total pension benefit obligation	<u>6,076,229,889</u>	<u>5,783,086,176</u>
Net assets available for retirement benefits (market value of equities and amortized cost of other assets of \$2,658,124,113 and \$2,647,835,841 at June 30, 1994 and 1993, respectively)	<u>2,576,753,605</u>	<u>2,369,782,704</u>
Unfunded pension benefit obligation	<u>\$ 3,499,476,284</u>	<u>3,413,303,472</u>

### (6) Plan Amendments

Senate Bill 568 provided the following changes to the Plan:

- Employer contribution rates increase to 7% of annual compensation on July 1, 1992, 7.5% on July 1, 1993, and 8% on July 1, 1994. On July 1 of each year after July 1, 1994, employer contribution rates increase by 1% each year through July 1, 2004, in which employer contribution rates reach a maximum of 18% of annual compensation. Contributions received by the System from the State of Oklahoma will be used to partially offset employer contributions.
- Effective July 1, 1995, the maximum salary cap of \$40,000 is eliminated.
- Employee contribution rates are changed to 7% of annual compensation effective July 1, 1997, through a phased-in approach according to the following:
  - For compensation up to \$25,000, employee contribution rates are increased to 6.5% on July 1, 1996, and 7% on July 1, 1997, and thereafter.
  - For compensation between \$25,000 and \$40,000, employee contribution rates are decreased to 9% on July 1, 1993, 8% on July 1, 1994, and 7% on July 1, 1995, and thereafter.
- For members joining the System after June 30, 1992, final compensation has been changed to the average of the highest five consecutive years of annual compensation in which contributions have been made.
- Members joining the System after June 30, 1992, are eligible for maximum benefits when their age and years of creditable service total ninety.

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## TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

### Notes to Financial Statements, Continued

In 1994, the Oklahoma State Legislature passed Senate Bills 767 and 768 and House Bill 2228. These bills become effective July 1, 1994. Senate Bill 767 provides for the transfer of service credit between the System and the Oklahoma Public Employees Retirement System. Senate Bill 768 changes the joint options to "pop-up" options. This change was made for both current and future retirees. Under a pop-up option, if the joint annuitant predeceases the member, the member's benefit is increased to the amount the benefit would have been if the member had elected a life only annuity. House Bill 2228 provided for an ad hoc cola payable to members receiving benefits. The average increase is about 2.5%. The future effect of the legislation passed in 1994 on the unfunded actuarial accrued liability is shown in note 5.

#### (7) Contingencies

The System is a defendant in a class action lawsuit that challenges the method of calculating benefits established by House Bill 1473. The plaintiffs are seeking increased retirement benefits for retirees who retired prior to July 1, 1987. The estimated cost of additional retirement benefits is approximately \$25 million. The System believes that it has strong defenses against the lawsuit and that the ultimate disposition of the lawsuit will not have a significant impact on the System's financial position.



SUPPLEMENTARY INFORMATION

# TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

## Required Supplementary Historical Trend Information

Supporting schedules of historical trend information are presented below. These are designed to provide information on the System's progress in accumulating assets to pay benefits when due.

### Revenue by Source:

	Member Contributions	Employer Contributions	State Appropriations and Various Federal Sources	Contributions from Employers and State and Federal Sources As a Percentage of Annual Covered Payroll	Net Investment Income	Other	Total
1994	\$ 147,887,923	\$ 41,762,035	\$ 157,752,704	9.1%	\$ 247,192,624	\$ 275,097	\$ 594,870,383
1993	147,016,766	39,596,167	159,199,746	9.4%	243,037,507	-	588,850,186
1992(1)	139,602,837	28,255,158	121,671,483	7.5%	240,490,995	21,598	530,042,071
1991(1)	140,467,139	17,408,243	133,090,790	7.8%	156,698,023	9,342	447,673,537
1990(2)	119,666,636	7,571,476	138,731,872	8.4%	186,573,312	221,342	452,764,638
1989	100,893,240	-	132,469,504	8.2%	147,123,656	-	380,486,400
1988	95,552,682	-	121,426,909	8.1%	129,199,232	-	346,178,823
1987	82,432,408	-	123,465,244	8.2%	176,721,547	-	382,619,199
1986	96,442,486	-	128,211,082	9.2%	141,679,312	-	366,332,880
1985	69,140,739	-	127,870,696	10.7%	129,580,681	-	326,592,116

### Expenses by Type:

	Benefits	Administration Expenses	Refunds and Annuity Payments	Other	Total
1994	\$ 348,889,153	\$ 2,436,808	\$ 19,208,770	\$ -	\$ 370,534,731
1993	332,087,795	2,137,540	19,809,556	-	354,034,891
1992	317,540,438	2,049,436	20,287,267	-	339,877,141
1991(1)	304,806,218	1,977,323	21,075,707	-	327,859,248
1990(2)	274,568,647	1,840,350	17,918,413	-	294,327,410
1989	265,550,823	1,653,034	18,334,612	36,300,000	321,838,469
1988	230,144,148	1,733,829	15,865,723	3,300,000	251,043,700
1987	187,782,384	1,323,488	15,293,433	-	204,399,305
1986	154,528,142	1,559,251	12,704,866	-	168,792,259
1985	128,647,044	1,787,389	13,182,332	-	143,616,765

### Analysis of Funding Progress:

Fiscal Year	(1) Net Assets Available for Retirement 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 a Percentage of Covered Payroll (4) ÷ (5)
1994	\$ 2,576,753,605	\$ 6,076,229,889	42.4%	\$ 3,499,476,284	\$ 2,190,000,000	159.8%
1993	2,369,782,704	5,783,086,176	41.0%	3,413,303,472	2,122,000,000	160.9%
1992	2,151,334,330	5,472,154,977	39.3%	3,320,820,647	2,002,000,000	165.8%
1991	1,975,196,222	5,275,409,236	37.4%	3,300,213,014	1,921,000,000	171.8%
1990	1,867,353,855	4,834,566,801	38.6%	2,967,212,946	1,745,000,000	170.1%
1989	1,722,681,239	4,108,284,000	41.9%	2,385,602,761	1,610,000,000	148.2%
1988	1,678,430,905	3,326,151,000	50.5%	1,647,720,095	1,500,000,000	109.8%
1987	1,593,430,517	2,992,093,000	53.3%	1,398,662,483	1,500,000,000	93.2%

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## TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

### Required Supplementary Historical Trend Information, Continued

These summaries are shown for the years in which information is available. To the extent that the years of data are not shown, it will be added as the data becomes available.

- (1) In May 1990, the Oklahoma Legislature adopted certain changes to the Teacher's Retirement Law through passage of Senate Bill #810. The new legislation includes the following amendments:

- Beginning July 1, 1990, through June 30, 1991, the employer is required to make contributions based on 1% of the regular annual compensation of the member not in excess of the maximum compensation level of the member. This rate increases to 1.5%, 2%, and 2.5% beginning July 1, 1991, 1992, and 1993, respectively.
- Beginning July 1, 1990, an ad hoc benefit increase was granted to retirees and beneficiaries who have been receiving benefits for at least one year. The increase was determined by adding an amount to the final average compensation for the member, and then redetermining the benefit due. The amount added ranged from \$475 to \$950, depending on the retirees' classification. In all cases, final average compensation, before the benefit increase, was capped at \$40,000.
- Beginning January 1, 1991, the purchase price for service credit will be based upon the actuarial cost of the incremental projected benefits to be purchased.

In May 1988, the Oklahoma Legislature adopted certain changes to the Teacher's Retirement Law through passage of House Bill #1582, which included the following amendments:

- Beginning July 1, 1990, the members' contribution rate increased from 5.5% to 6% of the regular annual compensation of the member but not in excess of \$25,000.
- Beginning July 1, 1990, the members' optional contribution rate increased from 10.5% to 11% of regular annual compensation in excess of \$25,000 but limited to \$40,000.

- (2) The Oklahoma Legislature, in May 1988 and July 1988, adopted certain changes to the Teachers' Retirement Law through passage of House Bills #1582 and #1731. This new legislation includes the following amendments:

- Beginning July 1, 1989, through June 30, 1990, the employer is required to make contributions based on .5% of the regular annual compensation of the member not in excess of the maximum compensation level.
- Beginning July 1, 1989, through June 30, 1990, the members' contribution rate increased from 5% to 5.5% of the regular annual compensation of the member but not in excess of \$25,000.
- Beginning July 1, 1989, through June 30, 1990, the members contributed 10.5% of regular annual compensation in excess of \$25,000 but limited to \$40,000.

In April 1989, through passage of House Bill #1533, the calculation of retirement benefits which had been based upon the average salary for the three highest years of compensation during the last five years of service was changed to the average of the three highest years of compensation. This amendment was effective July 1, 1989.

In May 1989, Senate Bill #417 was passed which includes the following legislative amendments:

- Beginning January 1, 1990, the interest rate on repayment of withdrawn contributions increased to 10% from 5%.

Beginning January 1, 1990, the interest rate on contributions for the purchase of service with other Oklahoma public retirement systems increased to 10% from 5%.

700 First Oklahoma Tower  
Oklahoma City, OK 73102-5671

1600 One Williams Center  
Tulsa, OK 74172-0168

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
AT THE FINANCIAL STATEMENT LEVEL**

Board of Trustees  
Teachers' Retirement System of Oklahoma:

We have audited the financial statements of Teachers' Retirement System of Oklahoma (the System), as of and for the year ended June 30, 1994, and have issued our report thereon dated October 4, 1994.

We conducted our audit in accordance with generally accepted auditing standards and *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.

Compliance with laws and regulations applicable to the System is the responsibility of the management of the System. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the System's compliance with certain provisions of laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the System complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that the System had not complied, in all material respects, with those provisions.

This report is intended for the information of the Board of Trustees, the Oklahoma State Auditor and Inspector, and management. However, this report is a matter of public record and its distribution is not limited.

*KPMG Peat Marwick LLP*

Oklahoma City, Oklahoma  
October 4, 1994

700 First Oklahoma Tower  
Oklahoma City, OK 73102-5671

1600 One Williams Center  
Tulsa, OK 74172-0168

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS  
AT THE FINANCIAL STATEMENT LEVEL**

Board of Trustees  
Teachers' Retirement System of Oklahoma:

We have audited the financial statements of Teachers' Retirement System of Oklahoma (the System), as of and for the year ended June 30, 1994, and have issued our report thereon dated October 4, 1994.

We conducted our audit in accordance with generally accepted auditing standards and *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.

In planning and performing our audit of the financial statements of the System for the year ended June 30, 1994, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of the System is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Accounting controls
  - Investments
  - Contributions
  - Benefits

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of the Board of Trustees, the Oklahoma State Auditor and Inspector, and management. However, this report is a matter of public record and its distribution is not limited.

*KPMG Peat Marwick LLP*

Oklahoma City, Oklahoma  
October 4, 1994

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# Actuarial Section





October 26, 1994

Board of Trustees  
Teachers' Retirement System of Oklahoma  
P.O. Box 53524  
Oklahoma City, Oklahoma 73152

Dear Members of the Board:

Certification of the 1994 Actuarial Valuation

We certify that the information contained herein is accurate and fairly presents the actuarial position of the Teachers' Retirement system of Oklahoma as of June 30, 1994.

All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, the results presented comply with the requirements of the Oklahoma statutes and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board. The undersigned are independent actuaries. Both are Enrolled Actuaries and Members of the American Academy of Actuaries, and both are experienced in performing valuations for large public retirement systems.

***Actuarial Valuation***

The primary purpose of the valuation report is to determine the adequacy of the current employer contribution rates, to describe the current financial condition of the System, and to analyze changes in the System's condition. In addition, the report provides information required by the System in connection with Governmental Accounting Standards Board Statement No. 5 (GASB No. 5), and it provides various summaries of the data.

Valuations are prepared annually, as of June 30 of each year, the last day of the System's plan and fiscal year.

***Financing Objectives***

The member contribution rate and the combined state and employer contribution rate are established by law. The combined state and employer contribution rate is currently 8.0% (effective July 1, 1994), and is scheduled to increase annually until reaching 18% as of July 1, 2004. The state and employer contributions, when combined with the contributions made by members, are intended to provide for the normal cost and to amortize the Unfunded Actuarial Accrued Liability (UAAL).

***Progress Toward Realization of Financing Objectives***

Currently the period required to completely amortize the UAAL (the funding period) is 19.5 years, measured from June 30, 1994. Last year the funding period was 20.4 years, measured from June 30, 1993. However, the combined employer and state contribution is currently less than is required to pay the normal cost and interest on the UAAL, so negative amortization is occurring, and the UAAL increased from \$3.9 billion to \$4.0 billion.

***Benefit Provisions***

The actuarial valuation reflects the benefit provisions as set forth in current statutes, including those adopted in the 1994 legislative session. The only material benefit changes since the prior valuation were a cost-of-living increase for the current retirees and the addition of a pop-up option for both current and future retirees. These changes increased the UAAL by \$67.4 million, and lengthened the funding period by 0.4 years.

***Assumptions and Methods***

The actuarial assumptions and methods are unchanged from the prior valuation. These assumptions were previously adopted by the Board, as recommended by the actuary. Further detail on the assumptions and methods follows. The assumptions are internally consistent and are reasonably based on the actual experience of the System.

***Data***

Member data for retired, active, and inactive participants was supplied as of June 30, 1994, by the System's staff. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data. Asset information was supplied by the auditors and by the System's staff.

Sincerely,



J. Christian Conradi  
Actuary



W. Michael Carter  
Actuary

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## **SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS**

(As of June 30, 1994)

### **I. Valuation Date**

The valuation date is June 30th of each plan year. This is the date as of which the actuarial present value of future benefits and the actuarial value of assets are determined.

### **II. Actuarial Cost Method**

Because the employer contribution rate is set by statute, the actuarial valuation is used to determine the funding period—the number of years required to amortize the Unfunded Actuarial Accrued Liability (UAAL).

The funding period is determined by using the Entry Age actuarial cost method. Under this method, a normal cost rate is first determined. This is the contribution rate (level as a percentage of pay) required to provide the benefits of the average new member. The normal cost rate consists of two pieces: (i) the member's own contribution rate, and (ii) a portion of the employer contribution rate. This second piece is called the employer normal cost rate.

The total normal cost is determined by dividing the present value of future benefits for a hypothetical group of new members (based on actual new entrants during the 1984-89 period) by the present value of their future pay. In calculating the benefits for this group, all changes in provisions or member contribution rates scheduled to occur in the future (such as the removal of the salary cap) are assumed to be in effect.

Next, the UAAL is determined. This is the liability for future benefits which is in excess of (i) the actuarial value of assets, and (ii) the present value of future normal costs. The employer contribution which is not used for the employer normal cost is applied to amortize the UAAL.

The funding period is calculated as the number of years required to fully amortize the UAAL, assuming that the System's payroll increases at the payroll growth rate. Both employer and member contributions are assumed to be made monthly.

The actuarial valuation also determines a 40-year funding cost as required by Section 17-106. This is the dollar contribution required to pay the normal cost and amortize the UAAL over 40 years in equal installments. However, this amount is not required to be paid under the statutes.

### **III. Actuarial Value of Assets**

The actuarial value of assets is determined as the sum of (i) the market value of equities in the trust fund, plus (ii) the carrying or amortized value of all other assets. From this, the value of the Teachers' Deposit Fund is subtracted.

The Expense Fund and the value of Furniture and Equipment are included in the assets, but are also included in the liabilities, since they are not available to provide future benefits.

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#### IV. Actuarial Assumptions

##### A. Economic Assumptions

1. Investment return: 8% per year, compounded annually.
2. Salary increase rate: A merit/promotional component dependent on service, plus a 5% inflation component, as follows:

Years of Service (1)	Merit/Promotional Component (2)	Total Salary Increase Rate (3)
0	9.00%	14.00%
1	3.75	8.75
2	3.00	8.00
3	2.50	7.50
4	2.25	7.25
5	2.00	7.00
6	1.75	6.75
7	1.50	6.50
8	1.25	6.25
9	1.00	6.00
10	.75	5.75
11 or more	.50	5.50

3. Payroll growth rate: In the amortization of the unfunded actuarial accrued liability, payroll is assumed to increase 5% per year. This increase rate is solely due to the effect of inflation on salaries, with no allowance for future membership growth.

##### B. Demographic Assumptions

1. Mortality rates - after retirement or termination.
  - a. Healthy males - 1983 Group Annuity Mortality Table for males, set back one year.
  - b. Healthy females - 1983 Group Annuity Mortality Table for females, set back one year.
  - c. Disabled males - PBGC Table Va for disabled males eligible for Social Security disability benefits.
  - d. Disabled females - PBGC Table VIa for disabled females eligible for Social Security disability benefits.

Sample rates are shown below:

Expected Deaths per 100 Lives

Age	Healthy Males	Healthy Females	Disabled Males	Disabled Females
(1)	(2)	(3)	(4)	(5)
40	.11	.06	2.82	2.09
45	.19	.09	3.22	2.24
50	.35	.15	3.83	2.57
55	.57	.23	4.82	2.95
60	.84	.38	6.03	3.31
65	1.39	.64	6.78	3.70
70	2.48	1.09	7.39	4.11
75	4.04	2.11	8.42	4.92
80	6.71	3.85	11.28	7.46
85	10.60	6.38	16.82	11.28
90	15.49	10.14	25.25	16.82

2. Mortality rates - active members - Based on 1990 Experience Study, males and females separate. Sample rates are shown below:

Expected Deaths per 100 Lives

Age	Male Members	Female Members
(1)	(2)	(3)
25	.04	.02
30	.06	.04
35	.08	.06
40	.11	.08
45	.16	.11
50	.23	.16
55	.32	.23
60	.43	.32
65	.59	.43

3. Disability rates - Based on 1990 Experience Study, males and females separate. Sample rates are shown below:

Expected Disabilities Occurring per 100 Lives

Age (1)	Male Members (2)	Female Members (3)
25	.04	.04
30	.04	.04
35	.04	.05
40	.06	.07
45	.14	.13
50	.21	.25
55	.24	.34
60	.18	.28
65	.05	.08

Disability rates are applied only for members with 10 or more years of service, since rates were developed based on exposure for this group.

4. Termination Rates - Separate male and female rates, based on both age and service, developed from 1990 Experience Study. Rates reflect terminations for causes other than death, disability or retirement. Sample rates are shown below:

Expected Terminations per 100 Lives (Male Members)

Age (1)	Years of Service				
	0 (2)	1 (3)	4 (4)	7 (5)	10 or more (6)
25	63.89	18.24	11.41	8.60	3.40
30	61.27	17.83	11.02	8.05	3.25
35	57.82	16.98	10.55	7.86	3.07
40	53.70	15.88	10.02	7.50	2.95
45	49.49	14.63	9.06	6.64	2.81
50	46.05	13.50	8.27	5.21	2.44
55	44.23	13.19	7.82	4.32	1.87
60	44.30	14.42	7.61	5.28	1.27
65	46.30	17.45	8.69	7.00	.94

Expected Terminations per 100 Lives (Female Members)  
Years of Service

Age (1)	0 (2)	1 (3)	4 (4)	7 (5)	10 or more (6)
25	42.54	17.54	13.76	8.95	5.60
30	39.58	16.69	12.29	6.63	4.69
35	37.15	15.20	9.90	5.85	3.41
40	35.71	13.50	8.00	5.15	2.84
45	35.08	12.51	6.75	4.68	2.58
50	34.74	12.13	6.47	4.35	2.43
55	34.00	12.77	7.48	4.48	2.06
60	32.16	15.03	9.75	5.59	1.53
65	28.82	18.95	13.26	7.98	1.36

Termination rates are applied even after the member becomes eligible for a retirement benefit.

5. Retirement rates - Separate male and female rates, based on both age and service, developed from the 1990 Experience Study. Sample rates are shown below:

Expected Retirements per 100 Lives (Male Members)  
Years of Service

Age (1)	10 (2)	15 (3)	20 (4)	25 (5)	30 (6)
50	0.0	0.0	0.0	0.0	17.0
55	2.0	4.0	3.0	17.0	20.0
60	6.0	8.0	25.0	25.0	30.0
62	16.0	40.0	40.0	40.0	45.0
65	22.0	55.0	55.0	55.0	62.0
70	100.0	100.0	100.0	100.0	100.0

Expected Retirements per 100 Lives (Female Members)  
Years of Service

Age (1)	10 (2)	15 (3)	20 (4)	25 (5)	30 (6)
50	0.0	0.0	0.0	0.0	20.0
55	4.0	5.0	3.0	20.0	22.0
60	6.0	10.0	30.0	25.0	30.0
62	24.0	37.0	37.0	37.0	47.0
65	26.0	40.0	40.0	40.0	51.0
70	100.0	100.0	100.0	100.0	100.0

C. Other Assumptions

1. Percent married: 80% of employees are assumed to be married.
2. Age difference: Male members are assumed to be three years older than their spouses, and female members are assumed to be three years younger than their spouses.
3. Percent electing annuity on death (when eligible): All of the spouses of married participants who die after becoming eligible for a retirement benefit are assumed to elect an annuity, in lieu of the \$18,000 lump sum and refund, if this benefit is available.
4. Percent electing deferred termination benefit: Of those terminating members with at least 10 years of service, 75% are assumed to elect to leave their contributions in the System and receive a deferred benefit.
5. Assumed age for commencement of deferred benefits: Members electing to receive a deferred benefit are assumed to commence receipt at age 62 (or attained age if later).
6. Administrative expenses: The System makes provision for future administrative expenses in the Expense Fund, which is included as a liability.
7. Maximum salary reflected prior to June 30, 1995: For members whose current earnings are over \$25,000 and who have not elected to make additional contributions on amounts over \$25,000 (up to \$40,000), it is assumed that future covered compensation will be \$25,000 in each year through 1994/1995. For all other members, covered compensation is limited to \$40,000 through 1994/1995.
8. Reemployment, purchase of service, transfers: No recognition is made of (i) future member reimbursements upon reemployment, (ii) future purchase of additional service, or (iii) special transfer provisions.

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## **V. Participant Data**

Participant data was supplied on magnetic tape for (i) active members, (ii) inactive vested members, who are entitled to a future deferred benefit, (iii) inactive nonvested members, who are entitled to a refund of their employee contributions, and in some cases a portion of the accumulated interest, and (iv) members and beneficiaries receiving benefits.

The data for active and inactive, non-retired members included birthdate, sex, years of service, a classified/non-classified status code, salary, employee contributions and accumulated interest on employee contributions. The data also included a code to indicate whether the employee had elected to make contributions on salary above \$25,000. For retired members and beneficiaries, the data included date of birth, sex, spouse's date of birth (where applicable), amount of monthly benefit, date of retirement, and a form of payment code.

Salary supplied for the current year was based on the earnings for the October preceding the valuation date. This salary was adjusted by the salary increase rate for one year, and limited to \$25,000 or \$40,000 where appropriate.

Assumptions were made to correct for missing, bad, or inconsistent data. These had no material impact on the results presented.

Some inactive, nonvested employees who are entitled to a refund are not included in the data, but a liability for their refund is included instead in the Suspense Fund, which is included in the liability.

## **VI. Dates of Adoption of Assumptions and Methods**

Generally, actuarial assumptions and methods were adopted by the Board of Trustees in May, 1990 and first reflected in the June 30, 1990 actuarial valuation, as recommended by the actuary. However, the payroll growth rate was not adopted until June 30, 1992, since prior to the adoption of SB 568, the actuarial valuation computed the contribution requirement rather than the funding period, making an assumption about future payroll growth unnecessary.



**ACTIVE MEMBER VALUATION DATA**  
Periods Ending June 30

Year Ending (1)	Active Members		Covered Payroll		Average Salary		Average Years of Service (8)	Average Service (9)
	Number (2)	% Increase or Decrease (3)	\$ Amount (millions) (4)	% Increase or Decrease (5)	\$ Amount (6)	% Increase or Decrease (7)		
1984	58,271	3.1%	\$1,095	0.0%	\$20,193	-3.8%	41.3	9.9
1985	58,241	-0.1%	\$1,190	8.7%	\$20,543	1.7%	41.6	10.4
1986	63,312	8.7%	\$1,461	22.8%	\$22,819	11.1%	41.7	9.7
1987	64,534	1.9%	\$1,500	2.7%	\$23,155	1.5%	42.1	9.9
1988	64,361	-0.3%	\$1,500	0.0%	\$23,317	0.7%	42.4	10.1
1989	67,709	5.2%	\$1,610	7.3%	\$24,058	3.2%	42.8	10.2
1990	69,062	2.0%	\$1,745	8.4%	\$25,265	5.0%	43.1	10.5
1991	71,936	4.2%	\$1,921	10.1%	\$26,709	5.7%	43.1	10.5
1992	73,568	2.3%	\$2,002	4.2%	\$27,218	1.9%	43.3	10.6
1993	75,599	2.8%	\$2,122	6.0%	\$28,069	3.1%	43.4	10.7
1994	76,280	0.9%	\$2,190	3.2%	\$28,704	2.3%	43.6	10.8

SCHEDULE OF INCREASES AND DECREASES  
OF BENEFIT RECIPIENTS  
Periods Ending June 30

Fiscal Year	Beginning Balance			Ending Balance	% Increase/ (Decrease)
		Additions	Subtractions		
1984	18,267	1,266	362	19,171	
1985	19,171	675	130	19,716	2.8%
1986	19,716	3,601	1,360	21,957	11.4%
1987	21,957	1,049	1,152	21,854	-0.5%
1988	21,854	2,021	386	23,489	7.5%
1989	23,489	985	689	23,785	1.3%
1990	23,785	1,477	755	24,507	3.0%
1991	24,507	1,736	807	25,436	3.8%
1992	25,436	1,546	784	26,198	3.0%
1993	26,198	1,700	895	27,003	3.1%
1994	27,003	1,905	896	28,012	3.7%

**SUMMARY OF ACCRUED AND UNFUNDED LIABILITIES FOR LAST TEN YEARS**  
Periods Ending June 30

Valuation As of 6/30	Actuarial Accrued Liabilities	Actuarial Value of Assets	Assets as a Percentage of Accrued Liabilities	Unfunded Actuarial Liabilities (UAL)	Total Annual Payroll	UAL as a Percentage of Total Payroll
1984	\$2,527,734,000	1,084,701,000	42.91%	\$1,443,033,000	\$1,095,119,000	131.77%
1985	3,063,207,000	1,278,209,000	41.73%	1,784,998,000	1,189,505,000	150.06%
1986	3,281,382,000	1,535,131,000	46.78%	1,746,251,000	1,460,517,000	119.56%
1987	3,461,478,000	1,667,864,000	48.18%	1,793,614,000	1,500,000,000	119.57%
1988	3,844,455,000	1,693,858,000	44.06%	2,150,597,000	1,500,000,000	143.37%
1989	3,962,026,227	1,795,276,134	45.31%	2,166,750,093	1,610,000,000	134.58%
1990	5,113,724,348	1,951,345,189	38.16%	3,162,379,159	1,745,000,000	181.23%
1991	5,444,558,808	2,089,639,610	38.38%	3,354,919,198	1,921,000,000	174.64%
1992	6,083,391,536	2,287,096,521	37.60%	3,796,295,015	2,002,000,000	189.63%
1993	\$6,456,952,246	\$2,569,221,056	39.79%	\$3,887,731,190	\$2,122,000,000	183.21%
1994	\$6,736,019,607	\$2,697,181,721	40.04%	\$4,038,837,886	\$2,190,000,000	184.42%

**SOLVENCY TESTS**  
**GASB 5 Statement Basis**  
**Periods Ending June 30**

**Pension Benefit Obligation and Percent of Active Member Payroll For:**

Date	(1)		(2)		(3)		(4)		Net Assets Available For Benefits	Portion of Accrued Liabilities Covered By Assets			
	Accumulated Employee Contributions Including Allocated Investment Income	% of Payroll	Retirees and Beneficiaries Currently Receiving Benefits	% of Payroll	Terminated Employees Not Yet Receiving Benefits	% of Payroll	Employer Financed Portion of Vested and Nonvested Payroll	% of Payroll					
1987	\$1,334,413,000	89%	\$1,644,184,000	110%	\$13,496,000*	1%	*	0%	\$1,593,430,517	100%	16%	0	0
1988	1,151,838,000	77%	2,155,948,000	144%	18,365,000*	1%	*	0%	1,678,430,905	100%	24%	0	0
1989	798,567,000	50%	2,194,031,000	136%	54,726,000	3%	\$1,060,960,000	66%	1,722,681,239	100%	42%	0	0
1990	909,702,793	52%	2,405,788,856	138%	59,935,623	3%	1,459,139,529	84%	1,867,353,855	100%	40%	0	0
1991	1,044,372,302	54%	2,662,888,849	139%	68,144,515	4%	1,500,003,570	78%	1,975,196,222	100%	35%	0	0
1992	1,186,699,530	59%	2,778,720,700	139%	78,475,277	4%	1,428,259,470	71%	2,151,334,330	100%	35%	0	0
1993	1,333,135,420	63%	2,926,059,300	138%	90,191,876	4%	1,433,699,580	68%	2,369,782,704	100%	35%	0	0
1994	\$1,467,903,110	69%	\$3,187,539,900	150%	\$102,540,989	5%	\$1,318,245,890	62%	\$2,576,753,605	100%	35%	0	0

These summaries are shown only for the years available. Additional years will be added as data becomes available.

\* A portion of the Terminated Employees Not Yet Receiving Benefits and the Employer Financed Portion Vested and Nonvested are included in the Accumulated Employee Contributions Including Allocated Investment Income.

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# Statistical Section



SCHEDULE OF AVERAGE PAYMENT AMOUNTS  
Fiscal Year Ended June 30, 1994

Date	Regular Annuitants	Date	Regular Annuitants	Special Annuitants
June 30, 1948	\$33	June 30, 1980	\$382	
June 30, 1954	75	June 30, 1981	432	
June 30, 1960	83	June 30, 1982	480	
June 30, 1966	129	June 30, 1983	592	
June 30, 1969	148	June 30, 1984	600	
June 30, 1970	179	June 30, 1985	683	
June 30, 1971	201	June 30, 1986	761	\$150
June 30, 1972	209	June 30, 1987	837	159
June 30, 1973	217	June 30, 1988	907	159
June 30, 1974	226	June 30, 1989	949	159
June 30, 1975	248	June 30, 1990	956	159
June 30, 1976	297	June 30, 1991	1,013	159
June 30, 1977	321	June 30, 1992	1,021	159
June 30, 1978	345	June 30, 1993	1,030	\$159
June 30, 1979	\$365	June 30, 1994	\$1,044	\$159

Note that figures after June 30, 1989 do not include monthly medical premium.

**ACTIVE PERSONNEL**  
Fiscal Year Ended June 30, 1994

Years of Service	*All Active Personnel	*Classified Personnel	*Unclassified Personnel
Under 5 yrs.	29,775	17,003	12,772
5-9	18,884	10,890	7,994
10-14	13,271	10,084	3,187
15-19	11,209	9,599	1,610
20-24	8,671	7,868	803
25-29	3,981	3,715	266
30-34	935	889	46
35-39	262	250	12
40-44	46	44	2
45-49	11	9	2
50-54	2	2	0
<b>TOTALS</b>	<b>87,047</b>	<b>60,353</b>	<b>26,694</b>

Salary Range	All Active Personnel	Classified Personnel	Unclassified Personnel
0-\$5,000	354	142	212
5001-10,000	3,437	258	3,179
10,001-15,000	6,691	736	5,955
15,001-20,000	6,212	1,166	5,046
20,001-25,000	11,404	7,888	3,516
25,001-30,000	18,381	16,329	2,052
30,001-35,000	12,920	11,830	1,090
35,001-40,000	6,726	6,148	578
40,001-45,000	3,402	3,051	351
45,001-50,000	2,111	1,923	188
50,001-55,000	1,481	1,379	102
55,001-60,000	940	881	59
60,001-65,000	665	634	31
65,001-70,000	468	445	23
70,001-75,000	335	316	19
75,001 and Above	753	753	0
<b>TOTALS</b>	<b>76,280</b>	<b>53,879</b>	<b>22,401</b>

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

Average Age (years)	42.7	42.1	43.9
Average Salary	\$28,614	\$32,854	\$18,474
Average Service (years)	10.0	11.6	6.4

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFITS  
 Selected Plan Options  
 Fiscal Year Ended June 30, 1994

Option	Retired Members			Average Monthly Payment	% of Total
	Male	Female	Total		
Maximum	1,839	7,808	9,647	\$991	34.44%
Option 1	3,148	7,792	10,940	1,056	39.05%
Option 2	2,022	511	2,533	1,152	9.04%
Option 3	1,344	533	1,877	1,342	6.70%
Option 4	148	143	291	1,031	1.04%
Options 5, 6 & 7	694	74	768	773	2.74%
Disability	231	487	718	492	2.56%
Special Annuitants	205	1,033	1,238	159	4.42%
<b>TOTALS</b>	<b>9,631</b>	<b>18,381</b>	<b>28,012</b>	<b>\$1,006</b>	<b>100.00%</b>

Average monthly payment is \$1,044 excluding special annuitants

Maximum - provides for the greatest possible benefit. In the event payments to members are less than member's account balance, the remaining balance is paid to a designated beneficiary or in the event no beneficiary is named to the member's estate.

Option 1 - provides for a decreased rate of reduction of member's account balance. In the event a balance exists at the death of member, the remaining balance of the account is paid to a designated beneficiary or in the event a beneficiary was not named to the member's estate.

Option 2 - provides for a reduced monthly benefit to the member for life. Upon death of the member, the designated surviving spouse will continue to receive the same monthly benefit for life.

Option 3 - provides a similar benefit as Option 1, however, upon death of the member, the monthly benefit to the designated surviving spouse is one-half of the benefit of the member.

Option 4 - provides a reduced monthly benefit. In the event of the member's death within 120 months from the date of retirement, the balance of the payments are continued to the beneficiary designated at the time of retirement.

Options 5, 6 & 7 - represents beneficiaries of options 2, 3 & 4.

Disability - upon meeting requirements, a vested member may receive a monthly benefit.

Special Annuitants - a former teacher, who taught a minimum of ten years in the public schools of Oklahoma prior to July 1, 1943.

**DISTRIBUTION BY YEARS OF SERVICE**  
Fiscal Year Ended June 30, 1994

Years of Creditable Service	Retired Members			Average Monthly Payment
	Male	Female	Total	
Under 10	40	110	150	\$194
10-14	722	2,264	2,986	313
15-19	964	2,536	3,500	518
20-24	1,159	3,414	4,573	832
25-29	1,680	3,318	4,998	1,184
30-34	2,226	2,850	5,076	1,367
35-39	1,665	1,664	3,329	1,495
40-44	865	998	1,863	1,630
45-49	100	191	291	1,732
50 and Over	5	3	8	2,448
<b>TOTALS</b>	<b>9,426</b>	<b>17,348</b>	<b>26,774</b>	<b>\$1,044</b>

Does not include 1,238 special annuitants

**DISTRIBUTION BY AGE AT RETIREMENT**  
Fiscal Year Ended June 30, 1994

Age at Retirement	Retired Members		Total	Average Monthly Payment	Average Length of Service (years)
	Male	Female			
40 and Under	16	32	48	\$505	13.5
41-45	26	46	72	658	16.1
46-50	135	156	291	1,254	25.2
51-55	1,837	1,760	3,597	1,315	27.3
56-60	2,431	4,267	6,698	1,079	26.2
61-65	4,334	9,819	14,153	986	26.7
66-70	567	1,116	1,683	873	24.1
71-75	65	131	196	598	21.2
76-80	11	20	31	565	22.7
Over 80	4	1	5	667	19.8
<b>TOTALS</b>	<b>9,426</b>	<b>17,348</b>	<b>26,774</b>	<b>\$1,044</b>	<b>26.4</b>

Does not include 1,238 special annuitants

**DISTRIBUTION BY RETIREE AGE**  
Fiscal Year Ended June 30, 1994

Age	Total Retired Members	Average Length of Service (years)	Average Monthly Payment
Under 50	106	16.4	\$728
50-54	896	28.3	1,562
55-59	2,594	26.3	1,306
60-64	4,529	412.3	1,106
65-69	5,178	24.7	1,020
70-74	4,293	25.5	954
75-79	3,490	26.6	901
80-84	2,870	28.9	969
85-89	1,920	30.7	1,000
90 & Over	898	31.4	1,366
<b>TOTALS</b>	<b>26,774</b>	<b>26.4</b>	<b>\$1,044</b>

Totals do not include 1,238 special annuitants

DISTRIBUTION BY MONTHLY INCOME  
Fiscal Year Ended June 30, 1994

Monthly Income	Retired Members	Total Payment	Average Payment
Under \$100	97	\$8,213	\$85
\$101-200	855	132,989	156
\$201-\$300	1,446	355,040	246
\$301-\$400	1,485	519,950	350
\$401-\$500	1,460	656,934	450
\$501-\$600	1,421	781,515	550
\$601-\$700	1,411	917,216	650
\$701-\$800	1,309	985,065	753
\$801-\$900	1,425	1,211,611	850
\$900-\$1,000	1,602	1,526,103	953
\$1,001-\$1,100	1,758	1,848,327	1,051
\$1,101-\$1,200	1,867	2,148,883	1,151
\$1,201-\$1,300	1,895	2,372,337	1,252
\$1,301-\$1,400	1,814	2,449,390	1,350
\$1,401-\$1,500	1,651	2,392,106	1,449
\$1,501-\$1,600	1,318	2,040,238	1,548
\$1,601-\$1,700	1,004	1,653,642	1,647
\$1,701-\$2,000	1,762	3,228,547	1,832
\$2,001-\$2,500	1,002	2,181,006	2,177
Over \$2,500	192	516,140	2,688
<b>TOTALS</b>	<b>26,774</b>	<b>\$27,952,106</b>	<b>\$1,044</b>

Does not include 1,238 special annuitants

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## 1994 Participating Employers

### Public School Districts

Achille	Blair	Cave Springs
Ada	Blanchard	Cement
Adair	Bluejacket	Central High
Afton	Boise City	Central
Agra	Bokoshe	Chandler
Albion	Boley	Chattanooga
Alex	Boone-Apache	Checotah
Aline-Cleo Springs	Boswell	Chelsea
Allen Bowden	Bowlegs	Cherokee
Allen	Bowring	Cheyenne
Altus	Boynton	Chickasha
Alva	Braggs	Chisholm
Amber Pocasset	Braman	Choctaw Nicoma Park
Anadarko	Bray Doyle	Chouteau Mazie
Anderson	Bridge Creek	Cimarron
Antlers	Briggs	Claremore
Arapaho	Bristow	Clayton
Ardmore	Broken Arrow	Cleora
Arkoma	Broken Bow	Cleveland
Arnett	Brushy	Clinton
Asher	Buffalo	Coalgate
Atoka	Buffalo Valley	Colbert
Avant	Burbank	Colcord
Balko	Burlington	Coleman
Banner	Burns Flat-Dill City	Collinsville
Barnsdall	Butler	Comanche
Bartlesville	Butner	Commerce
Battiest	Byars	Copan
Bearden	Byng	Cordell
Beaver	Cache	Cottonwood
Beggs	Caddo	Covington Douglas
Belfonte	Calera	Coweta
Bell	Calumet	Coyle
Bennington	Calvin	Crescent
Berryhill	Cameron	Crooked Oak
Bethany	Canadian	Crowder
Bethel	Caney	Crutcho
Big Pasture	Caney Valley	Cushing
Billings	Canton	Cyril
Binger-Oney	Canute	Dahlongegah
Bishop	Carnegie	Dale
Bixby	Carney	Darlington
Blackwell	Carter	Davenport
	Cashion	Davidson
	Catoosa	Davis

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Deer Creek	Frontier	Hobart
Deer Creek-Lamont	Ft Cobb-Broxton	Hodgen
Delaware	Ft Gibson	Holdenville
Denison	Ft Supply	Hollis
Depew	Gage	Holly Creek
Dewar	Gans	Hominy
Dewey	Garber	Hooker
Dibble	Garrett	Howe
Dickson	Geary	Hugo
Dover	Geronimo	Hulbert
Drummond	Glencoe	Hydro
Drumright	Glenpool	Idabel
Duke	Glover	Indiahoma
Duncan	Goodland	Indianola
Durant	Goodwell	Inola
Dustin	Gore	Jay
Eagletown	Gracemont	Jenks
Eakly	Graham	Jennings
Earlsboro	Grandfield	Jones
Edmond	Grand View	Justice
El Reno	Grandview	Justus
Eldorado	Granite	Kansas
Elgin	Grant	Kaw City
Elk City	Greasy	Kellyville
Elmore City-Pernell	Greenville	Kenwood
Empire	Grove (Delaware)	Keota
Enid	Grove (Pottawatomie)	Ketchum
Erick	Gum Springs	Keyes
Eufaula	Guthrie	Keys
Fairland	Guymon	Keystone
Fairview	Gypsy	Kiefer
Fanshawe	Haileyville	Kildare
Fargo	Hammon	Kingfisher
Farris	Hanna	Kingston
Faxon	Hardesty	Kinta
Felt	Harmony	Kiowa
Fletcher	Harrah	Konawa
Flower Mound	Hartshorne	Krebs
Forest Grove	Haskell	Kremlin-Hillsdale
Forgan	Haworth	Lane
Fort Towson	Haywood	Latta
Fox	Healdton	Laverne
Foyil	Heavener	Lawton
Frederick	Hennessey	Le Flore
Freedom	Henryetta	Leach
Friend	Hilldale	Leedey
Frink Chambers	Hinton	Leonard

Lexington	Mooreland	Pawhuska
Liberty	Morris	Pawnee
Lindsay	Morrison	Peavine
Little Axe	Moseley	Peckham
Locust Grove	Moss	Peggs
Lomega	Mounds	Perkins Tryon
Lone Grove	Moyers	Perry
Lone Star	Mt View-Gotebo	Picher-Cardin
Lone Wolf	Muldrow	Pickett Center
Lookeba Sickles	Mulhall Orlando	Piedmont
Lost City	Muskogee	Pioneer Pleasant Vale
Lowrey	Mustang	Pioneer
Lukfata	N Rock Creek	Pittsburg
Luther	Nashoba	Plainview
Macomb	Navajo	Pleasant Grove
Madill	New Lima	Pocola
Mangum	Newcastle	Ponca City
Mannford	Newkirk	Pond Creek
Mannsville	Ninnekah	Porter Consolidated
Maple	Noble	Porum
Marble City	Norman	Poteau
Marietta	Norwood	Prague
Marlow	Nowata	Preston
Maryetta	Nuyaka	Pretty Water
Mason	Oak Grove	Prue
Maud	Oakdale	Pryor
Maysville	Oaks Mission	Purcell
Mc Alester	Oilton	Putnam City
Mc Cord	Okarche	Quapaw
Mc Curtain	Okay	Quinton
Mc Lish	Okeene	Rattan
Mc Loud	Okemah	Ravia
Medford	Oklahoma City	Red Oak
Meeker	Oklahoma Union	Reydon
Merritt	Okmulgee	Ringling
Miami	Olney	Ringwood
Mid Del	Olustee	Ripley
Middleberg	Oologah-Talala	Riverside
Midway	Optima	Robin Hill
Milburn	Osage Hills	Rock Creek
Milfay	Osage	Rocky Mountain
Mill Creek	Owasso	Roff
Millwood	Paden	Roland
Minco	Panama	Rush Springs
Moffett	Panola	Ryal
Monroe	Paoli	Ryan
Moore	Pauls Valley	S Rock Creek

Salina  
Sallisaw  
Sand Springs  
Sapulpa  
Sasakwa  
Savanna  
Sayre  
Schulter  
Seiling  
Seminole  
Sentinel  
Sequoyah  
Shady Grove  
Shady Point  
Sharon Mutual  
Shattuck  
Shawnee  
Shidler  
Silo  
Skelly  
Skiatook  
Smithville  
Snyder  
So. Coffeyville  
Soper  
Spavinaw  
Sperry  
Spiro  
Springer  
Sterling  
Stidham  
Stigler  
Stillwater  
Stilwell  
Stonewall  
Stony Point  
Straight  
Stratford  
Stringtown  
Strother  
Stroud  
Stuart  
Sulphur  
Sweetwater  
Swink  
Tahlequah  
Talihina

Taloga  
Tannehill  
Tecumseh  
Temple  
Tenkiller  
Terral  
Texhoma  
Thackerville  
Thomas-Fay-Custer  
Tiawah  
Timberlake  
Tipton  
Tishomingo  
Tom  
Tonkawa  
Tulsa  
Tupelo  
Turkey Ford  
Turner  
Turpin  
Tushka  
Tuskahoma  
Tuttle  
Twin Hills  
Tyrone  
Union City  
Union  
Valliant  
Vanoss  
Varnum  
Velma-Alma  
Verden  
Verdigris  
Vian  
Vici  
Vinita  
Wagoner  
Wainwright  
Wakita  
Walters  
Wanette  
Wapanucka  
Warner  
Washington  
Washita Hgts  
Watonga  
Watson

Watts  
Waukomis  
Waurika  
Wayne  
Waynoka  
Weatherford  
Webbers Falls  
Welch  
Weleetka  
Wellston  
Western Hgts  
Westville  
Wetumka  
Wewoka  
White Oak  
White Rock  
Whitebead  
Whitefield  
Whitesboro  
Wickliffe  
Wilburton  
Wilson  
Wilson  
Wister  
Woodall  
Woodland  
Woodward  
Wright City  
Wyandotte  
Wynnewood  
Wynona  
Yale  
Yarbrough  
Yukon  
Zaneis  
Zion

#### **VOCATIONAL- TECHNICAL SCHOOLS**

Caddo-Kiowa  
Canadian Valley  
El Reno  
Chickasha  
Central Oklahoma  
Drumright  
Sapulpa  
Chisholm Trail

E. Oklahoma Co.  
 Francis Tuttle  
 Gordon Cooper  
 Great Plains  
     Lawton  
     Frederick  
 Green Country  
 High Plains  
 Indian Capital  
     Muskogee  
     Sallisaw  
     Stilwell  
 Indian Meridian  
 Kiamichi  
     Wilberton  
     Atoka  
     Durant  
     Hugo  
     Idabell  
     McAlester  
     Poteau  
     Spiro  
     Stigler  
     Talihina  
 Metro  
 Mid-America  
 Moore-Norman  
 NE Oklahoma  
     Afton  
     Pryor  
 NW Oklahoma  
     Alva  
     Fairview  
 O.T. Austry  
 Pioneer  
 Pontotoc  
 Red River  
 S. Oklahoma  
 Southwest  
 Tri-County  
 Tulsa County  
 Wes Watkins  
 Western Oklahoma

**COLLEGES AND  
 UNIVERSITIES**

Okla. State Univ.  
 Univ. of Oklahoma  
 Okla. Health Sciences  
     Center  
 East Central Univ.  
 NE State University  
 NW Okla. St. Univ.  
 SW Okla. St. Univ.  
 Univ. of Central Okla.  
 Cameron Univ.  
 Langston Univ.  
 Okla. Panhandle  
     State University  
 Univ. of Science  
     and Arts of Okla.  
 Univ. Center at Tulsa

**STATE JUNIOR  
 COLLEGES**

Carl Albert St. College  
 Connors St. College  
 E. Okla. St. College  
 Murray St. College  
 NE Okla. A&M  
 N. Okla. College  
 OKC Com. College  
 Redlands Com. Coll.  
 Rogers St. College  
 Rose State College  
 Seminole Jr. Coll.  
 Tulsa Jr. College  
 W. Okla. St. Coll.

**PARTICIPATING  
 ENTITIES**

Moore Assoc. of  
 Classroom Teachers  
 Okla. Education Assoc.  
 Secondary Activity  
 Association  
 Mid-Del Assoc. of  
 Classroom Teachers  
 OKC Federation of  
 Teachers  
 Okla. Dept. of  
 Corrections

Okla. St. Dept. of  
 Education  
 Okla. St. Election Bd.  
 Higher Education  
 Alumni Council  
 Okla. St. Senate  
 Okla. House of  
 Representatives  
 Board of Private  
 Vocational Schools  
 Okla. St. Regents for  
 Higher Education  
 Bd. of Regents of  
 Oklahoma Colleges  
 Okla. Student Loan  
 Authority  
 OCAST  
 Okla. School of  
 Science and Math  
 Veteran Affairs  
 Teachers' Retirement  
 System  
 Dept. of Hum. Serv.  
 Dept. of Vocational  
 and Tech. Educ.  
 Vo-Tech Skills Centers  
     Stillwater  
     Boley  
     Ft. Supply  
     Granite  
     Helena  
     Hominy  
     Lexington  
     Oklahoma City  
     Lane  
     Hodgen  
     Stringtown  
     Taft  
     Tinker AFB  
     Tahlequah

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# Investment Section



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# INVESTMENT REPORT

## NO PLACE TO HIDE

Last year we wrote in this section of the annual report how investors should lower their expectations of market rates of return. We discussed the phenomenal returns which both the equity and bond markets experienced during the decade of the 1980s and the early years of the 1990s, and suggested history dictated this rally would subside.

The markets indeed subsided, particularly during the last two quarters of the fiscal year, which ended June 30, 1994. The quarter beginning January 1, 1994, was the start of the most devastating bond market since 1927, and the equity markets also experienced a difficult period with the Standard & Poors Composite Stock Price Index of 500 stocks losing 3.8% of its value in that quarter.

With the bond and stock markets both taking their hits, there really was no place to hide the last two quarters of the fiscal year. Overall, the stock market was up for the fiscal year, but only 1.38%, and the bond market was down for the same period -0.82%.

With this bad investment news, it is hard to find much encouragement. However, on a relative basis, the Oklahoma Teachers' Retirement System did quite well, producing performance which is among the strongest in the United States when compared to other statewide public pension funds.

Why are the markets in such a bearish mood? Several major economic indicators seem to make the markets obsessed with the specter of inflation. Despite four rate hikes by the Federal Reserve Board in the last six months of this fiscal year and reports indicating little evidence of upward price pressure in the economy, most investors remain nervous about inflation. The markets seem to be concerned about potential labor shortages, as consumer demand outpaces productive capacity. The capacity utilization rate, the proportion of output of current operations to output at full capacity, has reached 84% and appears headed to historic highs. Combine this with a strong unemployment of 6%, a full percentage point below the unemployment figure at the end of 1993, and historically these factors produce a propensity for inflation. Therefore, it is anticipated the Federal Reserve Board of Governors will continue their policy to tighten in an effort to keep inflation at bay.

Since 1928, U.S. common stocks have generated a nominal rate of return of 10%. Considering inflation has averaged approximately 4% over this period, the real rate of return on common stocks has been about 6%. Fixed income, which typically consists of government and corporate bonds, has averaged a real rate of return of 2% over the same period. Real rates of return show how an investment portfolio has fared after the inflation factor has been taken into consideration.

No one knows for certain what the markets will do in the future, so the investment community often refers to these historical rates of return to develop assumptions for performance in the various financial markets. In the decade of the '80s and through 1993, far superior performance was generated when compared to the longer-term historical results. During this period, common stocks generated double-digit real rates of return at a time when inflation grew at a 5.5% rate. Bonds also performed remarkably well over the past ten years, earning real rates of return comparable to the historical returns of common stocks on both a nominal and real basis.

Can we expect the performance of the past decade to continue? Obviously not, since the returns for the last two quarters of the fiscal year were either flat or negative for both the S&P 500 and the Lehman Brothers Government/Corporate Bond Index. History has taught us that the markets are cyclical in nature, with peaks and valleys. The System's investment policy states that the

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objectives for the fund will be long term, implying exposure to common stocks and bonds through varying market cycles.

## **INVESTMENT COMMITTEE**

Early in 1988, the Board of Trustees of the Oklahoma Teachers' Retirement System established an Investment Committee composed of five members appointed by the Chairman. This committee was organized with the intent of making recommendations to the full Board relating to investment matters. These matters include investment policy, guidelines, objectives, asset allocation, and the monitoring and evaluation of external and internal investment performance.

## **INVESTMENT POLICY**

In general, the System's investment policy states that the Board of Trustees will operate within standard investment practices of the prudent person. In part, this statement affirms the Board will "...exercise the judgment and care in the circumstances then prevailing which men of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable safety of their capital."

The policy statement also requires the Board to diversify the investments of the funds, and act solely in the interest of the plan participants.

## **INVESTMENT OBJECTIVES AND GOALS**

The Board has established benchmarks for each of the asset classes, and determined performance criteria which are to be met over a market cycle (normally 3-5 years). These objectives are:

- \* Long-Term Real Return: Real return is return in excess of inflation as measured by the Consumer Price Index. The total fund is expected to generate real returns of 3%, while the common stock and bond portfolios are expected to generate real returns of 5% and 1.5% respectively, net of any fees.
- \* Performance Benchmarks: The individual asset classes are expected to outperform their benchmarks, which are the Lehman Brothers Aggregate Bond Index for fixed income, the Standard & Poors 500 for equities, and the 90-day United States Treasury Bill index for cash equivalents. The total fund is expected to outperform a composite of these benchmarks.
- \* Expected Performance: The fund is expected to generate returns over a market cycle that places it in the top quartile when ranked against comparable funds.

## **PORTFOLIO DIVERSIFICATION**

The Board of Trustees reviewed the allocation of assets during the past fiscal year. During the asset allocation process, the Board continued to give attention to portfolio diversification. Choosing investment styles that are not highly correlated can reduce volatility. Upon completion of the review, the Board chose to increase the exposure to the equity asset class, allocating 60% of the fund's assets

to equities and 40% to fixed-income securities. The previous allocation to equities was 50% for each of the two asset classes. The Board entered into an international investment strategy. They set the international investment allocation at 10% of the portfolio, with 5% in international equities and 5% in international fixed income.

The Retirement System's assets are diversified by asset class and investment style, utilizing specialty investment managers for the separate asset components. The Board has implemented a balanced (both equity and fixed income asset classes in the same portfolio) approach for one of the international portfolios.

Growth, value, small capitalization, core and convertible securities investment styles comprise the equity portion of the fund. The fixed income portion of the fund employs long- and intermediate-term strategies.

The managers are given discretion to determine the levels of the cash positions to be held in their respective portfolios as an alternative to securities. The Retirement System staff is responsible for managing these cash positions.

Eleven external investment managers (five equity managers, four fixed income managers, one convertibles manager and one international manager) currently manage the OTRS equity and fixed income portfolios. An international investment manager was awarded a five-year contract in December 1993. The current domestic managers were contracted January 1, 1990, with five-year agreements.

The following is a list of external investment portfolio managers as June 30, 1994:

	<b><u>Manager</u></b>	<b>Market Value (millions)</b>
1.	The Chicago Corporation - Equity, Growth	\$233
2.	Eagle Asset Management, Inc. (St. Pete) Equity, Growth	\$246
3.	Hotchkis & Wiley (L.A.) Equity, Value	\$351
4.	Mitchell Hutchins Asset Management (N.Y.) Equity, Small	\$120
5.	Tom Johnson Investment Management (Okla. City) Equity, Core	\$349
6.	TCW Asset Management (L.A.) Convertibles	\$117
7.	Liberty National Bank & Trust (Okla. City) Fixed, Intermediate	\$141
8.	Neuberger & Berman Pension Mgmt. (N.Y.) Fixed, Intermediate	\$284
9.	Mellon Bond Associates (Philadelphia) Passive Fixed, Aggregate	\$526
10.	Investment Advisers Inc. (Minneapolis) Active Fixed, Aggregate	\$326
11.	Brinson Partners, Inc. (Chicago) International Balanced	\$131

Total investment-related expenses for 1994 and 1993, including investment managers, custodian and investment consultant, were \$4,771,902 and \$4,892,509 respectively. The total equity shares traded during 1994 were 24,641,968 at a cost of \$1,210,780 or \$0.049 per share. For fiscal year 1993, 23,210,578 equity shares were traded at a cost of \$1,177,088 or \$0.05 per share.

During fiscal year 1994, the dollar amount of equity purchases was \$600,053,896 with equity sales of \$496,966,190 for a total of \$1,097,020,086. For the bond portfolio, securities purchased totaled \$1,705,472,863, with sales of \$1,614,180,490 for a total of \$3,319,653,353.

## INVESTMENT PERFORMANCE

External investment managers were restructured to provide diversification of the fund. This has worked well since the external managers were hired in January 1990. As a general rule, the various investment styles have performed as anticipated. The asset allocation and portfolio diversification allowed the System to weather a very volatile year in the fixed income and equity markets.

During the past fiscal year, the Standard & Poors Composite Stock Price Index of 500 stocks as well as the Lehman Brothers Government/Corporate Bond Index encountered considerable volatility.

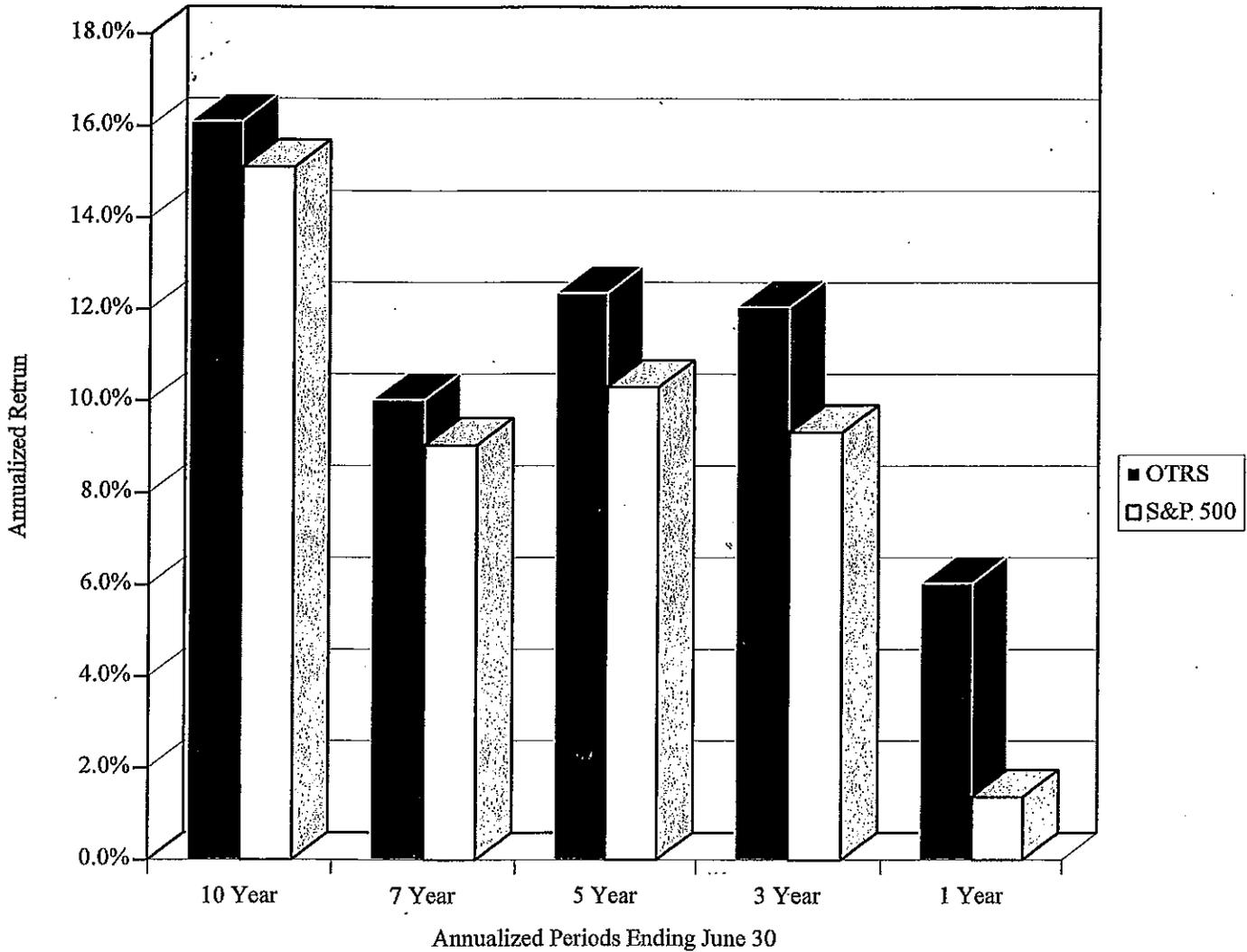
The following are the fiscal quarterly rates of return for the System's equity (common stock) and fixed income (bond) portfolios as well as the benchmarks to which they are compared:

Portfolio	QTR I	QTR II	QTR III	QTR IV	TOTAL
OTRS Fixed Income Portfolio	3.0%	0.1%	(2.4%)	(0.8%)	(0.3%)
Lehman Bros. Gov't/Corp Index	3.3%	(0.3%)	(3.1%)	(1.2%)	(1.3%)
OTRS Equity Portfolio	4.1%	4.7%	(3.0%)	0.3%	6.0%
S&P 500 Index	2.5%	2.4%	(3.8%)	0.4%	1.4%

For the fiscal year ended June 30, 1994, the OTRS equity portfolio returned 6.0% while the S&P returned 1.4%. The OTRS fixed income portfolio returned a negative 0.3% as compared to the Lehman Brothers Government/Corporate Index of negative 1.3%. The return for the total combined portfolio was 2.4% for the fiscal year.

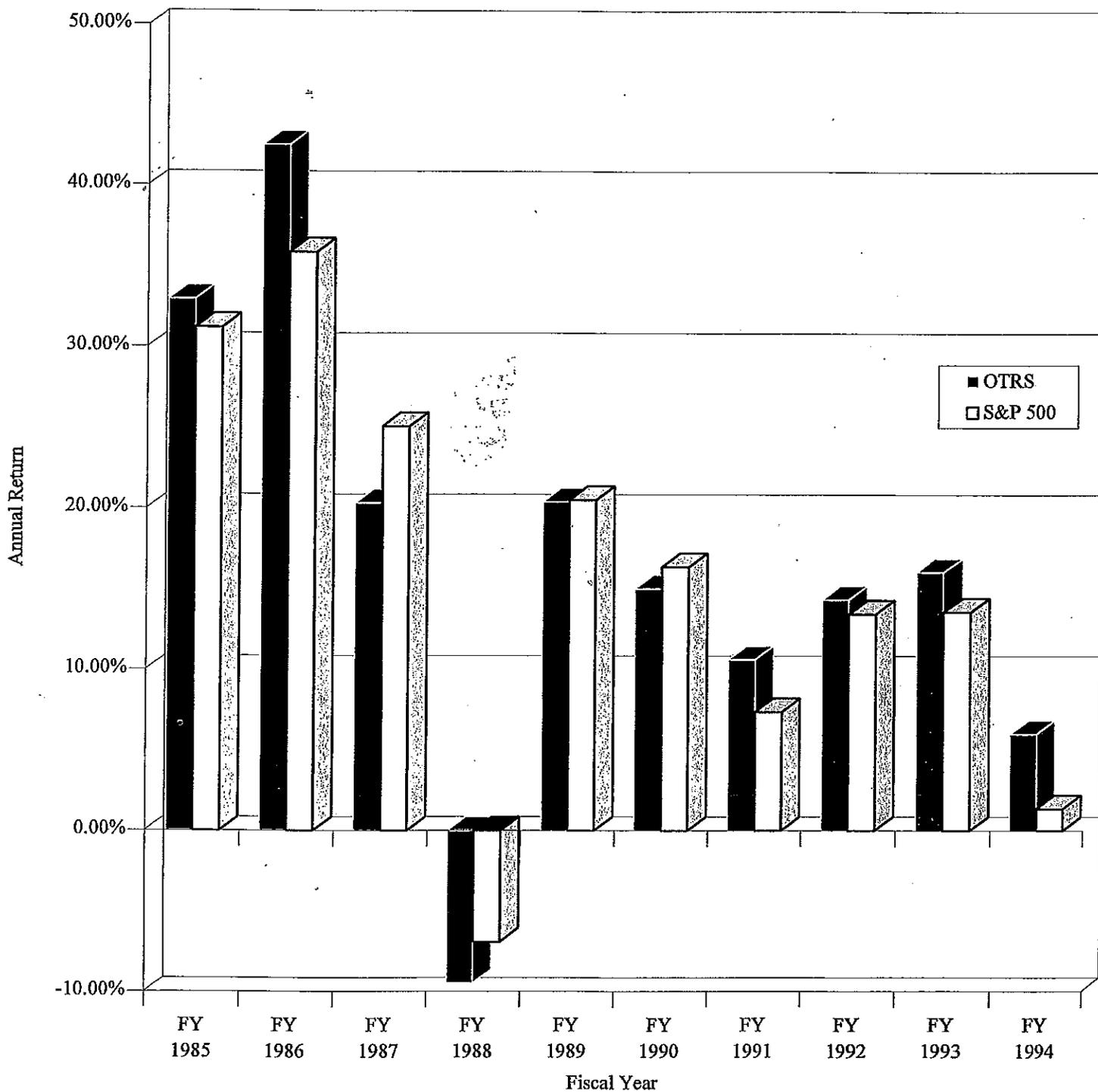
## ANNUALIZED EQUITY RETURN COMPARISON

S&P 500 vs OTRS Equity Portfolio



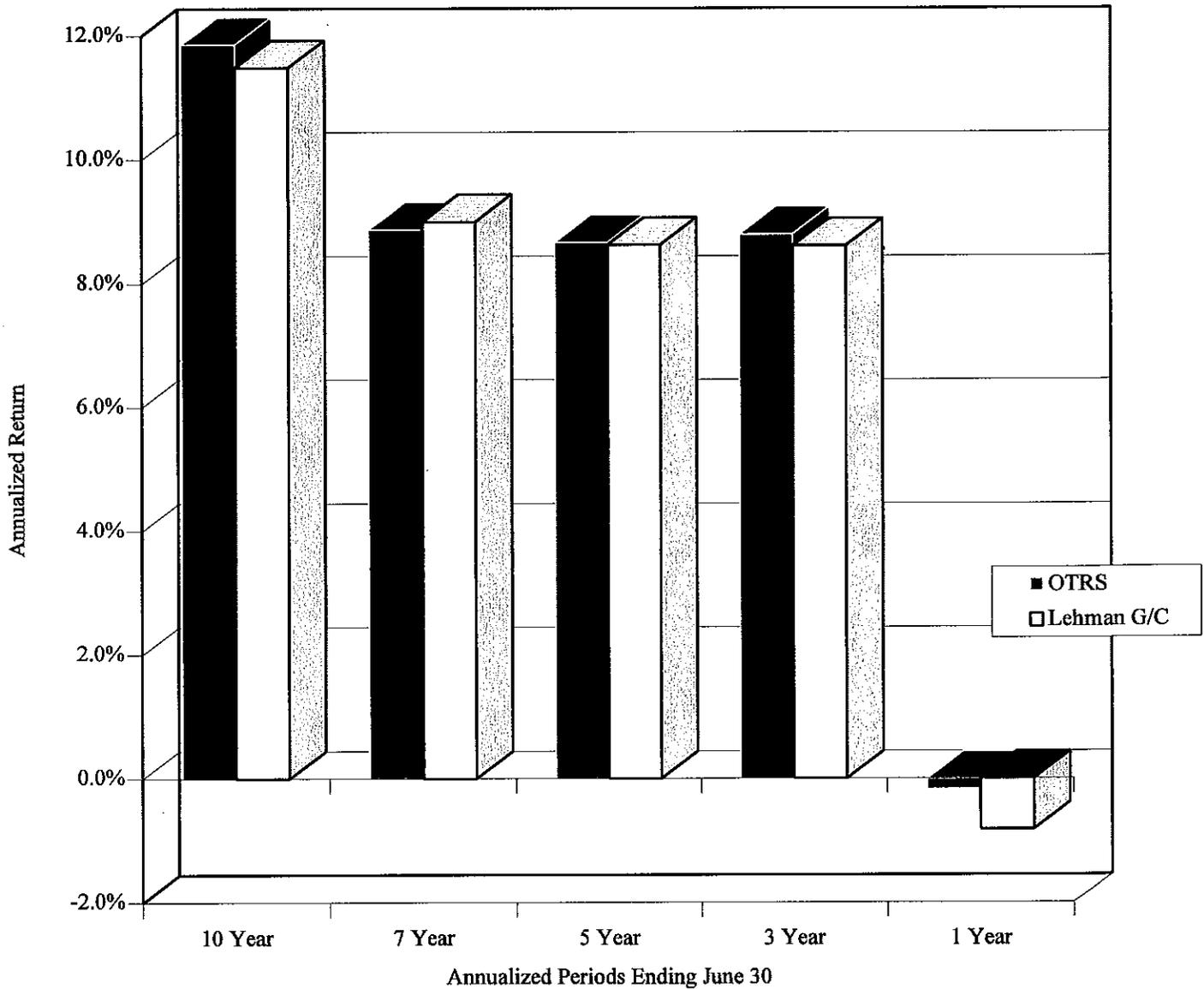
## TEN YEAR ANNUAL RETURN COMPARISON

Standard & Poors 500 Index vs. OTRS Equity Portfolio



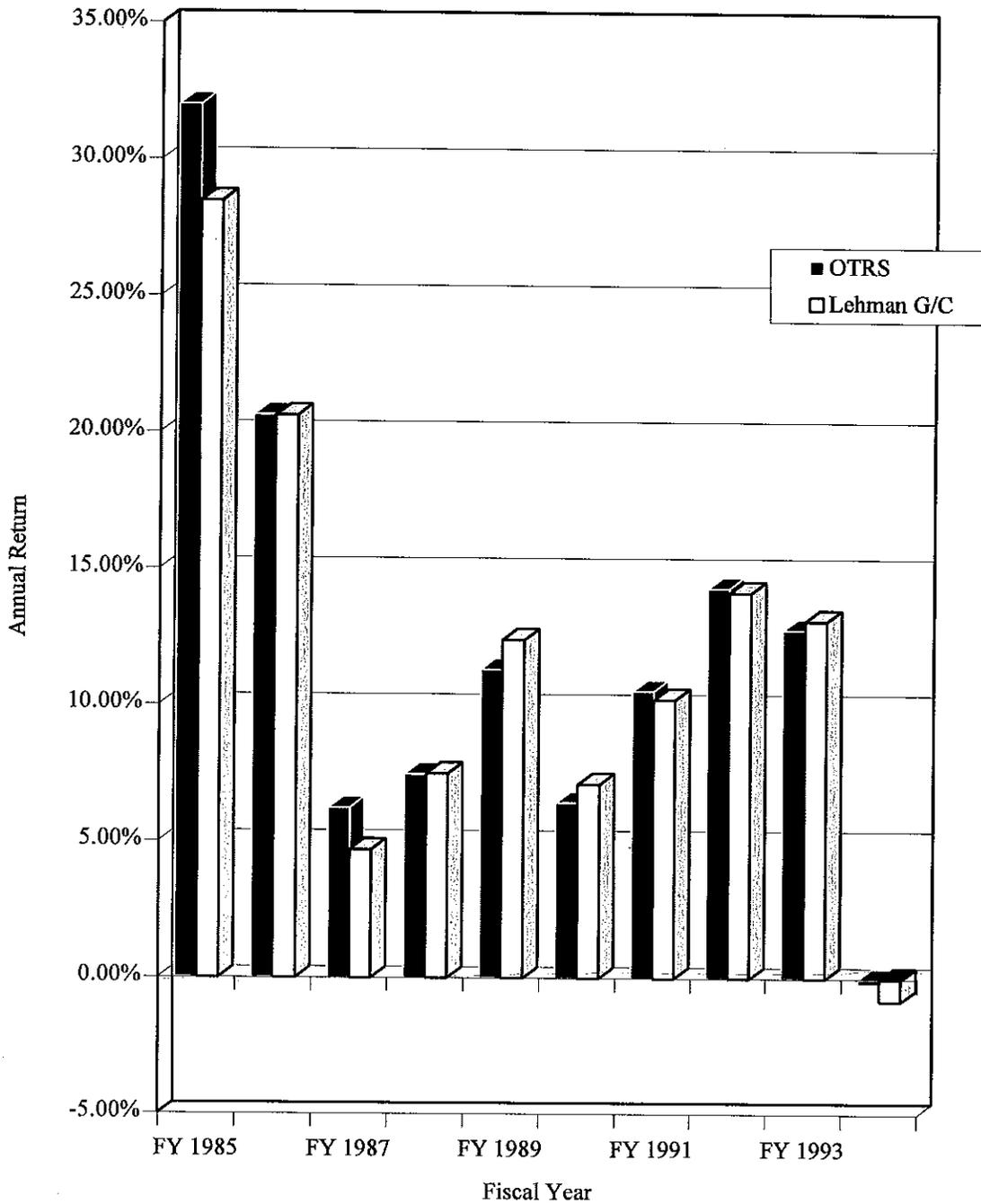
## ANNUALIZED FIXED INCOME RETURN COMPARISON

Lehman Brothers Government Corporate Index vs. OTRS Fixed Income Portfolio



## TEN YEAR ANNUAL RETURN COMPARISON

Lehman Brothers Government/Corporate Index vs. OTRS Fixed Income Portfolio



## ASSET ALLOCATION

Comparison of Fiscal Years Ending June 30, 1994 and 1993

	1994		1993	
	Book Value	Market Value	Book Value	Market Value
<b>Short-term Investments:</b>				
Commercial Paper	190,603,733	190,604,000	146,949,448	146,949,000
U.S. Government	19,316,097	19,316,000	29,072,826	29,073,000
Money Market Account	1,965,536	1,965,000	97,301,016	97,301,000
<b>Total Short-term Investments</b>	<b>211,885,366</b>	<b>211,885,000</b>	<b>273,323,290</b>	<b>273,323,000</b>
<b>Long-term Investments:</b>				
<b>Fixed Income:</b>				
U.S. Government	598,066,078	585,626,000	602,055,678	648,333,000
U.S. Government Agencies	333,495,820	331,373,000	264,483,546	288,094,000
Corporate	311,295,515	305,558,000	289,007,626	304,607,000
International	78,207,614	74,703,000	0	0
<b>Total Fixed Income</b>	<b>1,321,065,027</b>	<b>1,297,260,000</b>	<b>1,155,546,850</b>	<b>1,241,034,000</b>
<b>Equities:</b>				
Preferred Stock	8,457,304	10,519,000	1,140,715	1,078,000
Convertible Securities	91,750,906	92,168,000	83,445,626	93,624,000
Common Stock	1,057,198,545	1,177,910,000	960,955,366	1,142,746,000
International	58,091,414	54,632,000	0	0
<b>Total Equities</b>	<b>1,215,498,169</b>	<b>1,335,229,000</b>	<b>1,045,541,707</b>	<b>1,237,448,000</b>
Guaranteed Investment Contracts	28,640,682	28,641,000	71,082,311	71,082,000
<b>Total Long-term Investments</b>	<b>2,565,203,878</b>	<b>2,661,130,000</b>	<b>2,272,170,868</b>	<b>2,549,564,000</b>
<b>Total Investments</b>	<b>2,777,089,244</b>	<b>2,873,015,000</b>	<b>2,545,494,158</b>	<b>2,822,887,000</b>

## ASSET ALLOCATION FOR PERIODS ENDING JUNE 30

