Comprehensive Annual Financial Report

for the

Teachers' Retirement System of Oklahoma — a Component Unit of the State of Oklahoma

For the Fiscal Year Ended June 30, 1995

Prepared by the Retirement System Staff

2801 North Lincoln Boulevard
Oklahoma City, Oklahoma

P.O. Box 53524
Oklahoma City, OK 73152

(405) 521-2387

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The 1995 Annual Report of the Teachers' Retirement System of Oklahoma is prepared in accordance with Title 70, O.S. Supp. 1989, Section 17-106.1. Three-thousand, five-hundred (3,500) copies have been printed by the Department of Central Services, Central Printing Division, at a cost of $9,807.00. Copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries

FRANK KEATING
GOVERNOR

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 Comprehensive Annual Financial Report for the Teachers' Retirement System, a component unit of the State of Oklahoma, for the year ended June 30, 1995.

Established by legislation, the System began operation July 1, 1943, and concluded its fifty-second 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, 1995, the System had 627 participating employers, 79,044 active members, 9,115 inactive members and 29,007 retired members and beneficiaries receiving monthly benefits.

The 1995 Comprehensive Annual 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 is accurate in all material respects and is 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.

ECONOMIC CONDITION AND OUTLOOK

The year ending June 30, 1995, experienced solid expansion for capital markets beginning in the Fourth Quarter of 1994. Declining interest rates and corporate earnings growth fueled a remarkable recovery in both stocks and bonds during the six-month period from January to June 1995. The near-term trend of growth for the U.S. economy is expected to be in the area of 2-3%, with inflation running about 3.0%.

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 ended June 30, 1995, the System received 8.0% 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 8.0%. During Fiscal Year 1995, the State's contribution represented 6.0% of employees' pay and local employers contributed 2%. The combined State and employer contribution rate will gradually increase from 8.0% to 18% by the year 2005. 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 was 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 allowed 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 allowed those members to receive the same benefit calculation provided to members who had originally elected to contribute on salaries above $25,000.

During the 1994 Legislative session, several bills affecting the Teachers' Retirement System became law. Senate Bill 767 provided 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 spouse dies before the member, the member's reduced retirement benefit is increased to the level 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.

Senate Bill 527 was enacted during the 1995 Legislative session. This measure reduced the employer contribution schedule contained in SB 568 by .5% per year until the 18% combined state and local district employer contribution is reached. This had the effect of reducing future employer contributions to the System and extending the amortization of the System's Unfunded Accrued Actuarial Liabilities (UAAL) by one year. In addition, the new law modified the contributions for current employees of higher education institutions for Fiscal Years 1996 and 1997. Retirement benefits for these members will be affected by the reduced contribution paid during the next two years.

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. In addition, the Board continued implementation of an investment strategy for 1995 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. In 1995, the Board authorized one fixed income manager to invest a portion of the total portfolio in global fixed income securities. A new international equity manager is expected to be employed in early 1996 to complete the Board's target of 10% of the total fund invested in international securities.

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, employer contributions from local schools and the State of Oklahoma, and investment income. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Active member contributions for FY 1995 were $152.3 million, which represented approximately 6.5% of covered payroll. This compares to $147.9 million for the year ending June 30, 1994. Total salaries for active members were $2.336 billion.

Contributions from employers, the State of Oklahoma, and federal sources for FY 1995 were $161.3 million, compared to $199.5 million for 1994. Employee contributions increased $4.4 million, but employer contributions were less than 1994 due to a $40 million decrease in revenue from the tax on natural gas. TRS receives 56% of the natural gas tax collected by the State of Oklahoma and this represents the employer contributions made by the State. During FY 1995, state and local employers did not meet the statutory funding requirements established by passage of Senate Bill 568. This shortfall was balanced by revenues from the tax on natural gas that had exceeded expectations in previous years. The funding schedule contained in Senate Bill 568 provides for adjustments in employer contributions from year to year when state revenues do not meet anticipated levels.

The results of the actuarial valuation conducted by the System's actuary as of June 30, 1995, are included in the Actuarial Section. The System's relative funded position for the year ending June 30, 1995 decreased from 1994 due to lower employer contributions and new actuarial assumptions adopted by the Board in May 1995. Altogether, unfunded liabilities increased $571.7 million. The actuarial yield on assets at 11.2% exceeded the 8% actuarial assumed rate of return. The System's actuarial assets grew by $172.7 million. The actuary's report continues to stress 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 38.4% of actuarial accrued liabilities (AAL). This is a slight decrease from the 1994 figure of 40.0%. 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 39.1% is down 3.3%, compared to 42.4% one year ago. 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

Expenses 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, 1995, the System paid $39.4 million more in benefits than the preceding year. Administrative expenses increased by $55,000. The increase in benefits is attributed to a net increase in the number of retired members receiving retirement and health insurance benefits.

INVESTMENTS

Investment income and realized gains on investments of $237.9 million during FY 1995 were positive contributors to the fund's financial status. Investments totaled $3.2 billion at market value on June 30, 1995. The System's investment portfolio mix at market value was 42.0% fixed income, 52.7% equities and 5.3% 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, foreign currency exchange contracts, and bank deposits collateralized by U.S. Government securities.

The System's time-weighted rate of return for the year ended June 30, 1995, was 15.1%. This was up significantly from the 1994 return of 2.4%. The difference is attributed to market conditions reacting to lower interest rates and increasing stock prices between January and June of 1995. Annualized three-year and five-year total returns were 10.2% and 10.8%, 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 1995 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.

AWARDS

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 comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 1994. 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 comprehensive annual financial report, whose contents conform to GFOA program standards. Such CAFRs 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.

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

Tommy C. Beavers
Executive Secretary

November 1, 1995

FRANK KEATING
GOVERNOR

STATE OF OKLAHOMA

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

FROM THE CHAIRMAN OF THE BOARD OF TRUSTEES . . .

To the Members of the Teachers' Retirement System:

Representing the diverse interests reflected in the Teachers' Retirement System of Oklahoma can be a sobering challenge for the members of the Board of Trustees. The interests of the active members, the retired members, the employers and the State of Oklahoma often seem at odds with no obviously easy means of reconciling the differences. It is even more sobering when it is understood that the trustees have control of neither the sources or funding nor of determining the benefits.

Perhaps the common thread that runs through all of the interests is the desire for the System to be financially sound. Active members would agree that financial soundness in the System is desirable so that it can pay their benefits when they retire. The retired members would want a financially sound system so that they could expect a cost-of-living adjustment with some degree of regularity. Certainly the State of Oklahoma would want a financially sound system because of the political and constitutional implications of a seemingly intractable actuarial unfunded liability.

Part of the problem resides in the fact that there appears to be little agreement on the definition of financial soundness. The retired member looks at the annual report and sees that assets total nearly $3 billion and that the system is still taking in more than it is paying out. The actuary looks at the same report and determines that the system has an actuarial unfunded liability approaching $5 billion. It is, in fact, one of the most poorly funded systems in the country with assets representing only 38.4% of total liabilities.

It is not productive at this point to try to determine blame for the problem because there is plenty to go around. While it is true that the Oklahoma Legislature determines both the funding source and the level of benefits, it does not function in a vacuum. Increases in benefits have come almost totally as a result of intense lobbying by one or more interest groups. In most instances in the past, benefits were granted without the slightest idea about how they would be funded. Indeed, many of us can remember not many years ago when a common attitude among legislators was "grant the benefit and worry about the funding later." The result has been a growing unfunded actuarial liability that demands to be addressed.

From my perspective, one of the most positive signs that has appeared in a long time is the recognition by many leaders in the Oklahoma Legislature that there is, indeed, a problem. And perhaps more importantly, they are seriously seeking solutions. Thus, a significant step has been taken on the road to financial soundness.

It isn't entirely true that the Trustees have no control over sources of funding for the System. They do make decisions that control the managing of the investment portfolio and every effort is made to get the highest possible yield consistent with reasonable risk and thus to maximize the funds that come from that source.

Other decisions that are made by the Trustees are invariably based on the implications that these decisions would ultimately have on the financial soundness of the System.

The situation is certainly not hopeless. The System has been well managed and it operates efficiently. And when responsible State leaders combine their efforts to seek solutions, they usually are successful.

Sincerely,

C. Wayne Bland

Dr. C. Wayne Bland
Chairman, Board of Trustees
Teachers' Retirement System of Oklahoma

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Organization
of the
Teachers' Retirement System of Oklahoma

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The Teachers' Retirement System of Oklahoma
Board of Trustees

The Teachers' Retirement System of Oklahoma
Administration

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Tommy C. Beavers
Executive Secretary

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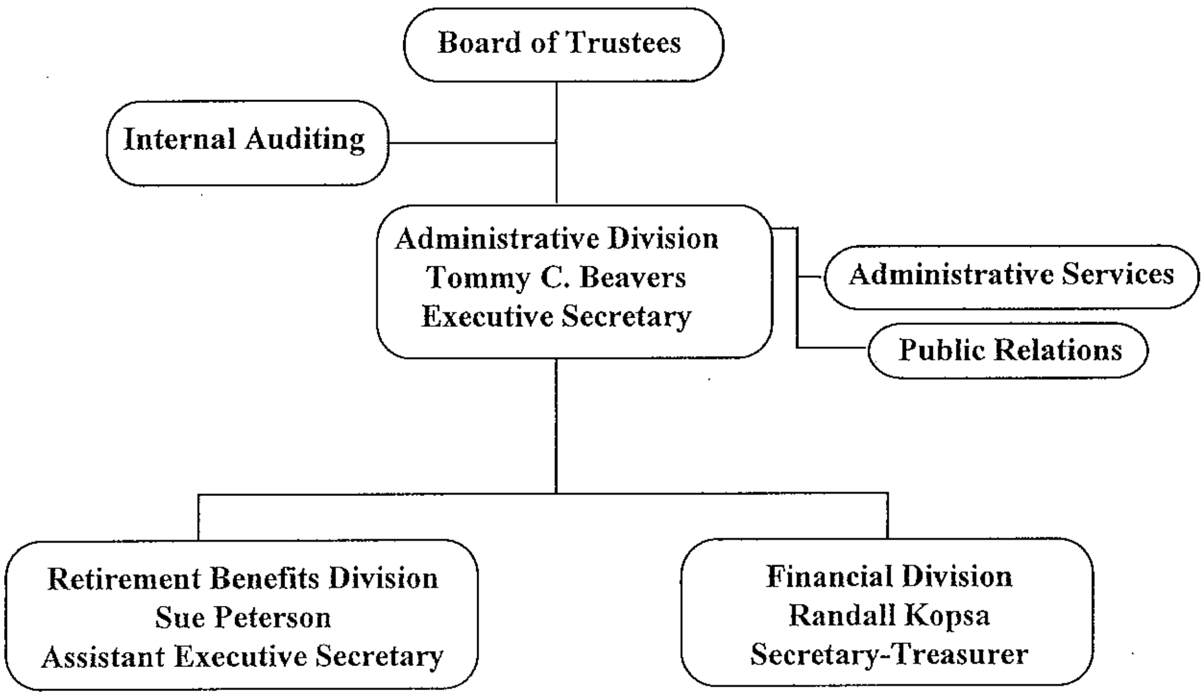
Sue Peterson
Assistant Executive Secretary

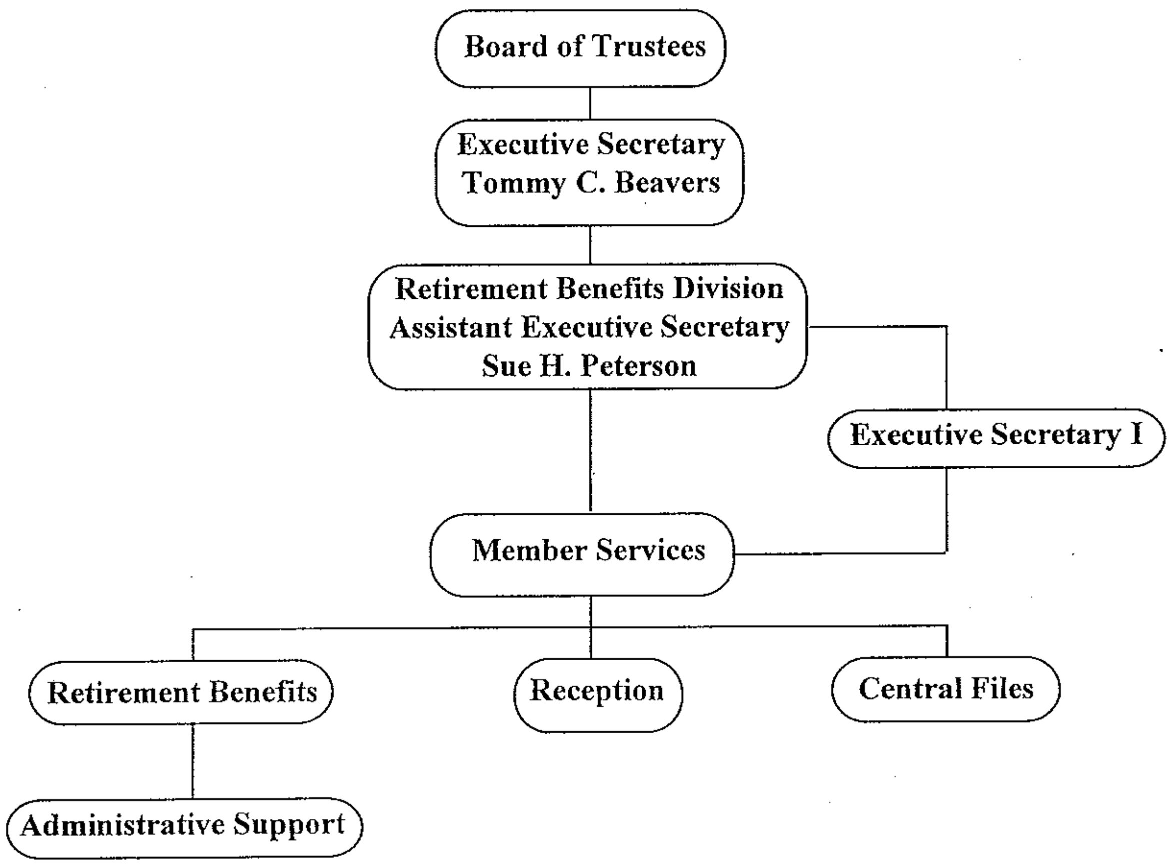
16

Randall L. Kopsa
Secretary-Treasurer

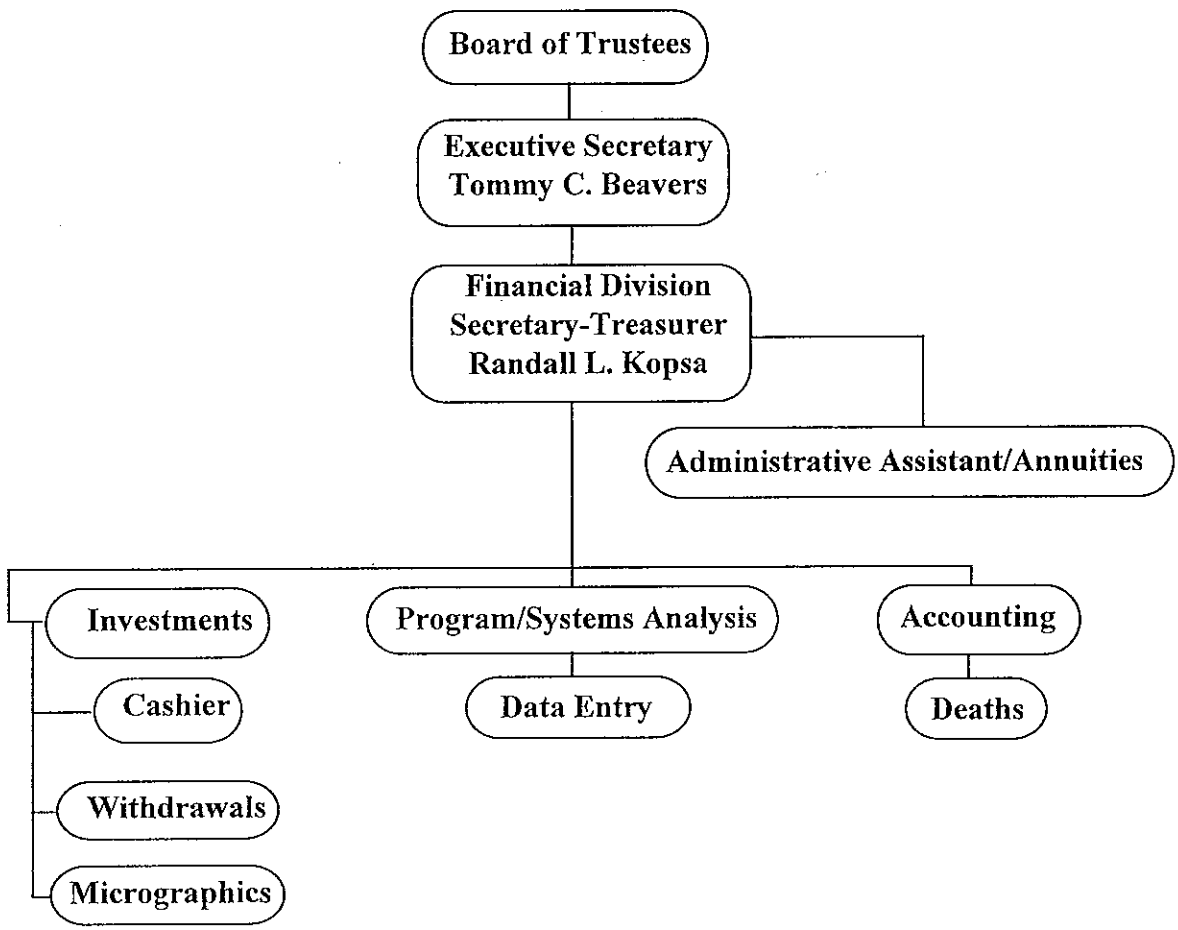
The Teachers' Retirement System of Oklahoma
Organizational Chart



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



The Teachers' Retirement System of Oklahoma
Financial Division
Organizational Chart



Certificate of Achievement Picture

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Professional Consultants and Advisors

Domestic Equity Managers

The Chicago Corporation, Large Capitalization Growth
Chicago, IL
Liberty Investment Management, Large Capitalization Growth
Tampa, FL
Hotchkis and Wiley, Large Capitalization Value
Los Angeles, CA
Mitchell Hutchins Asset Management, Small/Medium
Capitalization Value, New York, NY
Tom Johnson Investment Management, Large Capitalization Core
Oklahoma City, OK

Convertibles Manager

Capital Guardian Trust Company
Los Angeles, CA

Domestic Fixed Income Managers

Investment Advisers, Inc., Active Long Maturity
Minneapolis, MN
Liberty National Bank, Active Intermediate Maturity
Oklahoma City, OK
Mellon Bond Associates, Passive Intermediate Maturity
Philadelphia, PA
Neuberger & Berman Pension Management,
Active Intermediate Maturity, New York, NY

International Managers

Brinson Partners, International Balanced Management
Chicago, IL
Neuberger and Berman Pension Management,
International Fixed Income, New York, NY

Advisors and Consultants

The Bankers Trust Company, Master Custodian
New York, NY
Mercer Investment Consulting, Inc., Financial Consultant
Dallas, TX
Watson Wyatt Worldwide, Actuarial Consultant
Dallas, TX
KPMG Peat Marwick LLP, External Auditors
Oklahoma City, OK
Office of the Oklahoma Attorney General, Legal Counsel

Teachers' Retirement System of Oklahoma
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. As a participating member, you contribute 6% of your applicable earnings up to a maximum of $25,000 and 7% on compensation above $25,000. By 1997, all members will contribute 7% of total pay. The law also requires employers to contribute a percentage of applicable employee earnings. The total employer contribution rate for 1995-96 is 8 1/2%, and it will increase annually until it reaches 18% in the 2005-06 school year. 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

You must work at least 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. You may also receive credit for out-of-state service, military service, service with certain Oklahoma governmental entities, and employment in Oklahoma schools before your date of membership.

Retirement Annuity

A vested member can receive benefits after satisfying eligibility requirements. You are fully vested after 10 years of contributory Oklahoma membership service. You may retire at age 62 *with unreduced benefits* after completing 10 years of Oklahoma service. You also may retire *with unreduced benefits* when your age and the number of years of creditable service total 80. *For members who join TRS after June 30, 1992, the age and number of years of creditable service must total 90.* You may retire as early as age 55 with reduced benefits if you 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

To qualify for a TRS disability retirement benefit, you must be a vested member (have at least 10 years of creditable service in TRS), be actively employed in an Oklahoma public education system, submit a disability retirement application, and have that application approved by the TRS Medical Board and the TRS Board of Trustees. You also may qualify for TRS disability benefits if you are awarded disability benefits by the Social Security Administration.

Medical Benefits

If you are vested and retire or terminate your employment, you may elect to continue coverage in the insurance program your employer provides to active employees. TRS will pay the first $70 to $75 of monthly premiums for each participating retiree. The actual amount paid by TRS is determined by the member's total service and average salary at retirement. Dependent and dental coverage is available if you are enrolled in the State and Education Employees Group Health and Dental Insurance Plan. If you are not enrolled in the state plan, coverage is subject to the provisions of the plan in which you are enrolled.

If you are a non-vested member, you have certain rights under federal law to continue health insurance coverage after your employment ends. You should request information about continued coverage from your school's payroll office or TRS before termination.

Survivor Benefits

Your designated beneficiary or estate is entitled to survivor benefits if you are a TRS member when you die. The amount of those benefits depends upon when you joined TRS and whether you are an active in-service, inactive, or a retired member when you die. "Active, in-service" is defined in the TRS Rules, but generally means a member currently employed by an Oklahoma public education institution.

If you are 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 you have 10 or more years of service, and have reached age 55, or your age and service total 80, your 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 you are retired when you die, your beneficiary is entitled to a $4,000 death benefit, plus the survivor benefits provided by your chosen retirement plan. Certain retirement plan options provide the surviving spouse with a continuing monthly retirement benefit.

Withdrawal of Contributions

If you terminate employment in Oklahoma's public schools, you may request a refund of your contributions. You 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 you or on your behalf by your employer, plus any applicable portion of interest earnings. When you accept a refund, you forfeit all TRS service credit.

Withdrawing your contributions cancels your TRS membership. If you return to employment, you may redeposit withdrawn accounts after you complete 12 months of contributions to TRS. If you redeposit the entire amount of the contributions that you withdrew, your initial membership date will be reinstated. If you rejoin TRS but do not redeposit your withdrawn contributions, your official date of membership will be the date the first contributions are made under your 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.)

Tax-Sheltered Annuity Plan

The System administers a tax-sheltered annuity program qualified under section 403(b) of the Internal Revenue Code. As a TRS member, you may deposit funds into this plan if your local Board of Education or other governing board adopts a resolution making the plan available to its employees and you sign an amended contract with your 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. You are entitled to counseling from the TRS staff concerning any question you have about your retirement account. *TRS will not be held accountable for information that is contrary to statutes or administrative rules, regardless of who provides that information.*

For details concerning how statutes and administrative rules may affect a member's retirement account, contact:

Teachers' Retirement System of Oklahoma
P.O. Box 53524
2801 N. Lincoln Blvd.
Oklahoma City, OK 73152

(405) 521-2387

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

Financial Section

Teachers' Retirement System of Oklahoma

Financial Statements

June 30, 1995 and 1994

(With Independent Auditors' Report Thereon)

KPMG Peat Marwick LLP

700 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, 1995 and 1994, 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* 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.

As discussed in note 2, the System's actuary has determined that the funded benefits of the System have deteriorated which has increased the actuarial accrued liabilities. The funding of the actuarial accrued liabilities is predicated on a funding schedule mandated by Oklahoma Statutes and if any changes further reduce or delay the implementation of the funding schedule the funding period will increase.

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, 1995 and 1994, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards* we have also issued a report dated September 19, 1995, on our consideration of the System's internal control structure and a report dated September 19, 1995, on its compliance with laws and regulations.

The historical information included on page 16 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.

KPMG Peat Marwick LLP

Oklahoma City, Oklahoma
September 19, 1995

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

Balance Sheets

June 30, 1995 and 1994

Assets	1995	1994
Cash	$ 3,168,861	1,975,432
Short-term investments	167,701,860	217,885,366
Long-term investments:		
Fixed income (amortized cost):		
U.S. government	620,841,562	598,066,078
U.S. government agency securities	258,318,923	333,495,820
Corporate	323,632,128	376,550,296
International	142,408,280	72,207,614
Guaranteed investment contracts	12,364,258	28,640,682
Equities (cost):		
Domestic	1,273,180,145	1,092,151,974
International	66,761,623	58,091,414
Total long-term investments	2,697,506,919	2,559,203,878
Accrued interest and dividends receivable	27,968,740	26,578,569
Receivable from State of Oklahoma	9,716,688	11,541,936
Due from brokers for securities sold	76,694,417	18,116,995
Land, furniture and fixtures	1,087,691	1,039,650
Total assets	2,983,845,176	2,836,341,826
Liabilities		
Benefits in process of payment	15,387,413	15,185,105
Due to brokers for securities purchased	48,678,112	37,220,948
Compensated absences	121,372	115,000
Total liabilities	64,186,897	52,521,053
Net assets available for benefits	$ 2,919,658,279	2,783,820,773
Fund Balance		
Reserved:		
Teachers' deposit fund (tax-sheltered annuities)	214,436,961	195,401,301
Expense fund	11,083,672	10,813,833
Furniture and fixtures fund	900,075	852,034
Total reserved fund balance	226,420,708	207,067,168
Net assets available for retirement benefits:		
Actuarial present value of projected benefits payable to current retirees and beneficiaries	3,409,267,600	3,187,539,900
Actuarial present value of projected benefits payable to terminated vested employees	96,675,781	102,540,989
Actuarial present value of credited projected benefits for active employees:		
Accumulated employee contributions	1,628,396,590	1,467,903,110
Employer-financed portion	1,759,350,410	1,318,245,890
Total actuarial present value of credited projected benefits	6,893,690,381	6,076,229,889
Unfunded actuarial present value of credited projected benefits	(4,200,452,810)	(3,499,476,284)
Net assets available for benefits	2,693,237,571	2,576,753,605
Total fund balance	$ 2,919,658,279	2,783,820,773

See accompanying notes to financial statements.

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

Statements of Revenues, Expenses and Changes in Fund Balance

Years ended June 30, 1995 and 1994

	1995	1994
Revenues:		
Contributions:		
Members	$ 152,294,253	147,887,923
Employer	43,689,553	41,762,035
State of Oklahoma and various federal sources	117,606,990	157,752,704
Total contributions	313,590,796	347,402,662
Investment income:		
Interest	115,117,694	96,627,054
Dividends	40,229,943	34,594,651
Net gain on investments	82,585,118	120,742,821
Less investment expenses	(6,143,038)	(5,071,902)
Net investment income	231,789,717	246,892,624
Other revenue	115,290	275,097
Total revenues	545,495,803	594,570,383
Expenses:		
Retirement, death, survivor, and health benefits	377,520,148	348,889,153
Refund of member contributions and annuity payments	29,946,427	19,208,770
Administrative expenses	2,191,722	2,136,808
Total expenses	409,658,297	370,234,731
Net increase in fund balance	135,837,506	224,335,652
Fund balance:		
Beginning of year	2,783,820,773	2,559,485,121
End of year	$ 2,919,658,279	2,783,820,773

See accompanying notes to financial statements.

(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:

	1995	1994
Retirees and beneficiaries currently receiving benefits	29,007	28,012
Terminated vested participants	2,532	2,774
Active participants	79,044	76,280
	110,583	107,066

In addition, there were 6,583 and 7,993 of nonvested inactive participants at June 30, 1995 and 1994, 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 $8,216,000 and $6,953,000 at June 30, 1995 and 1994, 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 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 assets of the Plan remain the property of the employer until paid or made available to participants, subject to claims of the System's general creditors.

- The contribution requirements of the System are an established rate determined by the Oklahoma Legislature and are not an actuarial calculation. See note 5 for discussion of contribution rate by employers and employees.

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 $21,000,000 and $19,000,000 in 1995 and 1994, respectively, and are included in retirement, death and survivor benefits.

(2) Funding Status

The System's actuary conducts an annual valuation 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. This valuation shows the funded position of the System has deteriorated from the funding level at June 30, 1994. This is mainly due to the impact of new actuarial assumptions adopted in May 1995, and that employer contributions were not sufficient to pay normal cost and pay interest on the unfunded actuarial accrued liabilities. Other less significant actuarial gains and losses occurred due to plan changes and variations in actual versus expected growth in membership and investment earnings. Actuarial accrued liabilities increased $744.4 million and the actuarial value of assets increased $172.7 million. The System's unfunded actuarial accrued liabilities increased $571.7 million. It should be noted that unfunded liabilities are expected to increase until the year 2004, due to the negative amortization created by the current funding schedule that increases employer contribution rates by 1% per year until 2005 when the combined employer contribution rate from the state and local school districts reaches 18% of active members' pay. (See note 5.)

The System will experience difficulty in meeting long-term obligations at a point in time if not funded at a more appropriate level. Based on calculations using the Governmental Accounting Standards Board's Statement No. 5, the System's funding ratio is only 39.2%, while the average for teacher retirement systems is about 84%. The actuarial value of assets covers just 84.2% of the retirees liabilities and none of the liabilities for other members. The GASB funding ratio was 42% at June 30, 1994, while the retiree funding ratio was 84.6%. (See note 6.)

The financial condition of the System and its ability to meet future obligations is predicated on a funding schedule in state statutes which provides an increasing revenue stream based on a percentage of active members' pay. Local school districts and other employers are required to contribute any difference between the statutory rate and the State's contribution of dedicated revenue which is a portion of the severance tax on natural gas. If the funding schedule is maintained, the System will eventually be adequately funded. If legislative changes further reduce, delay, or roll back the funding schedule as did occur during 1995, or if unfunded benefit improvements are added to the plan, the funding period will increase.

(3) 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 and pending investment trades. 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.

(b) Budgetary Control

The System prepares and submits an annual budget of operating revenues and expenses on the cash basis for monitoring and reporting to the Office of State Finance. The System's budget process follows the budget cycle for State operations as outlined by the Office of State Finance.

The Executive Secretary may approve changes within the budget, but a change to the total budget must be handled according to the provision of Title 62 O.S. Sec. 41.12 of the Oklahoma Statutes.

(c) Investments

The System utilizes 11 investment counselors to perform security transactions. In addition, one bank's 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, international investments, and may loan securities to investment brokers.

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 for international investments.

(d) 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, 1995 and 1994, respectively, is as follows:

	Land	Furniture and Fixtures	Total
Balance at June 30, 1993	$ 187,616	836,419	1,024,035
Additions during 1994	–	15,615	15,615
Balance at June 30, 1994	187,616	852,034	1,039,650
Additions during 1995	–	48,041	48,041
Balance at June 30, 1995	$ 187,616	900,075	1,087,691

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, 1995, are approximately $130,000. The System's leases are one year renewable contracts. Rental expense for all operating leases amounted to approximately $130,000 for the years ended June 30, 1995 and 1994.

(e) 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 private letter ruling from the Internal Revenue Service.

(f) 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, 1995 and 1994, were approximately $121,000 and $115,000, respectively.

(g) Net Assets Available for Retirement Benefits

Net assets available to pay regular retirement benefits were approximately $2,693,000,000 and $2,577,000,000 at June 30, 1995 and 1994, 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 $226,000,000 and $207,000,000 at June 30, 1995 and 1994, 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.

(h) Plan Termination

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

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

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

(i) Reclassifications

Certain reclassifications have been made to prior years' financial statements to conform to their 1995 presentation.

(4) Deposits and Investments

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. The State Treasurer determines the percentage of collateral required.

Governmental Accounting Standards Board Statement No. 3 requires disclosure of certain information about the custodial credit 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 counterparty's trust department or agent in the System's name. Category 3 includes uninsured and unregistered securities for which the securities are held by the counterparty or by its trust department or agent, but not in the System's name.

Investments as of June 30, 1995 and 1994, are categorized as follows:

	1995		1994	
	Book Value	Market Value	Book Value	Market Value
Short-term investments:				
Commercial paper (category 1)	$ 136,307,711	136,307,000	190,603,733	190,604,000
U.S. government (category 1)	4,854,697	4,855,000	19,316,097	19,316,000
Money market account (not categorized):				
Domestic	4,078,844	4,079,000	1,965,536	1,965,000
International	22,460,608	22,461,000	6,000,000	6,000,000
Total short-term investments	167,701,860	167,702,000	217,885,366	217,885,000
Long-term investments (category 1):				
Fixed income:				
U.S. government	386,031,427	397,057,000	349,365,821	342,811,000
U.S. government agency securities	258,318,923	260,993,000	333,495,820	331,373,000
Corporate	242,168,388	248,252,000	277,994,693	273,867,000
Convertible debt securities	62,599,077	66,531,000	65,254,781	63,867,000
International	120,205,284	120,082,000	58,249,021	54,621,000
Equities:				
Preferred stock	4,403,358	6,365,000	8,457,304	10,519,000
Convertible preferred stock	75,942,621	78,470,000	26,496,125	28,301,000
Common stock	1,182,621,342	1,437,505,000	1,041,414,382	1,160,524,000
International	59,411,586	52,725,000	48,366,776	44,855,000
Total long-term investments (category 1)	2,391,702,006	2,667,980,000	2,209,094,723	2,310,738,000
Long-term investments (not categorized):				
Investments held by broker dealers under collateralized securities lending program:				
Fixed income:				
U.S. government	234,810,135	241,643,000	248,700,257	242,815,000
Corporate	18,864,663	20,205,000	33,300,822	31,691,000
International	22,202,996	21,898,000	13,958,593	14,082,000
Equities:				
Domestic	10,212,824	11,679,000	15,784,163	17,386,000
International	7,350,037	7,030,000	9,724,638	9,777,000
Total investments held by broker dealers under collateralized securities lending program	293,440,655	302,455,000	321,468,473	315,751,000
Guaranteed investment contracts	12,364,258	12,364,000	28,640,682	28,641,000
Total long-term investments (not categorized)	305,804,913	314,819,000	350,109,155	344,392,000
Total long-term investments	2,697,506,919	2,982,799,000	2,559,203,878	2,655,130,000
Total investments	$ 2,865,208,779	3,150,501,000	2,777,089,244	2,873,015,000

Included in short-term investments at June 30, 1995 and 1994, are $4,078,844 and $1,965,536, respectively, 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 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 exposed to market and credit risk for possible derivative investments held by respective money market accounts in which the System invests. The extent and dollar amounts involved in these accounts relating to derivatives is unknown to the System. However, the System feels these risks are reduced by investing in accounts which diversify the investments, and by investing with large, sound financial institutions.

The international money market accounts are also subject to changes in currency exchange rates. See discussion below relating to forward foreign currency exchange rates.

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 $302,455,000 and $315,751,000 at June 30, 1995 and 1994, and the collateral under the agreement had a market value of approximately $338,850,000 and $329,512,000 at June 30, 1995 and 1994. 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.

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 various forward foreign currency exchange contracts with a large, highly diversified financial institution to hedge possible declines in foreign currency exchange rates in which the System invests. Generally, as the currency exchange rate fluctuates, the underlying hedged investments will fluctuate in the opposite direction. The forward foreign currency contracts are included in the international fixed income investments on the balance sheets and are translated to the current currency exchange rates. The net foreign currency transaction gain on international activities amounted to approximately $2,400,000 and $1,200,000 in 1995 and 1994, respectively, 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 $3,700,000 and $5,100,000 at June 30, 1995 and 1994, respectively.

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 $15,600,000. 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 $2,200,000 in 1994, which is reflected in the statements of revenues, expenses and changes in fund balance, in net gain on investments.

The System has investments in mortgage-backed securities pools of approximately $227,000,000 and $273,000,000 at June 30, 1995 and 1994, respectively. These securities are backed by the full faith of the U.S. government and/or U.S. government agencies. The market risk of these investments is reduced by the securities pool having varying interest rates and maturity dates.

(5) 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.

Participating members are required to contribute 6.0% of their applicable earnings up to a maximum of $25,000 and may elect to contribute 8% in 1995 and 9% in 1994 on the earnings in excess of $25,000 limited to $40,000. In 1995 and 1994, employers are required to contribute 8% and 7.5%, respectively, of a member's earnings up to the maximum compensation level mentioned above. Contributions received by the System from the State of Oklahoma are used to offset required employer contributions. In 1995 and 1994, employers contributed 2% of member earnings while the State of Oklahoma contributed the remaining 6% and 5.5%, respectively. Oklahoma Statutes 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 $109,000,000 and $150,000,000 from the State of Oklahoma and approximately $8,000,000 from federal sources in 1995 and 1994. Member contributions were approximately $152,000,000 and $148,000,000 in 1995 and 1994, respectively, while employer contributions were approximately $44,000,000 in 1995 and $42,000,000 in 1994. The employer and employee contributions as a percentage of covered payroll were approximately 2% and 7%, respectively, during 1995 and 1994.

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 6. 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, 1995 and 1994, were approximately $434,729,000 and $386,000,000, 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, 1996 and 1995, respectively. Actuarially determined employer contributions for the years ended June 30, 1995 and 1994, were approximately 17.4% and 16.5% of covered payroll, respectively. Actual employer contributions made during 1995 and 1994 of approximately $161,297,000 and $199,500,000 were approximately 7.0% and 9.1% 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 providing any difference between 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:

	1995	1994
Unfunded actuarial accrued liability at the beginning of the year	$ 4,038,800,000	3,887,700,000
Impact of change in assumptions	358,100,000	–
Impact of change in actuarial asset valuation method	36,900,000	–
Expected increase based on required contribution from prior actuarial valuation	236,600,000	210,200,000
Loss (gain) on assets	(84,800,000)	37,500,000
Difference between actual and expected contributions	(3,000,000)	(50,600,000)
Experience loss (gain)	49,300,000	(113,400,000)
Impact of legislative changes	(21,400,000)	67,400,000
Unfunded actuarial accrued liability at the end of the year	$ 4,610,500,000	4,038,800,000

In their actuarial valuation as of June 30, 1995, the System's consulting actuaries have determined that the funding period to amortize the unfunded actuarial accrued liability is approximately 22.6 years.

(6) 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 PBO was determined as a part of the actuarial valuations as of June 30, 1995 and 1994. Significant actuarial assumptions used in the valuation were (a) the expected rate of return on investments, which was 8% per year compounded annually for 1995 and 1994; (b) salary rate increases based on merit and promotional components consistent with most recent experiences of the System, plus an inflation component of 4.5% and 5% for 1995 and 1994; (c) a payroll growth rate increase of 4% and 5% for 1995 and 1994; and (d) other various assumptions, such as mortality rates. The System, along with concurrence with its actuary, changed the assumptions used in performing the June 30, 1995, actuary valuation to the current experiences of the System. The change in the assumptions increased the June 30, 1995, unfunded PBO by approximately $449,000,000.

At June 30, 1995 and 1994, the unfunded pension benefit obligations, as determined by the System's consulting actuaries, are as follows:

	1995	1994
Pension benefit obligations:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 3,505,943,381	3,290,080,889
Active employees:		
Accumulated employee contributions	1,628,396,590	1,467,903,110
Employer-financed vested	1,668,635,480	1,258,700,110
Employer-financed nonvested	90,714,930	59,545,780
Total pension benefit obligation	6,893,690,381	6,076,229,889
Net assets available for retirement benefits (market value of net assets of $2,978,529,960 and $2,658,124,113 at June 30, 1995 and 1994, respectively)	2,693,237,571	2,576,753,605
Unfunded pension benefit obligation	$ 4,200,452,810	3,499,476,284

(7) Plan Amendments

Senate Bill 568 provided the following changes to the Plan:

- Employer contribution rates increased 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.

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%.

In 1995, the Oklahoma State legislature passed Senate Bill 527 which becomes effective July 1, 1995. The bill modified the provisions for members in higher education who were members prior to July 1, 1995. The salary caps for contribution payments of $25,000 up to an additional $40,000 remained in place for two additional years; however, were indexed to $27,500 and $44,000 for 1996 and to $30,000 and $48,000 for 1997. These members' contribution rate was also changed to 6% and 6.5% for 1996 and 1997, respectively. The benefit provisions were also modified so that benefits would only be paid up to the maximum contribution level for these years. Beginning July 1, 1997, these members will contribute 7% of total compensation consistent with those members who joined the System after July 1, 1995. In addition, the bill modified Senate Bill 568 employer's contribution rate schedule. The new employer rates are 50 basis points lower in each year until the rate reaches 18%. This bill has no effect on the June 30, 1995, unfunded pension benefit obligation.

(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.

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Supplementary Information

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

Required Supplementary Historical Trend Information (Unaudited)

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
1995	$ 152,294,253	$ 43,689,553	$ 117,606,990	9.0%	$ 231,789,717	$ 115,290	$ 545,495,803
1994	147,887,923	41,762,035	157,752,704	9.1%	246,892,624	275,097	594,570,383
1993	147,016,766	39,596,167	159,199,746	9.4%	243,037,507	–	588,850,186
1992	139,602,837	28,255,158	121,671,483	7.5%	240,490,995	21,598	530,042,071
1991	140,467,139	17,408,243	133,090,790	7.8%	156,698,023	9,342	447,673,537
1990	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

Expenses by Type:

	Benefits	Administration Expenses	Refunds and Annuity Payments	Other	Total
1995	$ 377,520,148	$ 2,191,722	$ 29,946,427	$ –	$ 409,658,297
1994	348,889,153	2,136,808	19,208,770	–	370,234,731
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	304,806,218	1,977,323	21,075,707	–	327,859,248
1990	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

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)
1995	$ 2,693,237,571	$ 6,893,690,381	39.1%	$ 4,200,452,810	$ 2,336,000,000	179.5%
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%

Administrative Expenses for the Respective Years:

	1995	1994
Salaries and related expenses	$ 1,335,286	1,338,037
General and miscellaneous	378,377	341,900
Professional services	241,988	232,059
State of Oklahoma interagency	191,806	191,038
Travel and related expenses	44,265	33,774
Total administrative expenses	$ 2,191,722	2,136,808

KPMG Peat Marwick LLP

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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 years ended June 30, 1995 and 1994, and have issued our report thereon dated September 19, 1995.

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 disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

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
September 19, 1995

KPMG Peat Marwick LLP

700 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 years ended June 30, 1995 and 1994, and have issued our report thereon dated September 19, 1995.

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.

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.

In planning and performing our audit of the general-purpose financial statements of the System for the year ended June 30, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be considered a material weakness. A material weakness is a reportable 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 above.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the System in a separate letter dated September 19, 1995.

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
September 19, 1995

Actuarial Section

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Worldwide

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October 25, 1995

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

Subject: Certification of the 1995 Actuarial Valuation

Dear Members of the Board:

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, 1995.

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 8.5% (effective July 1, 1995), and is scheduled to increase annually until reaching 18% as of July 1, 2005. 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 22.6 years, measured from June 30, 1995. Last year the funding period was 19.5 years, measured from June 30, 1994. The increase was principally due to the change in actuarial assumptions as described below. 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 $4.0 billion to $4.6 billion.

Benefit Provisions

The actuarial valuation reflects the benefit provisions as set forth in current statutes, including those adopted in the 1995 legislative session. SB 527 changed benefits and contributions for members of higher education during a two-year transition period from July 1, 1995 to June 30, 1997. This change had no material impact. However, SB 527 also decreased contribution rates scheduled for the next ten years (1995-96 through 2004-05) by 50 basis points each year. This increased the funding period by 0.6 years.

Assumptions and Methods

The actuarial assumptions and methods were reviewed by the actuaries last Spring and the Board adopted new actuarial assumptions and a new method for valuing assets, as recommended by the actuaries. These changes increased the UAAL by $358 million, and increased the funding period by 3.1 years. 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, 1995, 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

J. Christian Conradi, ASA, MAAA, EA
Actuary

W. Michael Carter

W. Michael Carter, FSA, MAAA, EA
Actuary

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

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 1993-94 year) 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 are assumed to already 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 Entry Age actuarial cost method is an "immediate gain" method (i.e., experience gains and losses are separately identified as part of the UAAL). However, they are amortized over the same period applied to all other components of the UAAL.

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 equal to the market value, adjusted for a five-year phase in of actual investment return in excess of expected investment return. The actual return is calculated net of investment and administrative expenses, and the expected investment return is equal to the assumed investment return rate multiplied by the prior year's market value of assets, adjusted for contributions, benefits paid, and refunds.

IV. Actuarial Assumptions

A. Economic Assumptions

1. Investment return: 8% per year, compounded annually, composed of an assumed 4.00% inflation rate and a 4.00% net real rate of return.

2. Salary increase rate: A merit/promotional component dependent on service, plus a 4% inflation component, plus a 0.50% productivity increase, as follows:

Years of Service (1)	Merit/ Promotional Component (2)	Total Salary Increase Rate (3)
0	3.25%	7.75%
1	2.50	7.00
2	1.75	6.25
3	1.50	6.00
4	1.25	5.75
5	1.25	5.75
6	1.25	5.50
7	1.00	5.50
8	1.00	5.50
9	1.00	5.50
10	1.00	5.50
11	0.75	5.25
12	0.75	5.25
13	0.75	5.25
14	0.50	5.00
15 or more	0.00	4.50

3. Payroll growth rate: In the amortization of the unfunded actuarial accrued liability, payroll is assumed to increase 4% 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 two years.

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, multiplied by 70%.

d. Disabled females - PBGC Table VIa for disabled females eligible for Social Security disability benefits, multiplied by 100%.

Sample rates are shown below:

	Expected Deaths per 100 Lives			
Age (1)	Healthy Males (2)	Healthy Females (3)	Disabled Males (4)	Disabled Females (5)
40	0.10	0.06	1.97	2.09
45	0.17	0.09	2.25	2.24
50	0.31	0.15	2.68	2.57
55	0.52	0.23	3.37	2.95
60	0.77	0.38	4.22	3.31
65	1.24	0.64	4.75	3.70
70	2.22	1.09	5.17	4.11
75	3.67	2.11	5.89	4.92
80	6.07	3.85	7.90	7.46

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 (1)	Male Members (2)	Female Members (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 1995 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)

	Years of Service				
Age	0	1	4	7	10 or more
(1)	(2)	(3)	(4)	(5)	(6)
25	32.08	24.86	9.71	7.37	4.31
30	31.36	22.22	9.66	6.57	3.73
35	32.65	22.40	9.16	6.02	3.19
40	37.06	23.76	8.38	5.67	2.70
45	41.23	25.21	7.63	5.59	2.28
50	44.09	26.56	7.40	5.91	1.90
55	45.29	27.97	8.26	6.82	1.51
60	46.65	29.61	10.68	8.45	1.20
65	47.58	31.54	14.84	10.80	1.16

Expected Terminations per 100 Lives (Female Members)

	Years of Service				
Age	0	1	4	7	10 or more
(1)	(2)	(3)	(4)	(5)	(6)
25	31.54	22.62	12.08	9.37	7.01
30	28.70	20.36	10.41	7.63	5.09
35	31.25	20.59	8.81	6.35	3.66
40	34.85	21.23	7.39	5.52	2.74
45	36.77	21.30	6.35	5.10	2.34
50	37.13	21.51	6.01	5.08	2.08
55	37.69	21.84	6.67	5.49	1.63
60	38.45	22.27	8.55	6.40	1.14
65	39.60	22.94	11.73	7.85	0.82

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

5. Retirement rates - Separate male and female rates, based on age, developed from the 1995 Experience Study. Sample rates are shown below:

	Expected Retirements per 100 Lives			
	Unreduced Retirement		Reduced Retirement	
Age	Male	Female	Male	Female
50	40	65	0	0
51	40	45	0	0
52	33	40	0	0
53	27	35	0	0
54	24	35	0	0
55	24	31	1	2
56	24	31	3	3
57	24	31	3	4
58	24	31	4	4
59	24	31	4	5
60	24	31	5	5
61	24	31	5	6
62	35	45		
63	55	55		
64	40	40		
65	55	60		
66	55	55		
67	55	55		
68	55	55		
69	55	55		
70	100	100		

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: vested terminating members are assumed to elect a refund or a deferred benefit, whichever is more valuable at the time of termination.

5. Assumed age for commencement of deferred benefits: Members electing to receive a deferred benefit are assumed to commence receipt at the first age at which unreduced benefits are available.

6. Administrative expenses: The assumed investment return rate represents the anticipated net return after payment of all investment and administrative expenses.

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.

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 by the maximum pay 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, 1995 and first reflected in the June 30, 1995 actuarial valuation, as recommended by the actuary. Some assumptions were left unchanged from the prior experience study in 1990, including female mortality for retirees, disability, investment return rate, and active member mortality for males and females.

ACTIVE MEMBER VALUATION DATA

Periods Ended June 30

Year Ending	Active Members		Covered Payroll		Average Salary		Average Age	Average Service
	Number	% Increase or Decrease	$ Amount (millions)	% Increase or Decrease	$ Amount	% Increase or Decrease		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
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
1995	79,044	3.6%	$2,336	6.7%	$29,555	3.0%	43.6	10.7

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

Fiscal Year	Beginning Balance Recipients	Additions	Subtractions	Ending Balance Recipients	% Increase/ (Decrease)
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%
1995	28,012	1,973	978	29,007	3.6%

Total monthly benefit payments, June 30, 1994	$28,148,948
Added to rolls and cost of living adjustment	3,077,397
Removed from rolls	(819,188)
Total monthly benefit payments, June 30, 1995	$30,407,157
Net monthly benefit increase	$2,258,209
Percentage increase	8.02%
Average monthly allowance	$1,047

Average monthly payment is $1,084 excluding special annuitants.

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

Valuation As of 6/30	Actuarial Accrued Liabilities	Actuarial Value of Assets	Assets as a Percentage of Accured Liabilities	Unfunded Actuarial Liabilities (UAL)	Total Annual Payroll	UAL as a Percentage of Total Payroll
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%
1995	$7,480,424,351	$2,869,885,881	38.37%	$4,610,538,470	$2,336,000,000	197.37%

SOLVENCY TESTS

GASB 5 Statement Basis

Periods Ending June 30

	Actuarial Accrued Liability and Percent of Active Member Payroll for:									Portion of Accrued Liabilities Covered by Assets			
	Accumulated Member Contributions Including Allocated Investment Income		Retirees and Beneficiaries Currently Receiving Benefits		Terminated Employees Not Yet Receiving Benefits		Employer Financed Portion of Vested and Nonvested Benefits						
Date	(1)	% of Payroll	(2)	% of Payroll	(3)	% of Payroll	(4)	% of Payroll	Actuarial Value of Assets	(1)	(2)	(3)	(4)
1987	$ 1,334,413,000	89%	$ 1,644,184,000	110%	$ 13,496,000	1%	$ 469,385,000	31%	$ 1,667,864,000	100%	20%	0%	0%
1988	1,151,838,000	77%	2,155,948,000	144%	18,365,000	1%	518,304,000	35%	1,693,858,000	100%	25%	0%	0%
1989	798,567,000	50%	2,194,031,000	136%	54,726,000	3%	914,702,227	57%	1,795,276,134	100%	45%	0%	0%
1990	909,702,793	52%	2,405,788,856	138%	59,935,623	3%	1,738,297,076	100%	1,951,345,189	100%	43%	0%	0%
1991	1,044,372,302	54%	2,662,888,849	139%	68,144,515	4%	1,669,153,142	87%	2,089,639,610	100%	39%	0%	0%
1992	1,186,699,530	59%	2,778,720,700	139%	78,475,277	4%	2,039,496,029	102%	2,287,096,521	100%	40%	0%	0%
1993	1,333,135,420	63%	2,926,059,300	138%	90,191,876	4%	2,107,565,650	99%	2,569,221,056	100%	42%	0%	0%
1994	1,467,903,110	67%	3,187,539,900	146%	102,540,989	5%	1,978,035,608	90%	2,697,181,721	100%	39%	0%	0%
1995	1,628,396,590	70%	3,409,267,600	146%	96,675,781	4%	2,346,084,380	100%	2,869,885,881	100%	36%	0%	0%

Statistical Section

SCHEDULE OF AVERAGE PAYMENT AMOUNTS
Fiscal Year Ended June 30, 1995

Date	Regular Annuitants
June 30, 1948	$33
June 30, 1954	75
June 30, 1960	83
June 30, 1966	129
June 30, 1969	148
June 30, 1970	179
June 30, 1971	201
June 30, 1972	209
June 30, 1973	217
June 30, 1974	226
June 30, 1975	248
June 30, 1976	297
June 30, 1977	321
June 30, 1978	345
June 30, 1979	$365

Date	Regular Annuitants	Special Annuitants
June 30, 1980	$382	
June 30, 1981	432	
June 30, 1982	480	
June 30, 1983	592	
June 30, 1984	600	
June 30, 1985	683	
June 30, 1986	761	$150
June 30, 1987	837	159
June 30, 1988	907	159
June 30, 1989	949	159
June 30, 1990	956	159
June 30, 1991	1,013	159
June 30, 1992	1,021	159
June 30, 1993	1,030	159
June 30, 1994	1,044	159
June 30, 1995	$1,084	$163

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

ACTIVE PERSONNEL
Fiscal Year Ended June 30, 1995

Years of Service	All Active Personnel	Classified Personnel	Unclassified Personnel
Under 5 yrs.	23,176	13,664	9,512
5-9	18,508	10,804	7,704
10-14	12,743	8,843	3,900
15-19	10,638	9,035	1,603
20-24	8,310	7,532	778
25-29	4,395	4,131	264
30-34	966	918	48
35-39	253	238	15
40-44	43	41	2
45-49	10	8	2
50-54	2	2	0
TOTALS	79,044	55,216	23,828

Salary Range	All Active Personnel	Classified Personnel	Unclassified Personnel
0-$5,000	390	112	278
5001-10,000	3,961	223	3,738
10,001-15,000	6,921	882	6,039
15,001-20,000	6,171	1,083	5,088
20,001-25,000	6,477	3,015	3,462
25,001-30,000	20,228	17,778	2,450
30,001-35,000	16,483	15,229	1,254
35,001-40,000	7,479	6,843	636
40,001-45,000	3,640	3,287	353
45,001-50,000	2,221	2,019	202
50,001-55,000	1,538	1,415	123
55,001-60,000	990	917	73
60,001-65,000	701	666	35
65,001-70,000	448	422	26
70,001-75,000	342	326	16
75,001 and Above	1,054	999	55
TOTALS	79,044	55,216	23,828

Average Age (years)	43.0	42.3	44.4
Average Salary	$29,505	$34,124	$18,802
Average Service (years)	10.7	12.3	7.1

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFITS
Selected Plan Options
Fiscal Year Ended June 30, 1995

Option	Retired Members Male	Retired Members Female	Retired Members Total	Average Monthly Payment	% of Total
Maximum	2,098	8,218	10,316	$1,031	35.56%
Option 1	3,205	7,905	11,110	1,097	38.30%
Option 2	2,095	523	2,618	1,195	9.03%
Option 3	1,354	558	1,912	1,391	6.59%
Option 4	155	167	322	1,063	1.11%
Options 5, 6 & 7	763	93	856	815	2.95%
Disability	239	534	773	765	2.66%
Special Annuitants	181	919	1,100	163	3.79%
TOTALS	10,090	18,917	29,007	$1,047	100.00%

Average monthly payment is $1,084 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, 1995

Years of Creditable Service	Retired Members			Average Monthly Payment
	Male	Female	Total	
Under 10	32	101	133	$200
10-14	792	2,379	3,171	323
15-19	986	2,680	3,666	535
20-24	1,221	3,631	4,852	866
25-29	1,878	3,589	5,467	1,239
30-34	2,356	2,879	5,235	1,432
35-39	1,689	1,632	3,321	1,563
40-44	851	936	1,787	1,705
45-49	100	167	267	1,821
50 and Over	5	3	8	2,487
TOTALS	9,910	17,997	27,907	$1,084

Does not include 1,100 special annuitants

DISTRIBUTION BY AGE AT RETIREMENT
Fiscal Year Ended June 30, 1995

Age at Retirement	Retired Members Male	Retired Members Female	Total	Average Monthly Payment	Average Length of Service (years)
40 and Under	17	38	55	$534	13.7
41-45	28	53	81	659	15.8
46-50	163	182	345	1,296	25.2
51-55	2,086	2,065	4,151	1,358	27.3
56-60	2,572	4,623	7,195	1,102	26.1
61-65	4,369	9,738	14,107	1,016	26.5
66-70	590	1,138	1,728	899	23.9
71-75	69	136	205	621	21.0
76-80	11	24	35	627	23.5
Over 80	4	1	5	680	19.8
TOTALS	9,909	17,998	27,907	$1,084	26.2

Does not include 1,100 special annuitants

DISTRIBUTION BY RETIREE AGE
Fiscal Year Ended June 30, 1995

Age	Total Retired Members	Average Length of Service (years)	Average Monthly Payment
Under 50	116	15.8	$730
50-54	1,021	28.1	1,583
55-59	2,849	26.3	1,346
60-64	4,871	24.6	1,150
65-69	5,323	24.5	1,050
70-74	4,387	25.3	991
75-79	3,528	26.4	933
80-84	2,864	28.3	990
85-89	1,954	30.5	1,042
90 & Over	994	31.1	1,001
TOTALS	27,907	26.2	$1,084

Totals do not include 1,100 special annuitants

DISTRIBUTION BY MONTHLY INCOME
Fiscal Year Ended June 30, 1995

Monthly Income	Retired Members	Total Payment	Average Payment
Under $100	82	$6,939	$85
$101-200	860	134,171	156
$201-$300	1,389	348,418	251
$301-$400	1,571	549,204	350
$401-$500	1,450	652,314	450
$501-$600	1,414	777,654	550
$601-$700	1,412	917,681	650
$701-$800	1,276	958,031	751
$801-$900	1,405	1,195,568	851
$900-$1,000	1,428	1,359,985	952
$1,001-$1,100	1,673	1,756,293	1,050
$1,101-$1,200	1,841	2,116,430	1,150
$1,201-$1,300	1,849	2,308,636	1,249
$1,301-$1,400	1,952	2,632,620	1,349
$1,401-$1,500	1,790	2,593,929	1,449
$1,501-$1,600	1,553	2,404,128	1,548
$1,601-$1,700	1,227	2,021,418	1,647
$1,701-$2,000	2,213	4,055,179	1,832
$2,001-$2,500	1,276	2,776,149	2,176
Over $2,500	246	663,111	2,696
TOTALS	27,907	$30,227,857	$1,084

Does not include 1,100 special annuitants

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

Schedule of Cash Receipts and Disbursements
Years ended June 30, 1995 and 1994

	1995	1994
Cash balance, beginning of year	$1,975,432	$3,022,081
Receipts:		
Members' contributions	152,294,253	147,887,923
Employer contributions	43,689,553	41,762,035
State of Oklahoma and various federal sources	119,432,236	158,559,605
Interest income	103,860,029	120,882,475
Dividends	40,122,463	33,228,712
Net gain on investments	76,685,769	108,391,381
Other revenue	115,290	275,097
* Investments sold	6,361,641,906	8,825,313,291
Total receipts	$6,897,841,499	$9,436,300,519
Disbursements:		
Retirement, death, survivor, and health benefits	377,318,244	348,498,691
Refund of member contributions and annuity payments	29,946,427	19,208,770
Administrative expenses	2,184,948	2,130,978
Investment expenses	6,143,038	5,070,898
Equipment purchases	48,041	15,615
* Investment purchases	6,481,007,372	9,062,422,216
Total disbursements	6,896,648,070	9,437,347,168
Cash balance, end of year	$3,168,861	$1,975,432

* Includes equities, fixed income and short-term investments.

1995 Participating Employers

Public School Districts

Achille
Ada
Adair
Afton
Agra
Albion
Alex
Aline-Cleo Springs
Allen Bowden
Allen
Altus
Alva
Amber Pocasset
Anadarko
Anderson
Antlers
Arapaho
Ardmore
Arkoma
Arnett
Asher
Atoka
Avant
Balko
Banner
Barnsdall
Bartlesville
Battiest
Bearden
Beaver
Beggs
Belfonte
Bell
Bennington
Berryhill
Bethany
Bethel
Big Pasture
Billings
Binger-Oney
Bishop
Bixby
Blackwell
Blair
Blanchard
Bluejacket
Boise City
Bokoshe
Boley
Boone-Apache
Boswell
Bowlegs
Bowring
Boynton
Braggs
Braman
Bray Doyle
Bridge Creek
Briggs
Bristow
Broken Arrow
Broken Bow
Brushy
Buffalo
Buffalo Valley
Burbank
Burlington
Burns Flat-Dill City
Butler
Butner
Byars
Byng
Cache
Caddo
Calera
Calumet
Calvin
Cameron
Canadian
Caney
Caney Valley
Canton
Canute
Carnegie
Carney
Carter
Cashion
Catoosa
Cave Springs
Cement
Central High
Central
Chandler
Chattanooga
Checotah
Chelsea
Cherokee
Cheyenne
Chickasha
Chisholm
Choctaw Nicoma Park
Chouteau Mazie
Cimarron
Claremore
Clayton
Cleora
Cleveland
Clinton
Coalgate
Colbert
Colcord
Coleman
Collinsville
Comanche
Commerce
Copan
Cordell
Cottonwood
Covington Douglas
Coweta
Coyle
Crescent
Crooked Oak
Crowder
Crutcho
Cushing
Cyril
Dahlonegah
Dale
Darlington
Davenport
Davidson
Davis
Deer Creek
Deer Creek-Lamont
Delaware
Denison
Depew
Dewar
Dewey
Dibble
Dickson
Dover
Drummond
Drumright
Duke
Duncan
Durant
Dustin
Eagletown
Eakly
Earlsboro
Edmond
El Reno
Eldorado
Elgin
Elk City
Elmore City-Pernell
Empire
Enid
Erick
Eufaula
Fairland
Fairview
Fanshawe
Fargo
Farris
Faxon
Felt
Fletcher
Flower Mound
Forest Grove
Forgan
Fort Towson
Fox
Foyil
Frederick
Freedom
Friend
Frink Chambers
Frontier
Ft Cobb-Broxton
Ft Gibson

Ft Supply
Gage
Gans
Garber
Garrett
Geary
Geronimo
Glencoe
Glenpool
Glover
Goodland
Goodwell
Gore
Gracemont
Graham
Grandfield
Grand View (Cherokee)
Grandview (Stephens)
Granite
Grant
Greasy
Greenville
Grove
Grove
Gum Springs
Guthrie
Guymon
Gypsy
Haileyville
Hammon
Hanna
Hardesty
Harmony
Harrah
Hartshorne
Haskell
Haworth
Haywood
Healdton
Heavener
Hennessey
Henryetta
Hilldale
Hinton
Hobart
Hodgen
Holdenville
Hollis
Holly Creek
Hominy
Hooker
Howe
Hugo
Hulbert
Hydro
Idabel
Indiahoma
Indianola
Inola
Jay
Jenks
Jennings
Jones
Justice
Justus
Kansas
Kaw City
Kellyville
Kenwood
Keota
Ketchum
Keyes
Keys
Keystone
Kiefer
Kildare
Kingfisher
Kingston
Kinta
Kiowa
Konawa
Krebs
Kremlin-Hillsdale
Lane
Latta
Laverne
Lawton
Le Flore
Leach
Leedey
Leonard
Lexington
Liberty (Okmulgee)
Liberty (Sequoyah)
Liberty (Tulsa)
Lindsay
Little Axe
Locust Grove
Lomega
Lone Grove
Lone Star
Lone Wolf
Lookeba Sickles
Lost City
Lowrey
Lukfata
Luther
Macomb
Madill
Mangum
Mannford
Mannsville
Maple
Marble City
Marietta
Marlow
Maryetta
Mason
Maud
Maysville
Mc Alester
Mc Cord
Mc Curtain
Mc Lish
Mc Loud
Medford
Meeker
Merritt
Miami
Midwest City-Del City
Middleberg
Midway
Milburn
Milfay
Mill Creek
Millwood
Minco
Moffett
Monroe
Moore
Mooreland
Morris
Morrison
Moseley
Moss
Mounds
Moyers
Mt View-Gotebo
Muldrow
Mulhall-Orlando
Muskogee
Mustang
N Rock Creek
Nashoba
Navajo
New Lima
Newcastle
Newkirk
Ninnekah
Noble
Norman
Norwood
Nowata
Nuyaka
Oak Grove
Oakdale
Oaks Mission
Oilton
Okarche
Okay
Okeene
Okemah
Okla City
Oklahoma Union
Okmulgee
Oktaha
Olive
Olney
Olustee
Oologah-Talala
Optima
Osage Hills
Osage
Owasso
Paden
Panama
Panola
Paoli

Pauls Valley
Pawhuska
Pawnee
Peavine
Peckham
Peggs
Perkins-Tryon
Perry
Picher-Cardin
Pickett Center
Piedmont
Pioneer Pleasant Vale
Pioneer
Pittsburg
Plainview (Cimarron)
Plainview (Carter)
Pleasant Grove
(Pottawatomie)
Pleasant Grove
(Seminole)
Pocola
Ponca City
Pond Creek-Hunter
Porter Consolidated
Porum
Poteau
Prague
Preston
Pretty Water
Prue
Pryor
Purcell
Putnam City
Quapaw
Quinton
Rattan
Ravia
Red Oak
Reydon
Ringling
Ringwood
Ripley
Riverside
Robin Hill
Rock Creek
Rocky Mountain
Roff
Roland
Rush Springs
Ryal
Ryan
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 Pub
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 (Carter)
Wilson (Okmulgee)
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
  Tahlequah
Meridian
Kiamichi
  Atoka
  Durant
  Hugo
  Idabel
  McAlester
  Poteau
  Spiro
  Stigler
  Talihina
  Wilburton
Metro
Mid-America
Mid-Del
Moore-Norman
NE Oklahoma
  Afton
  Pryor
NW Oklahoma
  Alva
  Fairview
O.T. Autry
Pioneer
Pontotoc
Red River
S. Oklahoma
Southwest
Tri-County
Tulsa County
Wes Watkins
Western Oklahoma
  Burns Flat
  Sayre

COLLEGES AND UNIVERSITIES

Okla. State Univ.
Univ. of Oklahoma
Okla. Health Sciences Center
East Central Univ.
NE State University
NW Okla. St. Univ.
SE 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. St. 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 Human Serv.
Dept. of Vocational and Tech. Educ.
  Vo-Tech Skills Centers
    Boley
    Ft. Supply
    Granite
    Helena
    Hodgen
    Hominy
    Joseph Harp
    Lane
    Lexington
    Mabel Basset
    McCloud
    Oklahoma City
    Ouachita
    Stringtown
    Stillwater
    Taft
    Tinker AFB
    Tahlequah

Investment Section

INVESTMENT REPORT

In last year's Investment Report, we reflected on the difficulties of both the bond and equity markets, which began in the first quarter of calendar year 1994. In fact, 1994 achieved the infamy of being the worst bond market since 1927.

The Federal Reserve Bank (the Fed) raised interest rates two more times during the last half of 1994, a total of six short-term interest rate hikes for the year. In August, rates were raised by 50 basis points and again in November by 75 basis points, increasing to 5.50%. In both cases, Fed appeared to be concerned that the economy was growing at more than 3.0%, slightly above what the Fed considers non-inflationary. Analysts speculate that the Fed considers 2.5% to be the acceptable economic growth rate.

No wonder the bond market continued nearly flat through the rest of 1994. The Lehman Brothers Aggregate Bond Index showed a return of 0.6% in the first quarter of Fiscal Year 1995, and 0.4% in the second quarter. Amazingly, the fixed income market enjoyed a rebound in the third and fourth quarters. The Lehman Brothers Aggregate Index returned 5.0% in the third quarter and 6.1% in the fourth quarter of Fiscal Year 1995. Throughout the fourth quarter, many analysts expected the Federal Reserve to officially reverse its tight monetary policy and lower interest rates. However, there were enough signals of a healthy economy to make the Fed hesitate.

Further complicating economic policy was the downward pressure on the dollar. The dollar hovered around the 100 Yen mark during the second quarter, distracting trade negotiations and monetary authorities. To keep the dollar attractive, the Fed had another reason to raise interest rates. The dollar continued to fall against the Yen and Deutsche Mark in the third quarter. Japan's recovery was shaken by the Kobe earthquakes and the financial markets were tested by the bankruptcy of the house of Barings. Most markets outside the United States enjoyed a solid fourth quarter, with the major exception again of Japan. European and Japanese finance ministers tried to steer their economies away from recession by lowering interest rates and international bonds posted a solid quarter.

U. S. stocks improved in the first quarter of FY-95 but flattened in the second quarter, the S&P posting 4.9% and 0.00%, respectively. True rebound occurred in the third quarter. Spurred by declining interest rates and earnings growth, stocks had their best quarter in years. The S&P 500 gained 9.7%. Again in the fourth quarter, equities continued to soar, the S&P returning 9.5%. Technology stocks led the growth in the last quarter, up 22.7%. Corporate earnings continued, but not at the previous pace and some analysts believe that earnings growth has peaked.

INVESTMENT COMMITTEE

Early in 1988, the Board of Trustees of the Oklahoma Teachers' Retirement System established an Investment Committee comprised 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 which is 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 fiscal year 1994. During the asset allocation process, the Board gave particular attention to portfolio diversification. By choosing investment styles which are not highly correlated, volatility can be reduced. 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 did determine to enter into an international investment strategy. They set the allocation of this strategy 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. One of the current fixed income managers was selected to convert a portion (up to 25%) of assets in that portfolio to international fixed income, resulting in a global fixed income portfolio and completing the funding of 5% of total assets in international fixed income. Before the end of the fiscal year, the Board issued Request for Proposals for an international equity manager to complete the allocation to that component.

The equity portion of the fund is comprised of growth, value, small capitalization, core and convertible securities investment styles. 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 management of these cash positions is the responsibility of the Retirement System staff.

The System's equity and fixed income portfolios are currently managed by eleven external investment managers (five domestic equity managers, three domestic fixed income managers, one global fixed income manager, one convertibles manager and one international manager). An international investment manager was awarded a contract December 1993. The current domestic managers were contracted January 1, 1990.

The following is a listing of external investment portfolio managers as June 30, 1995:

	Manager	Market Value (millions)
1.	The Chicago Corporation - Equity, Growth	\$194
2.	Liberty Investment Management, Inc. (Tampa) Equity, Growth	\$351
3.	Hotchkis & Wiley (L.A.) Equity, Value	\$385
4.	Mitchell Hutchins Asset Management (N.Y.) Equity, Small	\$137
5.	Tom Johnson Investment Management (Okla. City) Equity, Core	\$459
6.	Capital Guardian Trust Company (L.A.) Convertibles	\$175
7.	Liberty National Bank & Trust (Okla. City) Fixed, Intermediate	\$132
8.	Neuberger & Berman Pension Mgmt. (N.Y.) Fixed, Global	\$310
9.	Mellon Bond Associates (Philadelphia) Passive Fixed, Aggregate	\$512
10.	Investment Advisers Inc. (Minneapolis) Active Fixed, Aggregate	\$355
11.	Brinson Partners, Inc. (Chicago) International Balanced	\$140

Total investment-related expenses for 1995 and 1994, including investment managers, custodian and investment consultant, were \$6,143,038 and \$5,071,902 respectively. The total equity shares traded during 1995 were 30,132,419 at a cost of \$1,417,519 or \$0.047 per share. For fiscal year 1994, 24,641,968 equity shares were traded at a cost of \$1,210,780 or \$0.049 per share.

During fiscal year 1995, the dollar amount of equity purchases was \$563,453,048 with equity sales of \$480,237,632 for a total of \$1,043,690,680. 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

The restructuring of external investment managers was devised to provide diversification of the fund. Since the external managers were hired January 1990, this has proven to work well. 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, there was considerable volatility in the Standard & Poors Composite Stock Price Index of 500 stocks as well as the Lehman Brothers Government/ Corporate Bond Index.

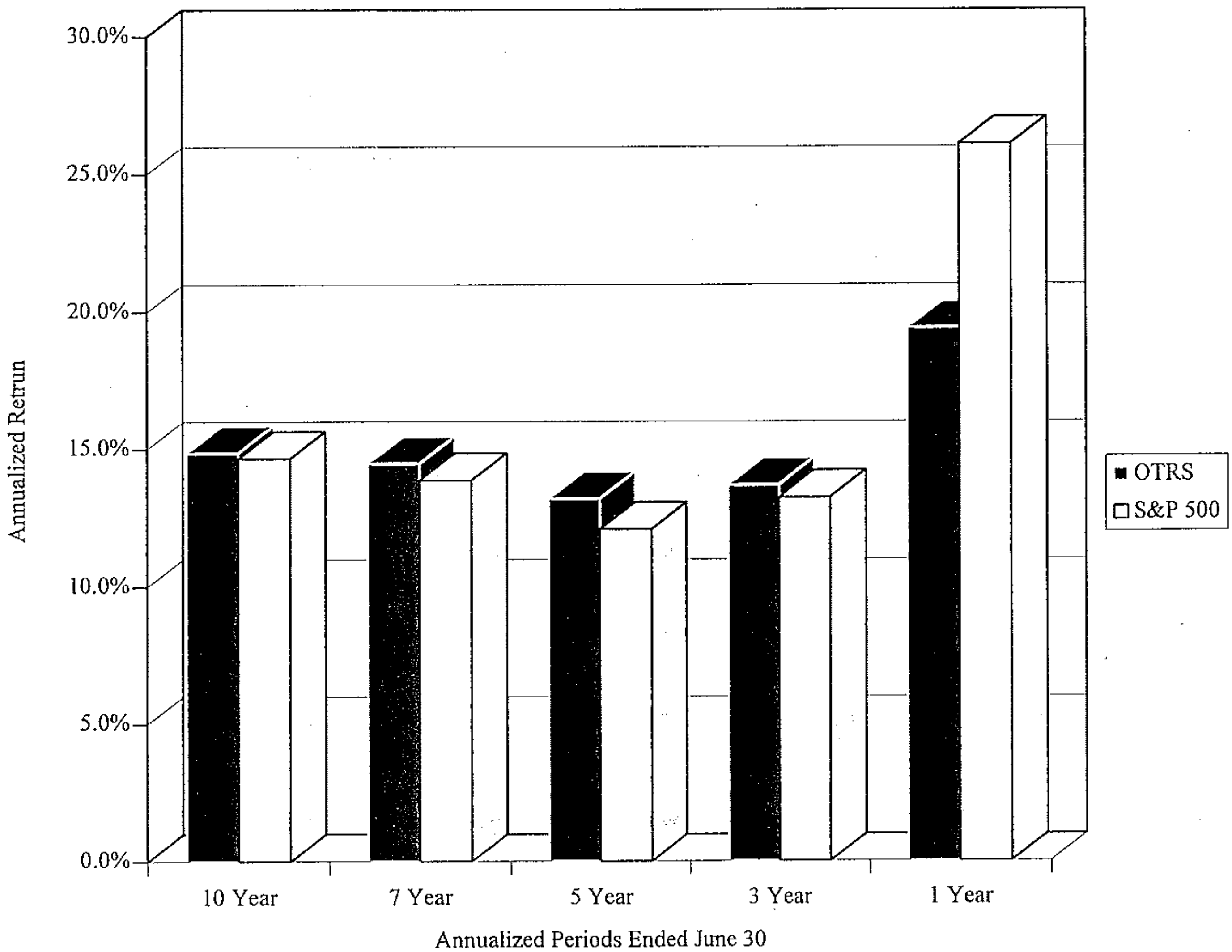
The following are the fiscal quarterly rates of return for the System's equity (common stock) and fixed income (bond) portfolios as well as their benchmarks to which they are compared:

Portfolio	QTR I	QTR II	QTR III	QTR IV
OTRS Fixed Income Portfolio	0.64%	0.41%	4.37%	5.02%
Lehman Bros. Gov't/Corp Index	0.49%	0.37%	4.98%	6.49%
OTRS Equity Portfolio	4.99%	(1.77%)	7.82%	7.37%
S&P 500 Index	4.91%	0.00%	9.72%	9.53%

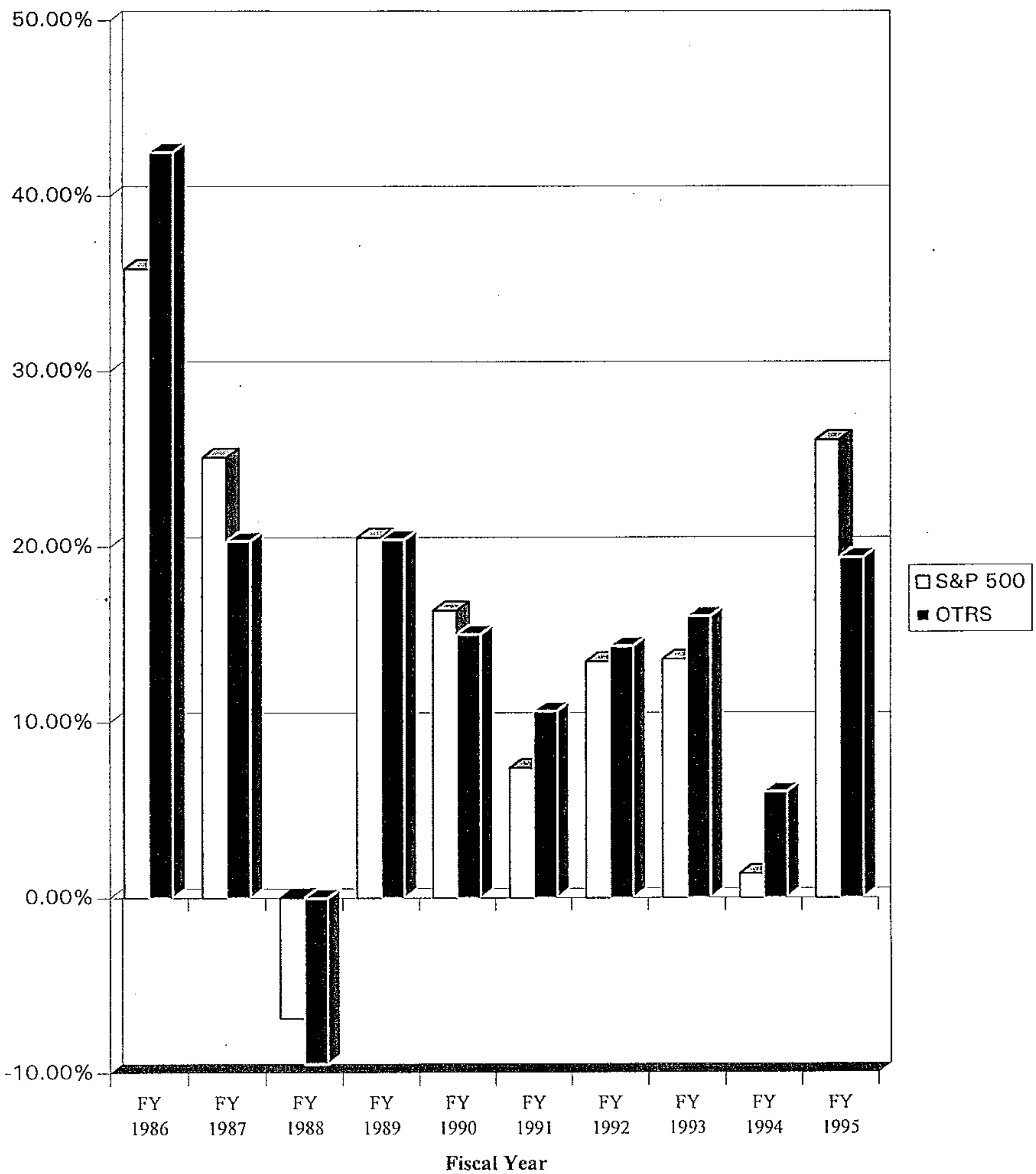
For the fiscal year ended June 30, 1995, the System's equity portfolio returned 19.39% while the S&P returned 26.08%. The System's fixed income portfolio returned 10.76% as compared to the Lehman Bros. Government/Corporate Index of 12.76%. The return for the total combined portfolio was 15.12% for the fiscal year.

ANNUALIZED EQUITY RETURN COMPARISON

S&P 500 vs OTRS Equity Portfolio

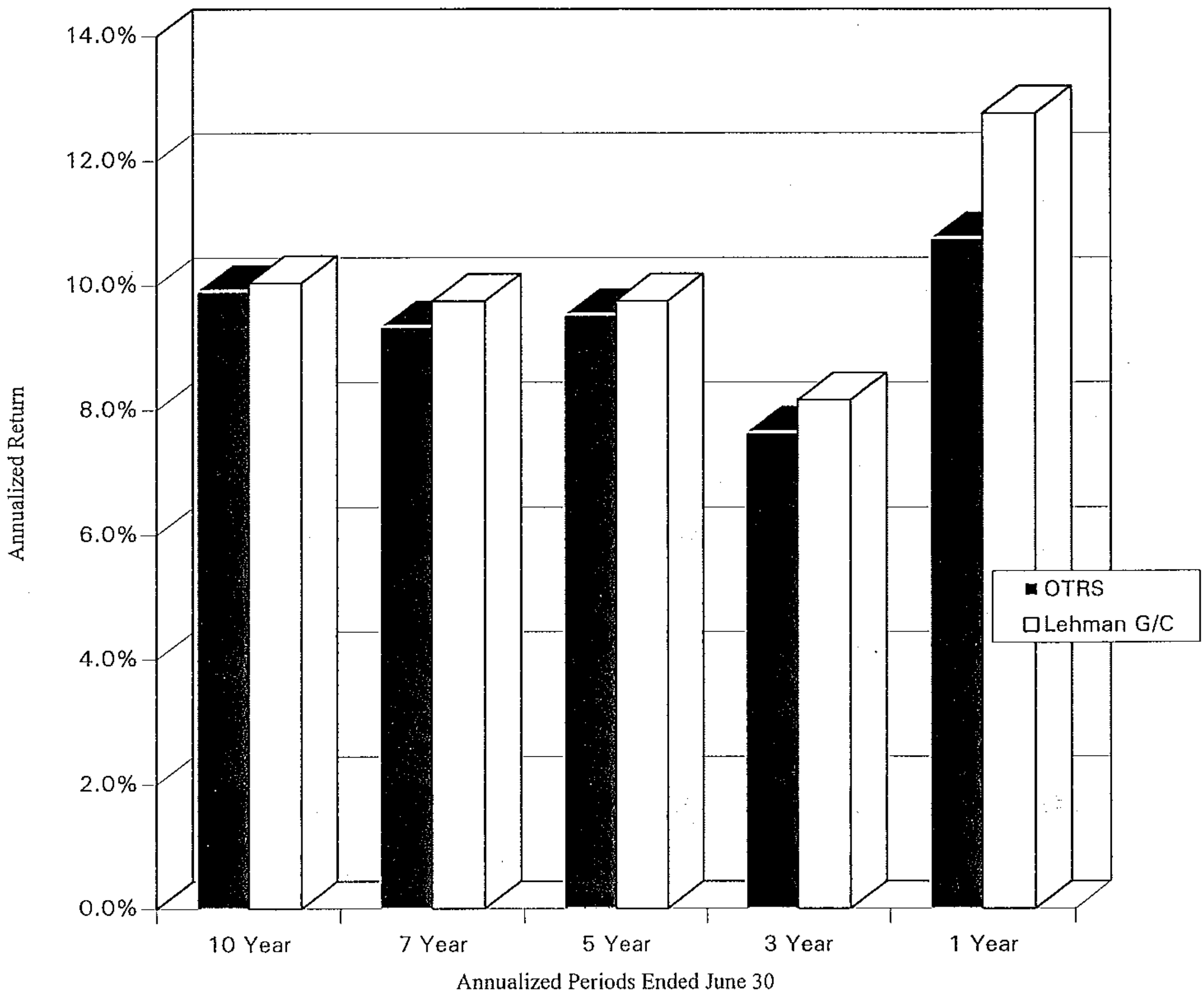


TEN YEAR ANNUAL RETURN COMPARISON
Standard & Poors 500 Index vs. OTRS Equity Portfolio



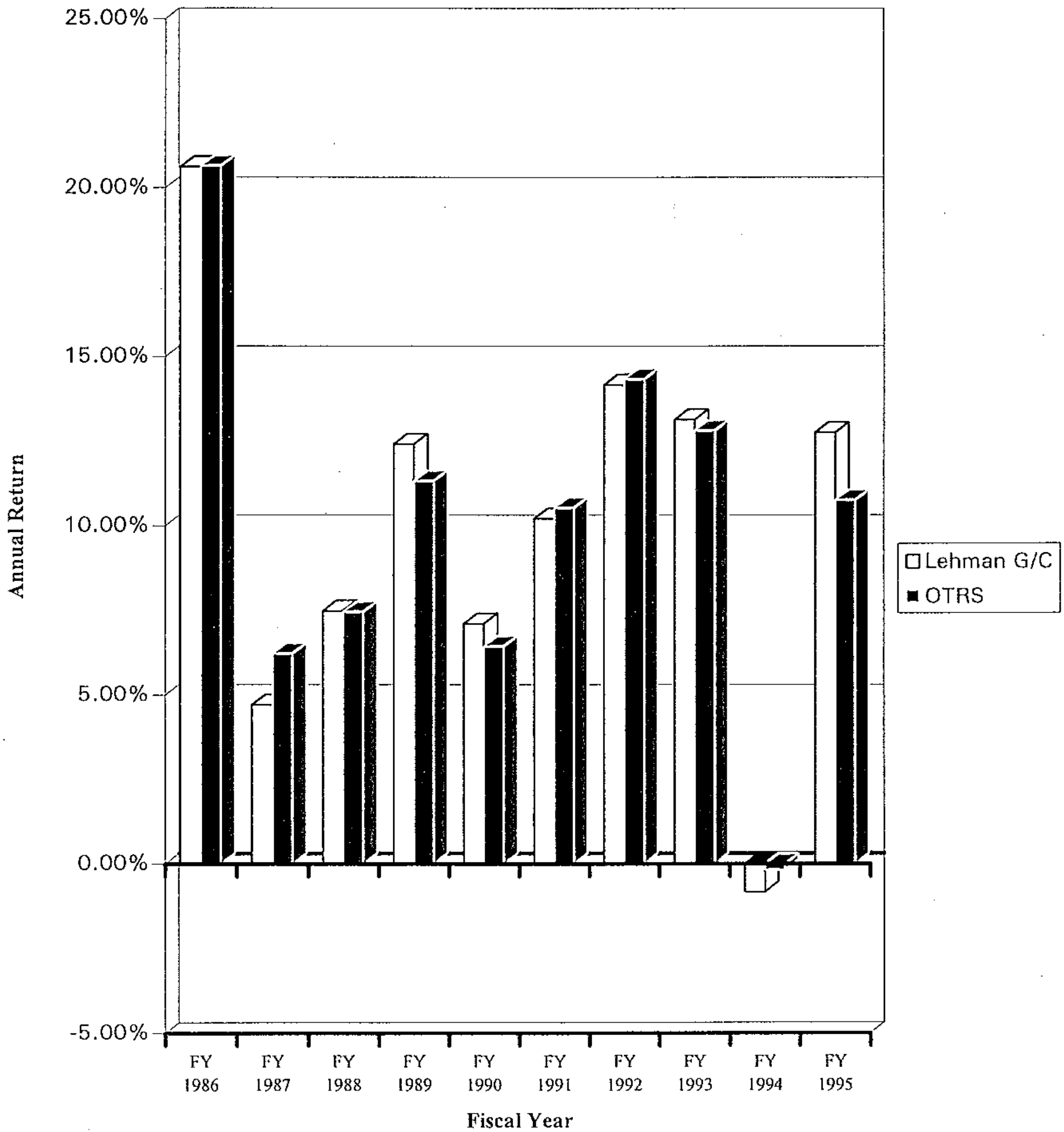
ANNUALIZED FIXED INCOME RETURN COMPARISON

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 Ended June 30, 1995 and 1994

	1995		1994	
	Book Value	Market Value	Book Value	Market Value
Short-term Investments:				
Commercial Paper	$136,307,711	$136,307,000	$190,603,733	$190,604,000
U.S. Government	4,854,697	4,855,000	19,316,097	19,316,000
Money Market Account	26,539,452	26,540,000	7,965,536	7,965,000
Total Short-term Investments	$167,701,860	$167,702,000	$217,885,366	$217,885,000
Long-term Investments:				
Fixed Income:				
U.S. Government	620,841,562	638,700,000	598,066,078	585,626,000
U.S. Government Agencies	258,318,923	260,993,000	333,495,820	331,373,000
Corporate	261,033,051	268,457,000	311,295,515	305,558,000
International	142,408,280	141,980,000	72,207,614	68,703,000
Total Fixed Income	$1,282,601,816	$1,310,130,000	$1,315,065,027	$1,291,260,000
Equities:				
Preferred Stock	4,403,358	6,365,000	8,457,304	10,519,000
Convertible Securities	138,541,698	145,001,000	91,750,906	92,168,000
Common Stock	1,192,834,166	1,449,184,000	1,057,198,545	1,177,910,000
International	66,761,623	59,755,000	58,091,414	54,632,000
Total Equities	$1,402,540,845	$1,660,305,000	$1,215,498,169	$1,335,229,000
Guaranteed Investment Contract	12,364,258	12,364,000	28,640,682	28,641,000
Total Long-term Investments	$2,697,506,919	$2,982,799,000	$2,559,203,878	$2,655,130,000
Total Investments	$2,865,208,779	$3,150,501,000	$2,777,089,244	$2,873,015,000

ASSET ALLOCATION FOR PERIODS ENDED JUNE 30