

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, 1996

Prepared by the Retirement System Staff

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The 1996 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

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Introductory Section



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 Teachers' Retirement System of Oklahoma (known collectively as TRS or the System) presents the Comprehensive Annual Financial Report for the Teachers' Retirement System of Oklahoma, a component unit of the State of Oklahoma, for the year ended June 30, 1996.

Established by legislation, the System began operation July 1, 1943, and concluded its fifty-third 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, 1996, the System had 632 participating employers, 78,942 active members, 9,845 inactive members and 29,984 retired members and beneficiaries receiving monthly benefits.

The 1996 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 plan net assets and changes in plan net assets 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, 1996, continued to see an expansion of capital markets which began in the Fourth Quarter of 1994. With stable interest rates and low inflation, stocks continued their remarkable climb, setting several new record highs. Concerns continue to increase for slower growth during calendar year 1997. Those who believe history is an indicator of the future point to the national regression to the norm coupled with the traditional post-election economic downturn as cause for caution. The economy of the State of Oklahoma has been improving. Tax revenues were up in 1996 and projections indicate continued growth during 1997.

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, 1996, the System received 8.5% of employees' pay from the State and local employers. This was in addition to the contribution required by each member, which many employers pay under Section 414(h) of the Internal Revenue Code. Senate Bill 568 requires local school districts and other employers to supplement the State's (employer) contribution from the tax on natural gas by making the contribution necessary to reach the statutory

8.5%. During Fiscal Year 1996, the State's contributions represented 5.1% of employees' pay and local employers contributed 2.5%. The difference between the 7.6% in actual contributions and the 8.5% statutory requirement is explained in carryovers from collections in prior years. The combined State and employer contribution rate will gradually increase from 8.5% to 18% by the year 2005. Retirement eligibility requirements were modified for members joining the System after June 30, 1992, by changing 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.

Senate Bill 527, enacted during the 1995 Legislative session, was modified in 1996 by passage of Senate Bill 832. The main elements of each of these measures address the level of retirement contributions by higher education employees. A \$40,000 "salary cap" on contributions and benefits was scheduled to be removed effective July 1, 1995. Senate Bill 527 extended the salary cap for all higher education employees for two years. Senate Bill 832 amended the 1995 law by removing the salary cap on all higher education employees except employees at the University of Oklahoma and Oklahoma State University. The salary cap for employees of the two comprehensive universities was extended for five years and will increase \$5,000 per year until removed in 2002.

The Oklahoma Teachers' Retirement System Fiscal Health Task Force began meetings in March 1996 and will continue studying the System's financial condition and funding problems, presenting a special report to the Legislature in January 1997. The bi-partisan study group is composed of 16 members appointed by the Governor and legislative leaders. In addition, a second task force was established by The State Chamber of Commerce to study TRS' funding problems and how those problems impact the State's education system. Both study groups have worked closely with TRS to develop their recommendations.

In 1996, the Board of Trustees employed a new equity manager to invest \$85 million in international stocks. A new investment consultant was retained in March 1996 to advise the trustees in the critical areas of asset allocation; the employment, evaluation and monitoring of external managers; and maintenance of general investment policies and objectives. At the end of Fiscal Year 1996 the Board approved a new asset allocation which will increase the System's commitment to international securities and further diversify allocations in domestic fixed income and equities.

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. This position was vacant during the reporting period, but will be filled during Fiscal Year 1997. 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 applied 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 System are prepared in conformity with generally accepted accounting principles (GAAP). TRS and the other public retirement systems operated by the State adopted new accounting requirements to comply with the Governmental Accounting Standards Board's (GASB) Statement No. 25. The primary change is to state the value of investments at market instead of cost. The 1995 and 1996 financial statements in this report have been adjusted to reflect the necessary changes.

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 Fiscal Year 1996 were \$149.9 million, which represented approximately 6.3% of covered payroll. This compares to \$152.3 million for the year ended June 30, 1995. Member contributions decreased slightly due to a change in the contribution rate on earnings above \$25,000. Total salaries for active members were \$2.375 billion.

Contributions from employers, the State of Oklahoma, and federal sources for Fiscal Year 1996 were \$177.2 million, compared to \$161.3 million for 1995. Contributions from local school districts and state revenues increased \$15.9 million. 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 Fiscal Year 1996, 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, 1996, are included in the Actuarial Section. The System's relative funded position for the year ending June 30, 1996 improved slightly from 1995 due mainly to investment returns exceeding expectations. Total unfunded liabilities grew from \$4.610 billion to \$4.740 billion, but this increase was lower than projected. The actuarial yield on assets at 11.6% exceeded the 8% actuarial assumed rate of return. The System's actuarial assets grew by \$233 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 39.6% of actuarial accrued liabilities (AAL). This is an increase from the 1995 figure of 38.4%. 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 from the AAL, but provides a useful measure to compare the status of two pension plans. While no longer reported in the actuarial report, the System's PBO funding ratio for

the plan year ending June 30, 1996, was 46.8%, up 7.6%, compared to 39.2% one year ago, and up only 4.6% from the 42.2% funding ratio reported in 1994. It has been reported in the national media that the System is one of the five worst-funded public pension plans among 88 statewide 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 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, 1996, the System paid \$20.5 million more in benefits, refunds and annuity payments than the preceding year. Administrative expenses decreased by \$41,555. The increase in benefits is attributed to a net increase in the number of retired members receiving retirement and health insurance benefits.

INVESTMENTS

Net investment income including realized gains and appreciation on investments of \$461.4 million during FY 1996 were positive contributors to the fund's financial status. Investments totaled \$3.542 billion at market value on June 30, 1996, compared to \$3.151 billion on June 30, 1995. The System's investment portfolio mix at market value was 39.5% fixed income, 56.5% equities and 4.0% cash and 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, 1996, was 14.74%. This was down slightly from a 15.1% return for 1995. Annualized three-year and five-year total returns were 10.6% and 11.8%, respectively. The System's long-term goal to exceed by 3% the rate of inflation measured by the CPI has been achieved for both the three-year and five-year periods. A summary of the System's investment activities during FY 1996 and historic performance results is presented in the Investment Section. A new addition to the Investment Section this year is a complete listing of securities held by the System as of June 30, 1996.

INDEPENDENT AUDIT

The 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, 1995. The Certificate of Achievement is a prestigious national award recognizing

conformance with the highest standards for preparation of state and local government financial reports. This is the third year the System's *Annual Report* has received this distinction.

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 one year. 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 of Oklahoma. Copies of the report are available upon request by active and retired members of the System and other interested parties. We hope you find this report informative and helpful.

Sincerely yours,



Tommy C. Beavers
Executive Secretary
November 1, 1996



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:

In the 1995 *Annual Report*, I commented that one of the most positive signs that had appeared in some time was the recognition by several leaders in the Oklahoma Legislature that the Oklahoma Teachers' Retirement System is dangerously underfunded. The tangible evidence of that recognition occurred when the Oklahoma Teachers' Retirement System Fiscal Health Task Force was named to assess the depths of the problem and to seek solutions to it. There are hopeful signs that the committee will continue to function during the 1997 Legislative session, and that the activities of the committee will result in the enactment of legislation that will permanently address the underfunded status of OTRS.

We all recognize that progress was made when Senate Bill 568 established a funding mechanism that would, if followed, result in a fully funded System in a little more than 20 years. However, recent events indicate that local employers are not prepared to handle the increases in contributions to the Retirement System that are required of them. Even with additional appropriations from the Legislature allocated through the school funding formula, many local districts apparently cannot implement essential local educational programs plus the required additional contribution to the Retirement System.

The OTRS Trustees believe it is extremely important that a funding mechanism similar to that contained in Senate Bill 568 be followed. If, as it appears, local employers cannot live with the contribution levels required of them, then legislation should be enacted to designate another stable source of revenue to take up the slack. And if applying the funds through the formula results in unfair distribution, then a more equitable means of distributing the funds must be found.

The OTRS Trustees have always believed and acted upon the premise that a fully funded Retirement System is required in order to provide the degree of security and peace of mind that the System's members deserve. We would hope that all System members, active as well as retired, also would see this as their top priority. Our chances of achieving our objective will be greatly improved if we speak with a united voice.

A handwritten signature in cursive script that reads "C. Wayne Bland".

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

**Organization
of the
Teachers' Retirement System of Oklahoma**

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The Teachers' Retirement System of Oklahoma Board of Trustees

Dr. C. Wayne Bland
Tulsa
Chairman

Mr. George W. Barnes
Oklahoma City

Mr. Thomas E. Daxon
Director of State Finance

Mr. Tommy G. Fulton
Del City
Vice Chairman

Ms. Sandy Garrett
State Superintendent of Public Instruction

Mr. Robert C. Gates
Broken Arrow

Mr. John C. Kahre
Tulsa

Ms. Brenda J. Potter
Ardmore

Ms. Susan L. Raasch
Claremore

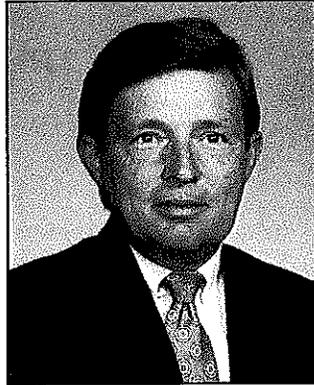
Mr. Marshall Snipes
Oklahoma City

Ms. Celeste L. Tillery
Claremore
Secretary

Mr. Ron Wallace
Oklahoma City

Dr. Gregory Z. Winters
Harrah

The Teachers' Retirement System of Oklahoma Administration



Tommy C. Beavers
Executive Secretary

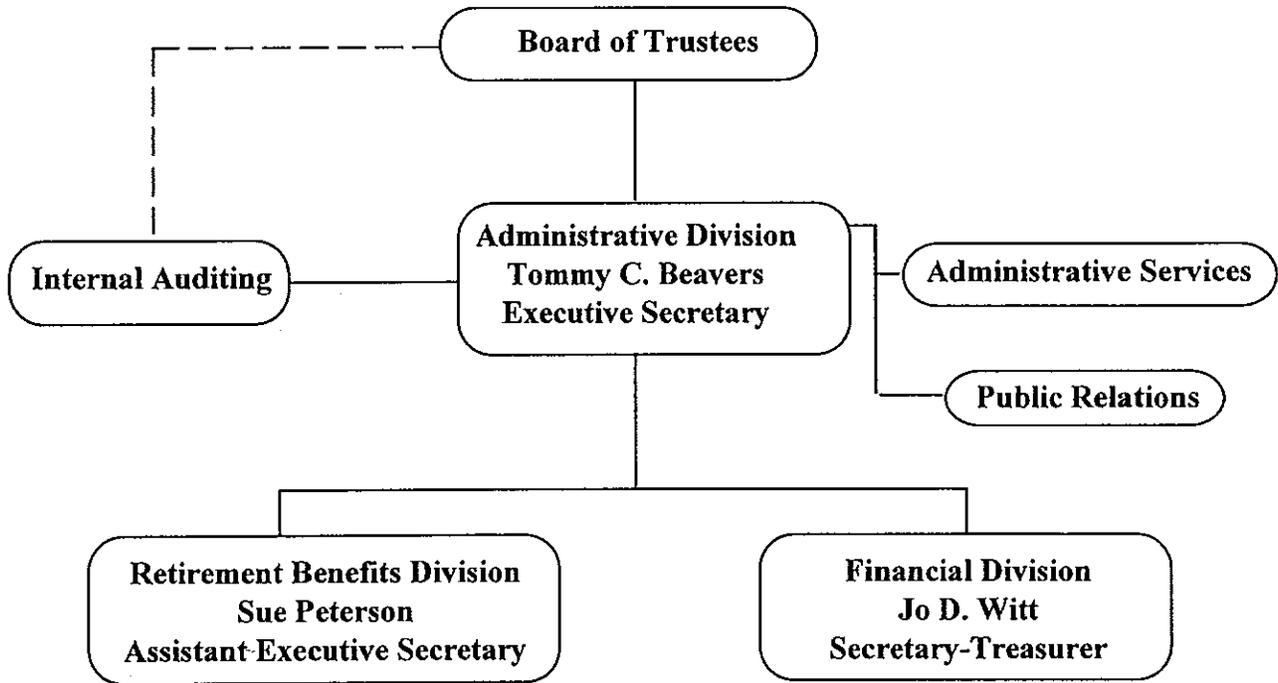


Sue H. Peterson
Assistant Executive Secretary

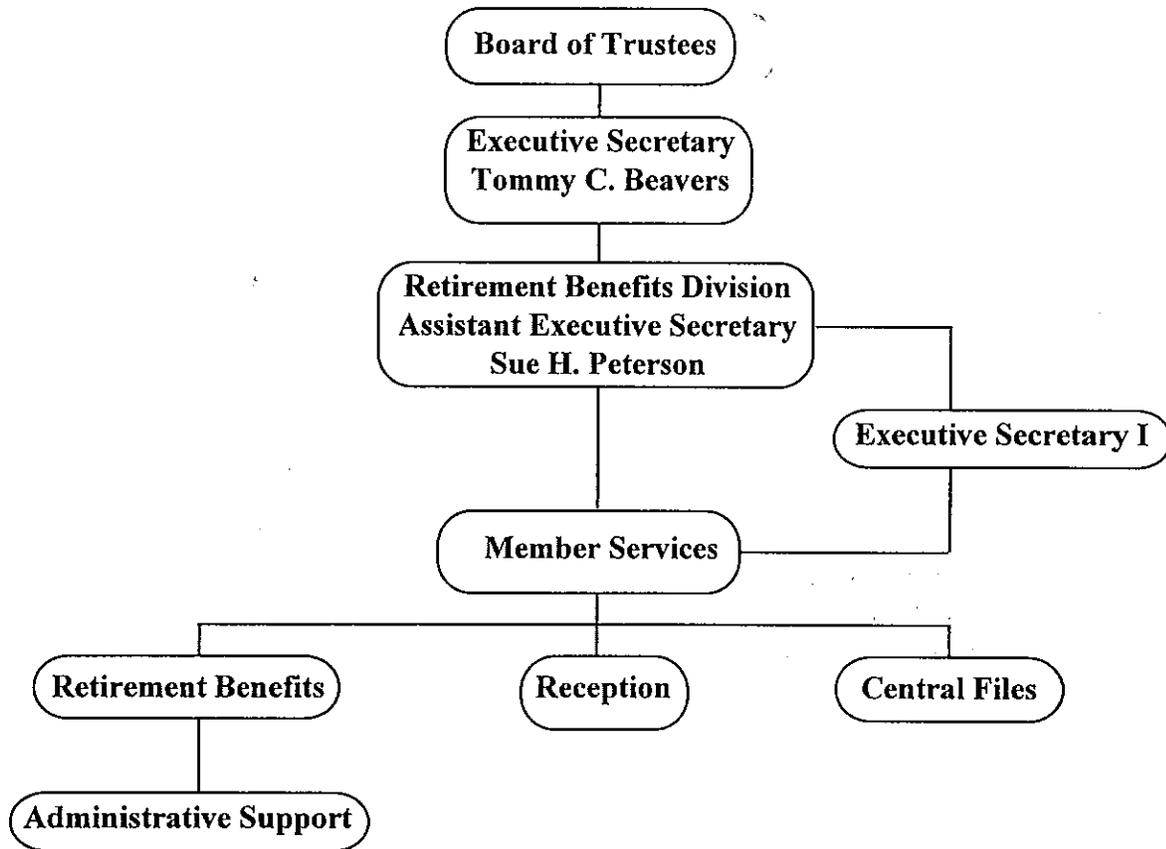


Jo D. Witt
Secretary-Treasurer

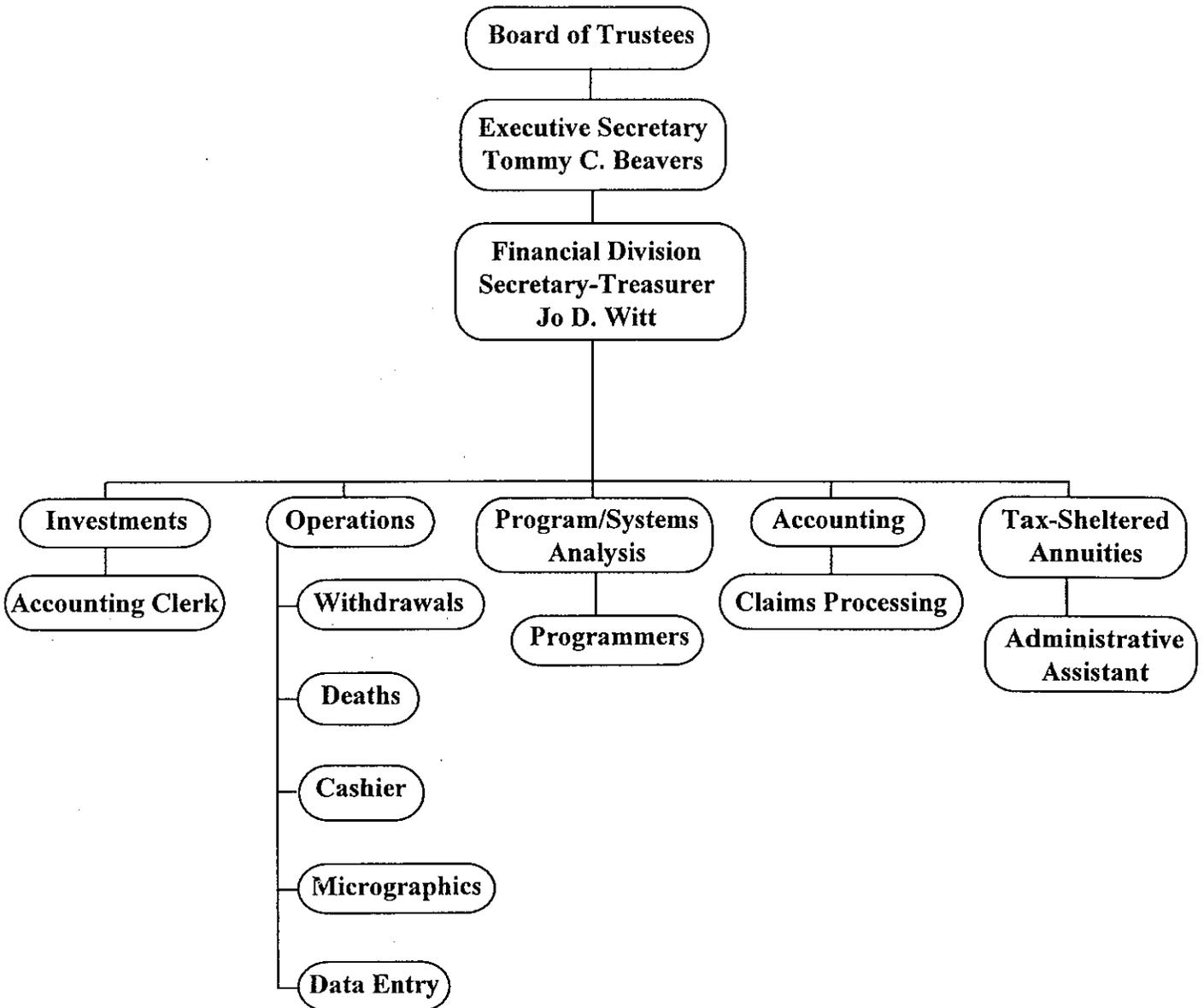
The Teachers' Retirement System of Oklahoma Organizational Chart



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



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



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Teachers' Retirement System of Oklahoma

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1995

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



Arthur R. Lynch
President

Jeffrey L. Essler
Executive Director

Professional Consultants and Advisors

Domestic Equity Managers

Liberty Investment Management, Large Capitalization Growth
Tampa, FL

Hotchkis and Wiley, Large Capitalization Value
Los Angeles, CA

Tom Johnson Investment Management, Large Capitalization Core
Oklahoma City, OK

Bankers Trust Company, Russell 2000 Small Cap Value Index Fund
New York, NY

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

Brandes Investment Partners, International Equity
San Diego, CA

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

Marquette Alliance, Inc., Investment Consultant
Tulsa, OK

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

1996-97 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 6½% of your applicable earnings up to a maximum of \$25,000 and 7% on compensation above \$25,000. Beginning in 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 1996-97 is 9½%, 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 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 joining 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 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

You are responsible for resolving any questions about your 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.*

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, 1996 AND 1995**

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

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Oklahoma City, OK 73102-5671

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Telefax 405 552 3846

100 West Fifth Street
Suite 310
Tulsa, OK 74103

Telephone 918 585 2551

Telefax 918 560 2868

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Teachers' Retirement System of Oklahoma:

We have audited the accompanying statements of plan net assets of the Teachers' Retirement System of Oklahoma (the System), a component unit of the state of Oklahoma, as of June 30, 1996 and 1995, and the related statements of changes in plan net assets 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 position of the System has deteriorated in 1996. 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, 1996 and 1995, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

As discussed in note 3 to the financial statements, the System implemented the straight-line method of depreciation for fixed assets. In addition, the System implemented Governmental Accounting Standards Board Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans."

In accordance with *Government Auditing Standards* we have also issued a report dated October 16, 1996, on our consideration of the System's internal control structure and a report dated October 16, 1996, on its compliance with laws and regulations.



The information included on pages 43-45 is not a required part of the basic financial statements of the System, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

KPM# Peat Marwick LLP

Oklahoma City, Oklahoma
October 16, 1996

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

Statements of Plan Net Assets

June 30, 1996 and 1995

<u>Assets</u>	<u>1996</u>	<u>1995</u>
Cash	\$ 3,713,877	3,168,861
Short-term investments	128,163,454	167,701,860
Long-term investments	3,414,147,566	2,982,799,307
Accrued interest and dividends receivable	28,337,074	27,968,740
Receivable from state of Oklahoma	11,128,546	9,716,688
Due from brokers for securities sold	24,492,330	75,818,463
Land, furniture and fixtures	<u>244,517</u>	<u>509,360</u>
Total assets	<u>3,610,227,364</u>	<u>3,267,683,279</u>
<u>Liabilities and Reserved Funds</u>		
Benefits in process of payment	15,229,420	15,387,413
Due to brokers for securities purchased	33,485,254	49,189,234
Compensated absences	<u>115,568</u>	<u>121,372</u>
Total liabilities	<u>48,830,242</u>	<u>64,698,019</u>
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 43)	<u>\$ 3,561,397,122</u>	<u>3,202,985,260</u>

See accompanying notes to financial statements.

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

Statements of Changes in Plan Net Assets

Years ended June 30, 1996 and 1995

	<u>1996</u>	<u>1995</u>
Additions:		
Contributions:		
Members	\$ 149,884,939	152,294,253
Employer	55,111,484	43,689,553
State of Oklahoma and various federal sources	<u>122,083,443</u>	<u>117,606,990</u>
Total contributions	<u>327,079,866</u>	<u>313,590,796</u>
Investment income:		
Interest	103,029,538	115,117,694
Dividends	44,728,837	40,229,943
Net appreciation in fair value of investments	320,480,844	270,564,308
Less investment expenses	<u>(6,816,327)</u>	<u>(6,143,038)</u>
Net investment income	<u>461,422,892</u>	<u>419,768,907</u>
Other revenue	<u>84,740</u>	<u>115,290</u>
Total additions	<u>788,587,498</u>	<u>733,474,993</u>
Deductions:		
Retirement, death, survivor, and health benefits	396,147,031	377,520,148
Refund of member contributions and annuity payments	31,814,168	29,946,427
Administrative expenses	<u>2,214,437</u>	<u>2,255,992</u>
Total deductions	<u>430,175,636</u>	<u>409,722,567</u>
Net increase	358,411,862	323,752,426
Net assets held in trust for pension benefits:		
Beginning of year	3,202,985,260	2,783,820,773
Restatement due to change in accounting policy (note 3)	<u>-</u>	<u>95,412,061</u>
Beginning of year, restated	<u>3,202,985,260</u>	<u>2,879,232,834</u>
End of year	\$ <u>3,561,397,122</u>	<u>3,202,985,260</u>

See accompanying notes to financial statements.

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

Notes to Financial Statements

June 30, 1996 and 1995

(1) Description of the System

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

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

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

	<u>1996</u>	<u>1995</u>
Retirees and beneficiaries currently receiving benefits	29,984	29,007
Terminated vested participants	2,709	2,532
Active participants	<u>78,942</u>	<u>79,044</u>
	<u>111,635</u>	<u>110,583</u>

There are 632 contributing employers in the System. In addition, there were 7,136 and 6,583 of nonvested inactive participants at June 30, 1996 and 1995, respectively, who are entitled to a refund of their accumulated contributions.

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. The System does not provide for a cost-of-living adjustment. Title 70 O.S. Sec. 17-105 defines all retirement benefits. The authority to establish and amend benefit provisions rests with the State Legislature. Benefit 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 prior to July 1, 1992, is defined as the average salary for the three highest years of compensation. Final compensation for members joining the System

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

Notes to Financial Statements, Continued

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 final average compensation is limited to \$40,000 or \$25,000, depending on the member's election. Monthly benefits are one-twelfth of this amount.

- Upon the death of a member who has not yet retired, the designated beneficiary shall receive the member's total contributions plus 100% of interest earned through the end of the fiscal year, with interest rates varying based on time of service. If the deceased, in-service member joined the System prior to July 1, 1992, the beneficiary will receive an additional death benefit of \$18,000. A surviving spouse of a qualified member may elect to receive, in lieu of the aforementioned benefits, the retirement benefit the member was entitled to at the time of death.
- Upon the death of a retired member, the System will pay \$4,000 to the designated beneficiary, in addition to the benefits provided for by the retirement option selected by the member.
- If the joint annuitant predeceases the retired member, the member's benefit is increased to the amount the benefit would have been if the member had elected a life only annuity.
- A member is eligible for disability benefits after ten years of credited Oklahoma service. The disability benefit is equal to 2% of final average compensation for the applicable years of credited service.
- Transfer of service credit between the System and the Oklahoma Public Employees Retirement System is permitted. Senate Bill 768 changes the joint options to "pop-up" options. This change was made for both current and future retirees.
- 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. The System performs no administrative functions related to the health insurance coverage provided through the Board. Such amounts were approximately \$19,432,000 and \$19,191,000 in 1996 and 1995, respectively, and are included in retirement, death and survivor benefits.

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

Notes to Financial Statements, Continued

(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, 1995. 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 \$362.8 million and the actuarial value of assets increased \$233.1 million. The System's unfunded actuarial accrued liabilities increased \$129.7 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 and the employee contributes 7%. (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. 25, the System's funded ratio is only 39.6% while the average for teacher retirement systems is about 84%. The GASB funding ratio was 38.4% at June 30, 1995, while the retiree funding ratio was 84%.

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 and adequate earnings and gains are provided on investments, the System will eventually be adequately funded. If legislative changes further reduce, delay, or roll back the funding schedule as did occur during 1995 and 1996, 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 maintained 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.

Contributions are reported in the periods in which the contributions are due. Benefits are reported as due and payable in accordance with the terms of the System. Refunds represent an insignificant component of total activity and are recognized as paid.

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

Notes to Financial Statements, Continued

(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 traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Fixed-income securities are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Investments that do not have an established market are reported at estimated fair value. Investment income is recognized as earned. Gains and losses on sales and exchanges of investment securities are recognized on the trade date.

(d) Land, Furniture and Fixtures

Land, furniture and fixtures are stated at cost. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from 5 to 10 years.

	<u>1996</u>	<u>1995</u>
Land	\$ 187,616	187,616
Furniture and fixtures	<u>693,146</u>	<u>900,075</u>
Total	880,762	1,087,691
Accumulated depreciation	<u>636,245</u>	<u>578,331</u>
Net land, furniture, and fixtures	\$ <u>244,517</u>	<u>509,360</u>

The System has commitments to lease building space from the Oklahoma State School Board Association, as well as leases on certain equipment. The future minimum commitments for operating leases as of June 30, 1996, 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, 1996 and 1995.

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

Notes to Financial Statements, Continued

(e) Administrative Costs

Administrative costs of the System are financed through investment earnings.

(f) 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.

(g) 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, 1996 and 1995, were approximately \$116,000 and \$121,000, respectively.

(h) Reserved Funds

Amounts included in the Teachers' Deposit Fund, the Expense Fund, and the Furniture and Fixtures Fund are not available to pay regular retirement benefits. A brief description of the major funds is as follows:

- 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.

	<u>1996</u>	<u>1995</u>
Teachers' Deposit Fund (tax-sheltered annuities)	\$ 236,535,000	214,437,000
Expense Fund	12,964,000	11,084,000
Furniture and Fixtures Fund	<u>57,000</u>	<u>322,000</u>
	<u>\$ 249,556,000</u>	<u>225,843,000</u>

(i) 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

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

Notes to Financial Statements, Continued

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.

(j) Change in Accounting Policy

In fiscal 1996, the System retroactively recorded depreciation expense for fiscal 1995 and prior years. Accordingly, the fiscal 1995 statement of plan net assets and the statement of changes in plan net assets have been restated. Depreciation expense is being recorded on a straight-line basis over the useful life of the asset.

In addition, in fiscal 1996, the System adopted Governmental Accounting Standards Board Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." In accordance with this statement, investments are carried at fair value and the pension liability is removed from the statement of plan net assets. The System retroactively applied this statement to the beginning of fiscal 1995. Accordingly, the fiscal 1995 statement of plan net assets and the statement of changes in plan net assets have been restated to reflect these changes.

The following amounts represent the components of the restatement for fiscal years prior to 1995 effecting the System net assets at July 1, 1995.

Increase to reflect investments (market value)	\$ 95,926,122
Depreciation expense	<u>(514,061)</u>
Net assets as restated at July 1, 1995	<u>\$ 95,412,061</u>

(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 (102% at June 30, 1996) and is held by the State Treasurer or his agent.

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

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

Notes to Financial Statements, Continued

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, 1996 and 1995, are categorized as follows:

	Market Value	
	1996	1995
Short-term investments (category 1):		
Commercial paper	\$ 109,184,000	136,307,000
U.S. government	9,608,000	4,855,000
Money market account:		
Domestic	12,000	4,079,000
International	<u>9,359,000</u>	<u>22,461,000</u>
Total short-term investments	<u>128,163,000</u>	<u>167,702,000</u>
Long-term investments (category 1):		
Fixed income:		
U.S. government	384,932,000	397,057,000
U.S. government agency securities	283,182,000	260,993,000
Corporate	269,325,000	248,252,000
Convertible debt securities	72,935,000	66,531,000
International	133,812,000	120,082,000
Equities:		
Preferred stock	124,000	6,365,000
Convertible preferred stock	73,864,000	78,470,000
Common stock	1,741,529,000	1,437,505,000
International	<u>129,592,000</u>	<u>52,725,000</u>
Total long-term investments	<u>3,089,295,000</u>	<u>2,667,980,000</u>
Long-term investments (not categorized):		
Investments held by broker dealers under collateralized securities lending program:		
Fixed income:		
U.S. government	202,080,000	241,643,000
Corporate	16,653,000	20,205,000
International	35,218,000	21,898,000
Equities:		
Domestic	31,006,000	11,679,000
International	<u>27,549,000</u>	<u>7,030,000</u>
Total investments held by broker dealers under collateralized securities lending program	312,506,000	302,455,000
Guaranteed investment contracts	<u>12,347,000</u>	<u>12,364,000</u>
Total long-term investments (not categorized)	<u>324,853,000</u>	<u>314,819,000</u>
Total long-term investments	<u>3,414,148,000</u>	<u>2,982,799,000</u>
Total investments	<u>\$ 3,542,311,000</u>	<u>3,150,501,000</u>

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

Notes to Financial Statements, Continued

Included in short-term investments at June 30, 1995, is \$4,078,844 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 \$312,506,000 and \$302,455,000 at June 30, 1996 and 1995, and the collateral under the agreement had a market value of approximately \$324,251,000 and \$338,850,000 at June 30, 1996 and 1995. 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 statement of plan net assets and are translated to the current currency exchange rates.

The System has investments in mortgage-backed securities pools of approximately \$275,000,000 and \$227,000,000 at June 30, 1996 and 1995, 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

The authority to define or amend employer contribution rates is given to the board by title 70, section 17-106; all other contribution rates are defined or amended by the Oklahoma Legislature. All active members contribute to the System; however, the employer may elect to make all or part

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

Notes to Financial Statements, Continued

of the contribution for its employees. The contribution rates vary on pay up to \$25,000 and over \$25,000, and prior to July 1, 1995, there was a limit on pay recognized. In addition, there are special provisions for members of higher education who joined the System before July 1, 1995.

The following table summarizes the contribution rates for members *other than higher education*:

Fiscal Year	Rate of Pay Up to \$25,000	Rate of Pay Over \$25,000	Pay Maximum
1995	6%	8% (optional)	\$40,000
1996	6%	7% (required)	None
1997	6.5%	7% (required)	None

The following table summarizes the contribution rates for *members of higher education*.

Fiscal Year	Rate of Pay	%	Pay Maximum
1995	\$25,000	6%	\$25,000
1995	\$40,000	8%	\$40,000
1996	\$27,500	6%	\$27,500, if elected to not make additional contributions on excess to \$40,000
1996	\$44,000	6%	\$44,000, if elected to make additional contributions on excess to \$40,000 or if a member prior to July 1, 1995, had not made an election
1997	None	6.5%	None

The employers are required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate of 9.5%, 8.5%, and 8% for 1997, 1996, and 1995 is applied to annual compensation up to defined caps depending upon the member's elections as previously described. Oklahoma Statutes require the state of Oklahoma to contribute 5/7th of 78% of the natural and casinghead gas tax (the dedicated tax) collected each year. The contributions received from the state of Oklahoma are used to offset the percentage of the required employer contributions.

In 1992, the Oklahoma Legislature passed Senate Bill 568 which resulted in changes in the amount and nature in which employer contributions are fixed at certain percentages of annual compensation. The employer is now responsible for providing any differences 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.

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

Notes to Financial Statements, Continued

(6) Plan Amendments

Senate Bill 568 provided the following changes to the Plan:

- Employer contribution rates were increased on a graduating scale of 7% on July 1 to 18% through July 1, 2004. The rate increases by 1% each year from July 1, 1994 through July 1, 2004. 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 1995, the Oklahoma Legislature passed Senate Bill 527 which became 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.

In the 1996 legislative session, Senate Bill 832 was passed which resulted in the following plan amendments for members employed in higher education:

- Effective July 1, 1996, all members, except those members employed by a comprehensive university before July 1, 1995, will contribute on annual compensation without any limits. Members employed by comprehensive universities will contribute according to the following:

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

Notes to Financial Statements, Continued

Fiscal Year	For Members Who Elected the \$25,000 Limit Prior to June 30, 1995	For All Other Members
1997	\$ 32,500	\$ 49,000
1998	37,500	54,000
1999	42,500	59,000
2000	47,500	64,000
2001	52,500	69,000
Thereafter	No Limit	No Limit

- Employer contributions will be based on the same compensation as member contributions. Effective July 1, 1996, member contributions will be 6.5% of annual compensation up to \$25,000 and 7% of the excess annual compensation up to the maximum recognized compensation.
- The benefit formula was adjusted to consider the adjusted compensation limits for service earned between July 1, 1995 and June 30, 2001.
- Eliminated the salary cap effective July 1, 1995.
- Members joining the System after June 30, 1992, are eligible for maximum benefits when their age and years of creditable service total 90 and their final average compensation is calculated based on the highest five years of consecutive annual compensation.
- Employee contributions were increased to 7% of annual compensation effective July 1, 1997, phased in 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 were decreased to 9% on July 1, 1993, 8% on July 1, 1994, and 7% on July 1, 1995, and thereafter.

(7) Contingencies

The System is a defendant in a class action lawsuit that challenges the method of calculating benefits established by Senate Bill 568. The plaintiffs are seeking increased retirement benefits for retirees who retired prior to July 1, 1995. 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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REQUIRED SUPPLEMENTARY INFORMATION

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

Required Supplementary Information

Schedule of Funding Progress
(dollars in millions)

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b)-(a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as % of Covered Payroll (4)/ (6) (b-a)(c)
June 30, 1991	\$ 2,089.6(1)	\$ 5,444.5	\$ 3,354.9	38.4%	\$ 1,921.3	174.6%
June 30, 1992	2,287.1(1)	6,083.4	3,796.3	37.6	2,002.4	189.6
June 30, 1993	2,569.2(1)	6,456.9	3,887.7	39.8	2,122.0	183.2
June 30, 1994	2,697.2(1)	6,736.0	4,038.8	40.0	2,189.5	184.5
June 30, 1995	2,869.9	7,480.4	4,610.5	38.4	2,336.1	197.4
June 30, 1996	3,103.0	7,843.2	4,740.2	39.6	2,375.5	199.5

(1) The actuarial value of assets is based on book value for all investments, except equities.

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

Required Supplementary Information

Schedule of Employer Contributions
(dollars in millions)

Fiscal Year ending June 30	Annual Required Contribution	Percentage Contributed
1991	\$ 263,362,522	57.1%
1992	279,425,082	53.7
1993	362,206,934	54.9
1994	372,329,474	53.6
1995	385,986,674	41.8
1996	434,728,781	40.8

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

Notes to Required Supplementary Information

June 30, 1996

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 1996
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar, open
Remaining amortization period	40 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment of rate of return*	8.00%
Projected salary increases*	4.50% to 7.75%
*Includes inflation at	4.00%
Cost-of-living adjustments	None

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

Board of Trustees
Teachers' Retirement System of Oklahoma:

We have audited the financial statements of Teachers' Retirement System of Oklahoma (the System), as of and for the year ended June 30, 1996, and have issued our report thereon dated October 16, 1996, which includes an explanatory paragraph relating to changes in accounting policy.

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
October 16, 1996



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

Board of Trustees
Teachers' Retirement System of Oklahoma:

We have audited the financial statements of Teachers' Retirement System of Oklahoma (the System), as of and for the year ended June 30, 1996, and have issued our report thereon dated October 16, 1996, which includes an explanatory paragraph relating to changes in accounting policy.

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 financial statements of the System for the year ended June 30, 1996, 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 October 16, 1996.

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

KPMG Peat Marwick LLP

Oklahoma City, Oklahoma
October 16, 1996

Actuarial Section



October 23, 1996

Watson Wyatt & Company

Suite 2400
2121 San Jacinto Street
Dallas, TX 75201-2772

Telephone 214 978 3400
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Board of Trustees
Teachers' Retirement System of Oklahoma
P.O. Box 53524
Oklahoma City, Oklahoma 73152

Dear Members of the Board:

Subject: Certification of the 1996 Actuarial Valuation

We certify that the information contained herein is accurate and fairly presents the actuarial position of the Teachers' Retirement system of Oklahoma as of June 30, 1996.

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. 25 (GASB No. 25), 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 9.5% (effective July 1, 1996), 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 22.2 years, measured from June 30, 1996. Last year the funding period was 22.6 years, measured from June 30, 1995. Therefore, while the funding period decreased, it did not decrease as much as expected. This was principally because of slower than expected growth in System payroll. This more than offset the benefit of a return on assets which was significantly greater than expected. 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 \$4.6 billion to \$4.7 billion.

Benefit Provisions

The actuarial valuation reflects the benefit provisions as set forth in current statutes, including those adopted in the 1996 legislative session. SB 832 changed benefits and contributions for members of higher education during a transition period from July 1, 1995 to June 30, 2001. This change had only a small effect, lowering the UAAL by about \$31 million.

Assumptions and Methods

The actuarial assumptions and methods used in this report are unchanged from last year. Assumptions are set by the Board of Trustees, taking into account the recommendation of the plan's actuaries. Assumptions were last changed in 1995, following an analysis of plan experience for the preceding five years. 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, 1996, 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, ASA, MAAA, EA
Actuary

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). It is also used to calculate the Annual Required Contribution (ARC) as defined by GASB No. 25.

The actuarial valuation uses 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. While this amount is not required to be paid under the statutes, it is reported as the Annual Required Contribution (ARC) under GASB No. 25. The 40-year period applies to all components of the UAAL and is recalculated each year (open amortization method).

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	Merit/ Promotional Component	Total Salary Increase Rate
(1)	(2)	(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:

Age	Expected Deaths per 100 Lives			
	Healthy Males	Healthy Females	Disabled Males	Disabled Females
(1)	(2)	(3)	(4)	(4)
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:

Age	Expected Deaths per 100 Lives	
	Male Members	Female Members
(1)	(2)	(3)
25	.04	.02
30	.06	.04
35	.08	.06
40	.11	.08
45	.16	.11
50	.23	.16
55	.32	.23
60	.43	.32
65	.59	.43

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

Age	Expected Disabilities Occurring per 100 Lives	
	Male Members	Female Members
(1)	(2)	(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:

Age	Expected Retirements per 100 Lives			
	Unreduced Retirement		Reduced Retirement	
	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. Supplemental medical insurance: All members, whether currently active, inactive, or retired, are assumed to receive the supplemental insurance benefit.
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, and a code indicating the type of employer (comprehensive university, other college or university, or other employer). 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 (1)	Active Members		Covered Payroll			Average Salary		Average Age (8)	Average Service Years (9)
	Number (2)	% Increase or Decrease (3)	\$ Amount (millions) (4)	% Increase or Decrease (5)	% Increase or Decrease (7)	\$ Amount (6)			
							% Increase or Decrease (7)		
1986	63,312	8.7%	\$1,461	22.8%	11.1%	\$22,819	41.7	9.7	
1987	64,534	1.9%	1,500	2.7%	1.5%	23,155	42.1	9.9	
1988	64,361	-0.3%	1,500	0.0%	0.7%	23,317	42.4	10.1	
1989	67,709	5.2%	1,610	7.3%	3.2%	24,058	42.8	10.2	
1990	69,062	2.0%	1,745	8.4%	5.0%	25,265	43.1	10.5	
1991	71,936	4.2%	1,921	10.1%	5.7%	26,709	43.1	10.5	
1992	73,568	2.3%	2,002	4.2%	1.9%	27,218	43.3	10.6	
1993	75,599	2.8%	2,122	6.0%	3.1%	28,069	43.4	10.7	
1994	76,280	0.9%	2,190	3.2%	2.3%	28,704	43.6	10.8	
1995	79,044	3.6%	2,336	6.7%	3.0%	29,555	43.6	10.7	
1996	78,942	-0.1%	\$2,375	1.7%	1.8%	\$30,091	43.4	11.1	

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

Fiscal Year	Beginning Balance Recipients			Ending Balance Recipients	% Increase/ (Decrease)
		Additions	Subtractions		
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%
1996	29,007	1,824	847	29,984	3.4%

Total monthly benefit payments, June 30, 1995	\$30,407,157
Added to rolls and retirement allowance increases	2,211,603
Removed from rolls	(724,668)
Total monthly benefit payments, June 30, 1996	<u>\$31,894,092</u>
Net monthly benefit increase	\$1,486,935
Percentage increase	4.89%
Average monthly allowance	\$1,057

Average monthly payment is \$1,093 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 Accrued 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%
1996	\$7,843,218,155	\$3,103,017,714	39.56%	\$4,740,200,441	\$2,375,000,000	199.59%

SOLVENCY TESTS

Periods Ending June 30

Date	Actuarial Accrued Liability and Percent of Active Member Payroll for:												
	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		Actuarial Value of Assets		Portion of Accrued Liabilities Covered by Assets		
	(1)	% of Payroll	(2)	% of Payroll	(3)	% of Payroll	(4)	% of Payroll	(1)	(2)	(3)	(4)	
1987	\$ 1,334,400,000	89%	\$ 1,644,200,000	110%	\$ 13,500,000	1%	\$ 469,400,000	31%	\$ 1,667,900,000	100%	20%	0%	0%
1988	1,151,800,000	77%	2,155,900,000	144%	18,400,000	1%	518,400,000	35%	1,693,900,000	100%	25%	0%	0%
1989	798,600,000	50%	2,194,000,000	136%	54,700,000	3%	917,700,000	57%	1,795,300,000	100%	45%	0%	0%
1990	909,700,000	52%	2,405,800,000	138%	59,900,000	3%	1,738,300,000	100%	1,951,300,000	100%	43%	0%	0%
1991	1,044,400,000	54%	2,662,900,000	139%	68,100,000	4%	1,669,200,000	87%	2,089,600,000	100%	39%	0%	0%
1992	1,186,700,000	59%	2,778,700,000	139%	78,500,000	4%	2,039,500,000	102%	2,287,100,000	100%	40%	0%	0%
1993	1,333,100,000	63%	2,926,100,000	138%	90,200,000	4%	2,107,600,000	99%	2,569,200,000	100%	42%	0%	0%
1994	1,467,900,000	67%	3,187,500,000	146%	102,500,000	5%	1,978,100,000	90%	2,697,200,000	100%	39%	0%	0%
1995	1,628,400,000	70%	3,409,300,000	146%	96,700,000	4%	2,346,000,000	100%	2,869,900,000	100%	36%	0%	0%
1996	1,799,100,000	76%	3,586,300,000	151%	106,700,000	4%	2,351,100,000	99%	3,103,000,000	100%	36%	0%	0%

Statistical Section

SCHEDULE OF AVERAGE PAYMENT AMOUNTS
Fiscal Year Ended June 30, 1996

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
June 30, 1980	\$382

Date	Regular Annuitants	Special Annuitants
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
June 30, 1996	\$1,093	\$163

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

ACTIVE PERSONNEL
Fiscal Year Ended June 30, 1996

Years of Service	All Active Personnel	Classified Personnel	Unclassified Personnel
Under 5 yrs.	21,226	12,337	8,889
5-9	19,519	11,898	7,621
10-14	12,771	8,367	4,404
15-19	10,570	8,885	1,685
20-24	8,417	7,609	808
25-29	4,910	4,638	272
30-34	1,210	1,142	68
35-39	251	243	8
40-44	55	52	3
45-49	9	8	1
50-54	4	3	1
TOTALS	78,942	55,182	23,760

Salary Range	All Active Personnel	Classified Personnel	Unclassified Personnel
0-\$5,000	446	235	211
5001-10,000	3,864	276	3,588
10,001-15,000	6,669	818	5,851
15,001-20,000	5,891	959	4,932
20,001-25,000	5,953	2,381	3,572
25,001-30,000	20,041	17,427	2,614
30,001-35,000	16,617	15,305	1,312
35,001-40,000	7,558	6,872	686
40,001-45,000	3,883	3,499	384
45,001-50,000	2,452	2,202	250
50,001-55,000	1,666	1,531	135
55,001-60,000	1,125	1,040	85
60,001-65,000	724	681	43
65,001-70,000	504	480	24
70,001-75,000	358	344	14
75,001 and Above	1,191	1,132	59
TOTALS	78,942	55,182	23,760

Average Age (years)	43.4	42.8	44.8
Average Salary	\$30,091	\$34,738	\$19,299
Average Service (years)	11.1	12.6	7.6

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFITS
Selected Plan Options
Fiscal Year Ended June 30, 1996

Option	Retired Members			Average Monthly Payment	% of Total
	Male	Female	Total		
Maximum	2,169	8,455	10,624	\$1,037	35.43%
Option 1	3,242	7,989	11,231	1,101	37.46%
Option 2	2,312	664	2,976	1,218	9.93%
Option 3	1,407	628	2,035	1,408	6.79%
Option 4	172	196	368	1,088	1.23%
Options 5, 6 & 7	828	100	928	832	3.09%
Disability	261	573	834	776	2.78%
Special Annuitants	155	833	988	163	3.30%
TOTALS	10,546	19,438	29,984	\$1,057	100.00%

Average monthly payment is \$1,093 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, 1996

Years of Creditable Service	Retired Members			Average Monthly Payment
	Male	Female	Total	
Under 10	30	89	119	\$204
10-14	879	2,527	3,406	326
15-19	1,029	2,777	3,806	544
20-24	1,285	3,816	5,101	878
25-29	2,039	3,813	5,852	1,264
30-34	2,482	2,967	5,449	1,462
35-39	1,698	1,590	3,288	1,581
40-44	849	869	1,718	1,725
45-49	95	154	249	1,836
50 and Over	5	3	8	2,487
TOTALS	10,391	18,605	28,996	\$1,093

Does not include 988 special annuitants

DISTRIBUTION BY AGE AT RETIREMENT
Fiscal Year Ended June 30, 1996

Age at Retirement	Retired Members		Total	Average Monthly Payment	Average Length of Service (years)
	Male	Female			
40 and Under	19	37	56	\$545	13.9
41-45	29	62	91	682	15.9
46-50	181	216	397	1,320	25.3
51-55	2,318	2,331	4,649	1,381	27.4
56-60	2,717	4,922	7,639	1,125	25.9
61-65	4,445	9,733	14,178	1,013	26.1
66-70	598	1,135	1,733	889	23.5
71-75	69	142	211	619	21.1
76-80	11	26	37	536	21.9
Over 80	4	1	5	680	19.8
TOTALS	10,391	18,605	28,996	\$1,093	26.0

Does not include 988 special annuitants

DISTRIBUTION BY RETIREE AGE
Fiscal Year Ended June 30, 1996

Age	Total Retired Members	Average Length of Service	Average Monthly Payment
Under 50	128	16.1	\$738
50-54	1,120	28.1	1,600
55-59	3,025	26.5	1,387
60-64	5,037	24.5	1,159
65-69	5,537	24.2	1,059
70-74	4,545	25.0	998
75-79	3,683	26.2	936
80-84	2,814	27.8	973
85-89	1,997	30.1	1,031
Over 90	1,110	31.2	1,004
TOTALS	28,996	26.0	\$1093

Does not include 988 special annuitants

DISTRIBUTION BY MONTHLY INCOME
Fiscal Year Ended June 30, 1996

Monthly Income	Retired Members	Total	Average Payment
Under \$100	83	\$6,995	\$84
\$101-200	907	141,356	156
\$201-\$300	1,440	361,224	251
\$301-\$400	1,639	573,124	350
\$401-\$500	1,515	681,070	450
\$501-\$600	1,473	809,564	550
\$601-\$700	1,445	938,889	650
\$701-\$800	1,303	977,946	751
\$801-\$900	1,404	1,194,261	851
\$900-\$1,000	1,433	1,363,881	952
\$1,001-\$1,100	1,689	1,773,697	1,050
\$1,101-\$1,200	1,852	2,129,928	1,150
\$1,201-\$1,300	1,885	2,353,919	1,249
\$1,301-\$1,400	1,984	2,675,835	1,349
\$1,401-\$1,500	1,829	2,650,946	1,449
\$1,501-\$1,600	1,629	2,521,860	1,548
\$1,601-\$1,700	1,312	2,161,948	1,648
\$1,701-\$2,000	2,488	4,614,643	1,855
\$2,001-\$2,500	1,427	3,104,574	2,176
Over \$2,500	259	697,388	2,693
TOTALS	28,996	\$31,733,048	\$1,093

Does not include 988 special annuitants

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

Schedule of Cash Receipts and Disbursements Years Ended June 30, 1996 and 1995

	<u>1996</u>	<u>1995</u>
Cash balance, beginning of year	\$3,168,861	\$1,975,432
<u>Receipts:</u>		
Members' contributions	149,884,939	152,294,253
Employer contributions	55,111,484	43,689,553
State of Oklahoma and various federal sources	120,671,585	119,432,236
Interest income	107,921,542	103,860,029
Dividends	45,961,215	40,122,463
Net gain on investments	244,018,444	76,685,769
Other revenue	84,740	115,290
* Investments sold	<u>7,169,706,738</u>	<u>6,361,641,906</u>
	<u>7,893,360,687</u>	<u>6,897,841,499</u>
<u>Disbursements:</u>		
Retirement, death, survivor, and health benefits	396,305,026	377,318,244
Refund of member contributions and annuity payments	31,814,168	29,946,427
Administrative expenses	2,161,674	2,184,948
Investment expenses	6,816,327	6,143,038
Equipment purchases	55,357	48,041
* Investment purchases	<u>7,455,663,119</u>	<u>6,481,007,372</u>
Total disbursements	<u>7,892,815,671</u>	<u>6,896,648,070</u>
Balance of cash, June 30	<u>\$3,713,877</u>	<u>\$3,168,861</u>

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

1996 Participating Employers

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

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

Pauls Valley	Roland	Sulphur	Warner
Pawhuska	Rush Springs	Sweetwater	Washington
Pawnee	Ryal	Swink	Washita Hgts
Peavine	Ryan	Tahlequah	Watonga
Peckham	S Rock Creek	Talihina	Watson
Peggs	Salina	Taloga	Watts
Perkins-Tryon	Sallisaw	Tannehill	Waukomis
Perry	Sand Springs	Tecumseh	Waurika
Picher-Cardin	Sapulpa	Temple	Wayne
Pickett Center	Sasakwa	Tenkiller	Waynoka
Piedmont	Savanna	Terral	Weatherford
Pioneer Pleasant Vale	Sayre	Texhoma	Webbers Falls
Pioneer	Schulter	Thackerville	Welch
Pittsburg	Seiling	Thomas-Fay-Custer	Weleetka
Plainview (Cimarron)	Seminole	Tiawah Pub	Wellston
Plainview (Carter)	Sentinel	Timberlake	Western Hgts
Pleasant Grove	Sequoyah	Tipton	Westville
(Pottawatomie)	Shady Grove	Tishomingo	Wetumka
Pleasant Grove	Shady Point	Tom	Wewoka
(Seminole)	Sharon-Mutual	Tonkawa	White Oak
Pocola	Shattuck	Tulsa	White Rock
Ponca City	Shawnee	Tupelo	Whitehead
Pond Creek-Hunter	Shidler	Turkey Ford	Whitefield
Porter Consolidated	Silo	Turner	Whitesboro
Porum	Skelly	Turpin	Wickliffe
Poteau	Skiatook	Tushka	Wilburton
Prague	Smithville	Tuskahoma	Wilson (Carter)
Preston	Snyder	Tuttle	Wilson (Okmulgee)
Pretty Water	So. Coffeyville	Twin Hills	Wister
Prue	Soper	Tyrone	Woodall
Pryor	Spavinaw	Union City	Woodland
Purcell	Sperry	Union	Woodward
Putnam City	Spiro	Valliant	Wright City
Quapaw	Springer	Vanoss	Wyandotte
Quinton	Sterling	Varnum	Wynnewood
Rattan	Stidham	Velma-Alma	Wynona
Ravia	Stigler	Verden	Yale
Red Oak	Stillwater	Verdigris	Yarborough
Reydon	Stilwell	Vian	Yukon
Ringling	Stonewall	Vici	Zaneis
Ringwood	Stony Point	Vinita	Zion
Ripley	Straight	Wagoner	
Riverside	Stratford	Wainwright	
Robin Hill	Stringtown	Wakita	
Rock Creek	Strother	Walters	
Rocky Mountain	Stroud	Wanette	
Roff	Stuart	Wapanucka	

**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

Fiscal Year 1995 ended with very positive returns in both the fixed income and equity markets; however, FY-96 began with doubts about the momentum of the economy and the tenor of monetary policy. Leading indicators contributed to a rollercoaster ride for market psychology. Among the top attention-getters were unemployment and new jobs, as full employment generally creates fear of inflation. All of 1995 operated at near full employment, with the unemployment rate dropping to 5.3% by June 30, 1996. The labor market is considered the most important gauge of the economy overall. Housing is foremost among the interest sensitive areas.

The relatively conservative fiscal stance taken by both major U. S. political parties has calmed fears of uncontrollable budget deficits. The budget deficit for fiscal 1995 fell to \$164 billion, the third consecutive annual decline. The projected 1996 Federal budget deficit is \$116 billion. If achieved, the forecasted deficit would be the lowest since the \$79 billion in fiscal 1981 deficits. These policy tendencies seem pretty firmly in place in other major industrial countries as well, providing a higher level of assurance to investors that the value of their financial assets will not be eroded by overly stimulative fiscal and monetary policies.

The Federal funds rate target began the year at 6.00%, which was promptly cut to 5.75% on July 6th. The Federal Reserve Board eased the short-term rate in December to 5.50%, and again in January to 5.25%. The Federal Reserve Board's intention is to achieve slow growth and low inflation, the best of all possible worlds. For all of 1995, the economy grew at a rate of 2.0%, the weakest performance since the 1991 recession. This is weaker than what is believed to be the Fed's goal of 2.50% growth. After a slowdown in the third quarter of FY-96, the economy surged forward in the 4th quarter, and ended the fiscal year with expectations of a Fed tightening in July or August.

A surprisingly lackluster holiday shopping season, thought to be the result of consumers buying cautiously as both job and income growth had slowed, ended the year of 1995. Retail sales were extremely disappointing, with same-store sales (stores open at least one year) showing their lowest December increase in ten years. This was almost immediately followed by the blizzard of January 1996, which paralyzed much of the country, especially the east coast. It is said that the Fed's cut of 25 basis points in January was partially a result of distorted information gathered during the week of the blizzard. The new year began with threats of recession.

Driven by lower interest rates and rising corporate earnings, both equity and fixed income markets remained strong through the end of 1995. The S&P 500 returned 7.89% for the quarter ended September 30 and 6.03% for the quarter ended December 31. Continued advancement through the third quarter, except for a dip in March caused by the release of strong employment figures for February, resulted in an S&P return of 5.44%, and in the fourth quarter the S&P gained 4.49%. The S&P 500 returned 26.03% for Fiscal Year 1996. On the fixed income side, the Lehman Brothers Aggregate Bond Index returned 1.97% for the quarter ended September 30, 1995, and 4.26% for the quarter ended December 31. Fixed income markets started off the year with a positive January, but suffered declines in February and March, finishing down for the quarter amid fears the string of Federal Reserve Board interest cuts had come to an end. The LB Aggregate returned -1.78% for the quarter ended March 31, and .57% for the quarter ended June 30. The Fiscal Year 1996 return for the Lehman Brothers Aggregate Index was 5.01%.

Outside the U. S., investment returns have been mixed. Economic concerns in Japan have persisted and growing evidence of deflation have driven ten-year bond yields below 3%. The Japanese equity market continues to perform poorly. European equities were expected to perform well in 1996, but with high political-driven risks. International bond returns exceeded stocks in most markets. Emerging markets posted the strongest gains. The introduction of a single European currency in 1999 will substantially change the competitive landscape in the European financial services sector. The recovery in the value of the dollar that began in the summer of 1995 is still intact, despite some recent signs of correction. As the U. S. trade deficit continues to narrow, the dollar is expected to increase further.

A little financial trivia: 1996 is the 100-year anniversary of the Dow Jones Industrial Average. The original Dow Index was made up of only twelve stocks, before being expanded to twenty in 1916 and thirty in 1928. Only General Electric remains from the original list, however it was excluded briefly in the 1898-1899 period and between 1901 and

1907. Examining a 1917 list of America's one hundred richest corporations (ranked by corporate assets) a mere twenty-three were still on the top one hundred list in 1995. And only eighteen of 1917's top 50 remain in the 1995's top fifty. Thus, over a 78-year period, only about 20% of the premier companies of 1917 remained in the top one hundred.

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 investment of the funds, and act solely in the interest of the plan participants.

PORTFOLIO DIVERSIFICATION

The naming of new members to the Investment Committee, subsequent to the appointment of six new members to the Board of Trustees in August 1995, resulted in the accomplishment of an asset allocation study with the System's investment consultant, Marquette Alliance, Inc. As of June 30, 1996, this study was still in progress; however, the adoption of a new asset allocation model for the System's portfolio appears imminent. The target strategy currently in place is 60% equities and 40% fixed income investments, of which 5% of the equities and 5% of the fixed income are to be invested in international securities.

The Retirement System's assets are also diversified by investment style, utilizing specialty investment managers of 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 invests a portion (up to 25%) of assets in that portfolio in international fixed income, resulting in a global fixed income portfolio, completing the funding of 5% of total assets in international fixed income. The Board hired an international equity manager in FY-96 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 (four domestic equity managers, three domestic fixed income managers, one global fixed income manager, one convertible manager and two international managers.)

The following is a listing of external investment portfolio managers as of June 30, 1996:

<u>Manager</u>	<u>Market Value (millions)</u>
1. Liberty Investment Management, Inc. (Tampa), Equity, Growth	\$562
2. Hotchkis & Wiley (L. A.), Equity, Value	\$477
3. Tom Johnson Investment Management (Okla. City), Equity, Core	\$615
4. Bankers Trust Russell 2000 Value Index Fund (N.Y.), Equity, Small Cap	\$168
5. Capital Guardian Trust Company (L.A.), Convertibles	\$206
6. Liberty Bank & Trust (Okla. City), Fixed, Intermediate	\$141
7. Neuberger & Berman Pension Mgmt. (N.Y.), Fixed, Global	\$334
8. Mellon Bond Associates (Philadelphia), Passive Fixed, Aggregate	\$400
9. Investment Advisers, Inc., (Minneapolis), Fixed, Aggregate	\$376
10. Brinson Partners, Inc., (Chicago), International, Balanced	\$170
11. Brandes Investment Partners (San Diego), International, Equity	\$ 87

Total investment-related expenses for 1996 and 1995, including investment managers, custodian and investment consultant, were \$6,816,327 and \$6,143,038, respectively. The total equity shares traded during 1996 were 49,400,524 at a cost of \$1,766,770, or \$0.036 per share. For FY-95, 30,132,419 equity shares were traded at a cost of \$1,417,519, or \$0.047 per share.

During Fiscal Year 1996, the dollar amount of equity purchases was \$1,144,832,472 with equity sales of \$1,295,612,760, for a total of \$2,440,445,232. For the bond portfolio, securities purchased totaled 1,355,022,508, with sales of \$1,282,998,280, for a total of \$2,638,020,788.

INVESTMENT PERFORMANCE

During the past fiscal year, relative returns for the various Teachers' Retirement System portfolios have been very good. Structuring of external investment managers was devised to provide diversification of the fund. As a general rule, the various investment styles have performed as anticipated.

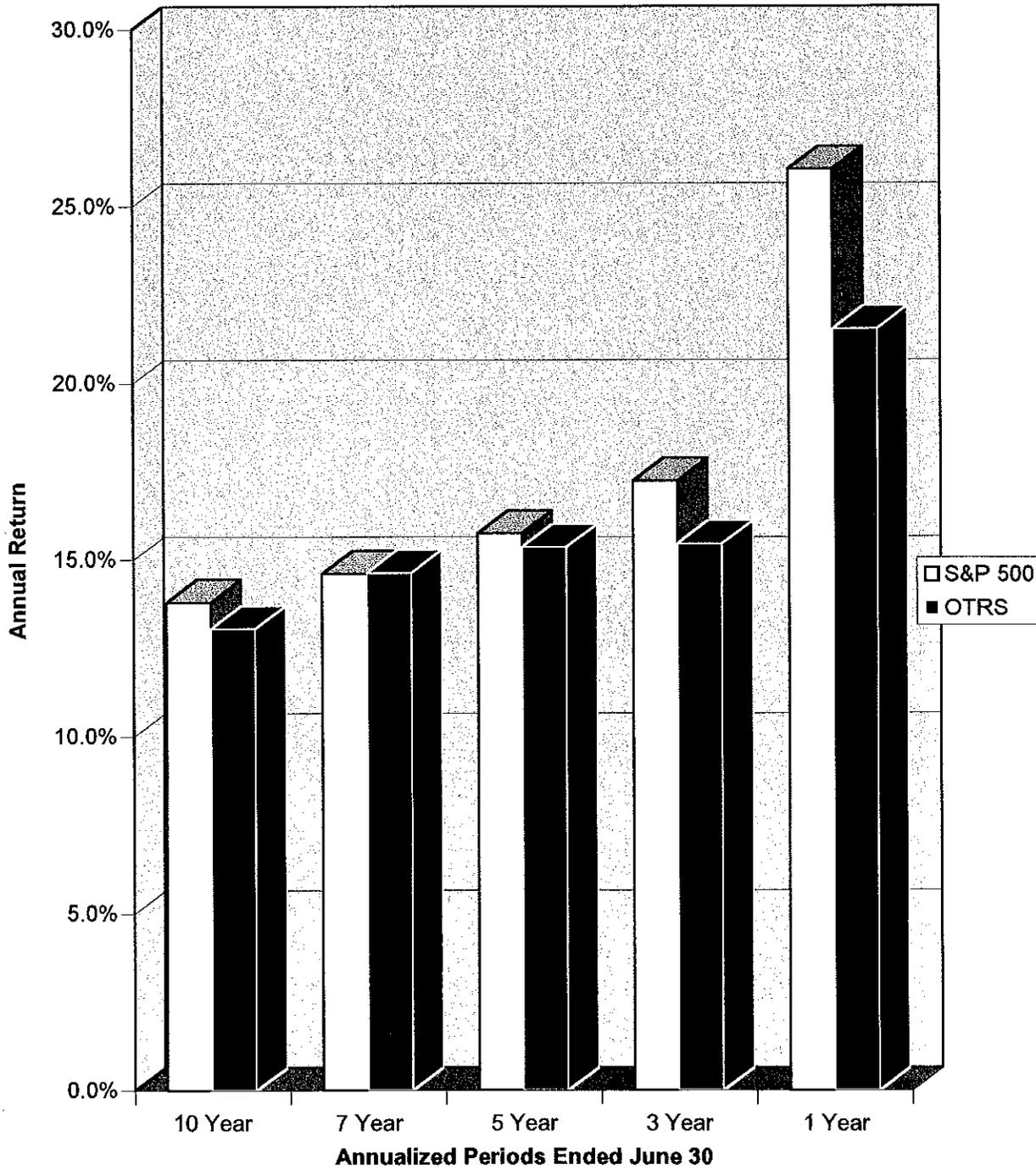
The following are the fiscal quarterly rates of return for the System's equity (stock) and fixed income (bond) portfolios as well as the benchmarks to which they are compared:

<u>Portfolio</u>	<u>QTR I</u>	<u>QTR II</u>	<u>QTR III</u>	<u>QTR IV</u>
OTRS Fixed Income Portfolio	1.83%	3.99%	(1.34%)	0.54%
Lehman Bros. Gov't/Corp. Index	1.92%	4.66%	(2.34%)	0.47%
OTRS Equity Portfolio	7.82%	3.91%	5.23%	3.08%
S&P 500 Index	7.89%	6.03%	5.44%	4.49%

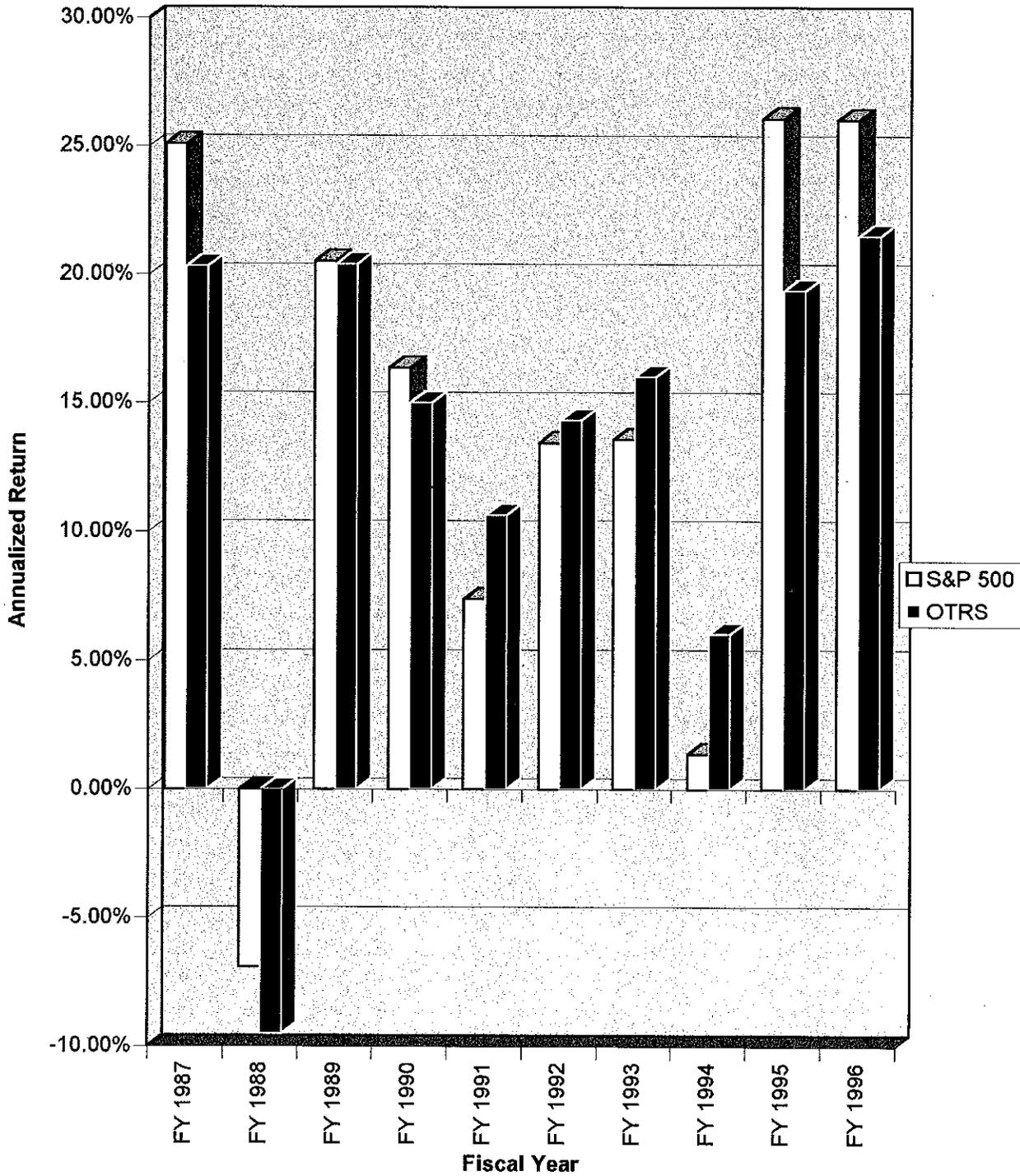
For the fiscal year ended June 30, 1996, the System's equity portfolio returned 21.53%, while the S&P returned 26.03%. the System's fixed income portfolio returned 5.04% as compared to the Lehman Brothers Government/Corporate Index of 4.66%. The return for the total combined portfolio was 14.74% for the fiscal year.

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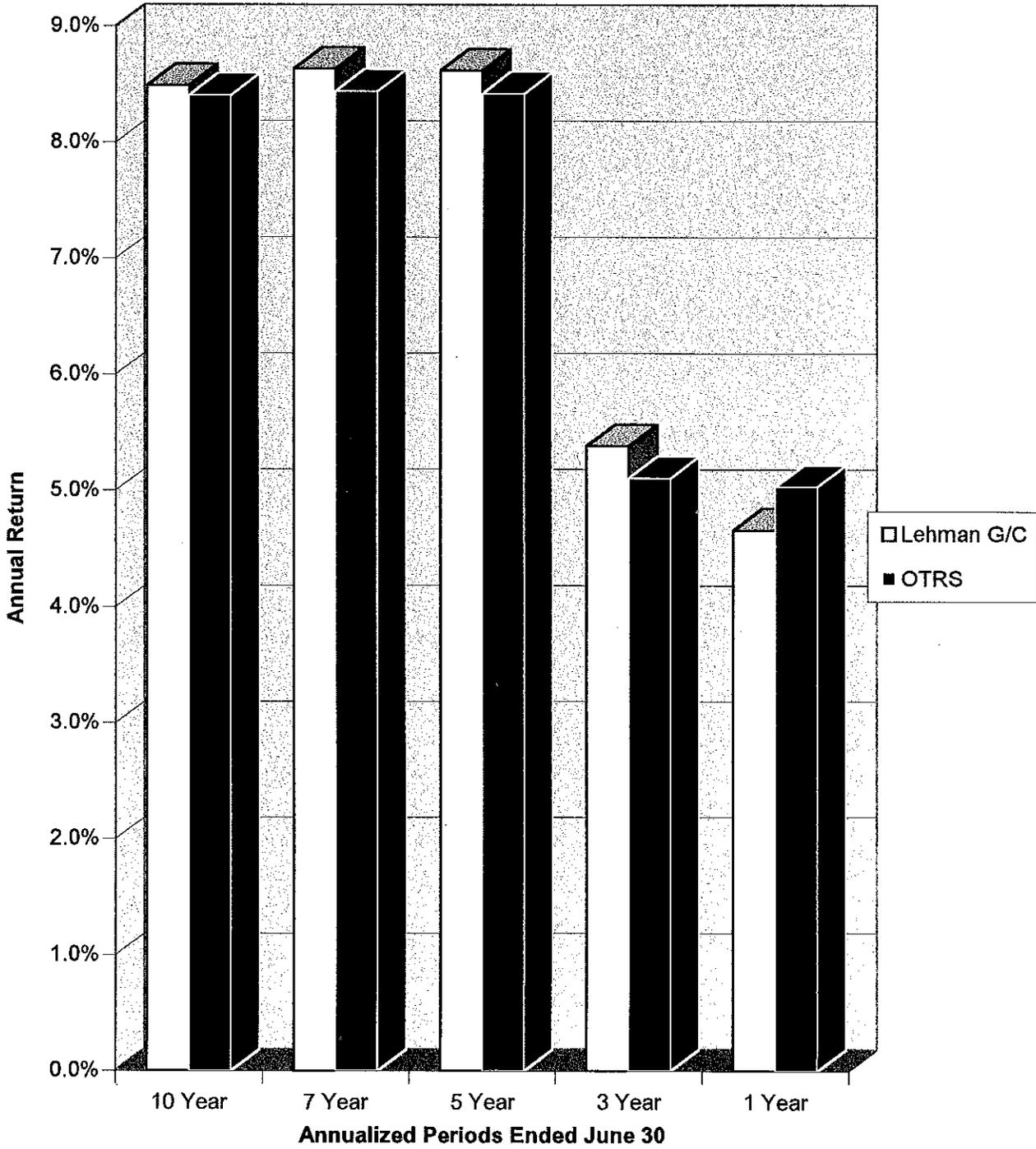
ANNUALIZED EQUITY RETURN COMPARISON S&P 500 vs. OTRS Equity Portfolio



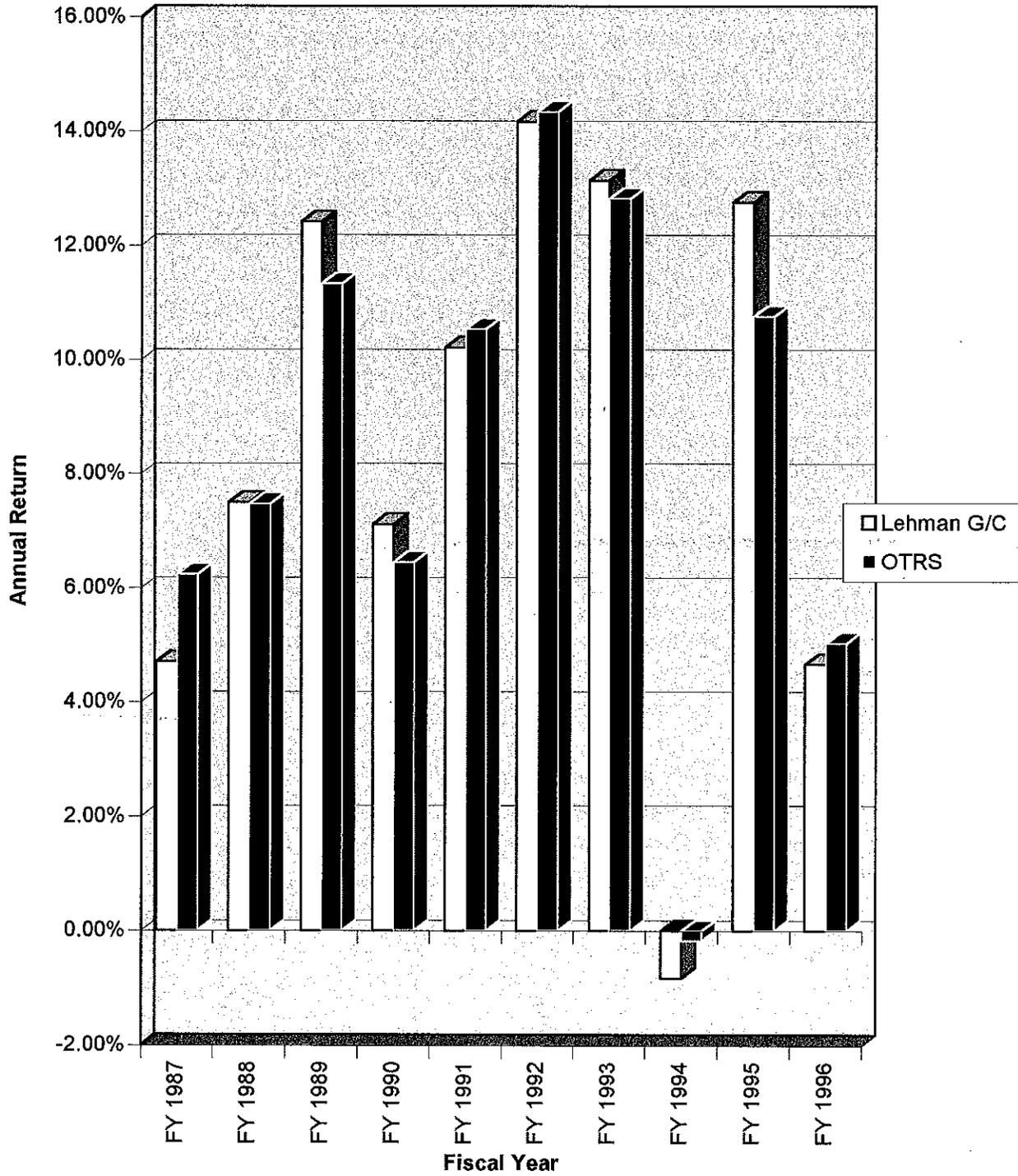
TEN YEAR ANNUAL RETURN COMPARISON
Standard & Poors 500 Index vs. OTRS Equity Portfolio



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

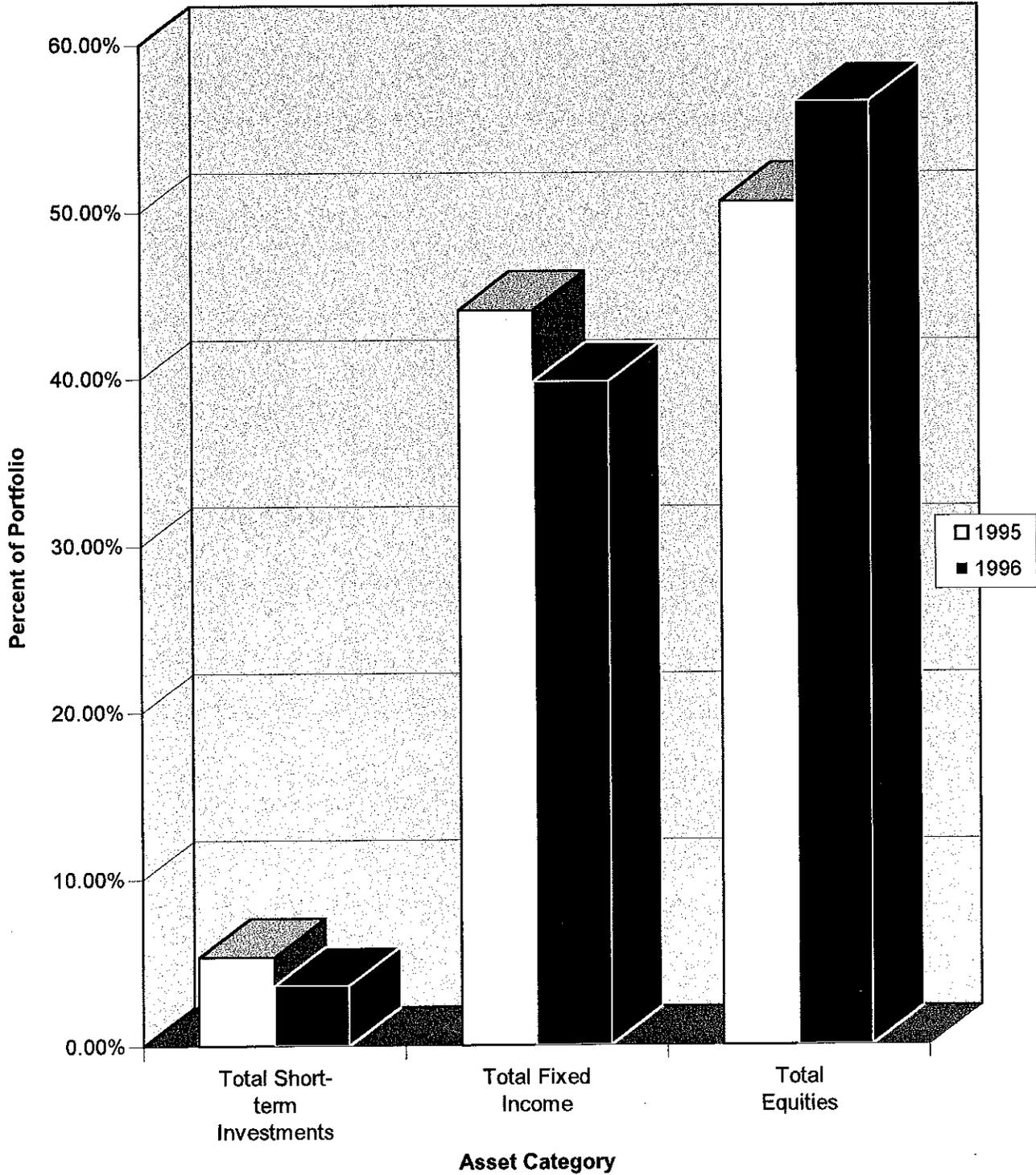


ASSET ALLOCATION

Comparison of Fiscal Years Ended June 30, 1996 and 1995

	1996 Market Value	1995 Market Value
Short-term Investments:		
Commercial Paper	\$109,184,000	\$136,307,000
U. S. Government	9,608,000	4,855,000
Money Market Account:		
Domestic	12,000	4,079,000
International	<u>9,359,000</u>	<u>22,461,000</u>
Total Short-term Investments	\$128,163,000	\$167,702,000
Long-term Investments:		
Fixed Income:		
U. S. Government	\$587,012,000	\$638,700,000
U. S. Government Agencies	283,182,000	260,993,000
Corporate	285,978,000	268,457,000
Convertible Bonds	72,935,000	66,531,000
International	<u>169,030,000</u>	<u>141,980,000</u>
Total Fixed Income	\$1,398,137,000	\$1,376,661,000
Equities:		
Preferred Stock	\$124,000	\$6,365,000
Convertible Preferred Stock	73,864,000	78,470,000
Common Stock	1,772,535,000	1,449,184,000
International	<u>157,141,000</u>	<u>59,755,000</u>
Total Equities	\$2,003,664,000	\$1,593,774,000
Guaranteed Investment Contract	\$12,347,000	\$12,364,000
Total Long-term Investments	\$3,414,148,000	\$2,982,799,000
Total Investments	\$3,542,311,000	\$3,150,501,000

ASSET ALLOCATION FOR PERIODS ENDED JUNE 30



PORTFOLIO OF ASSETS, JUNE 30, 1996

SHORT-TERM INVESTMENTS

Commercial Paper:	Date	Face Value	Market Value
APC FDG CORP	07/12/96	2,000,000	1,991,083
ALLOMAN FDG CORP	07/22/96	5,000,000	4,969,478
AMERICAN TRAD & PRO	07/11/96	1,000,000	997,600
ANCHOR FDG CORP	07/22/96	1,300,000	1,291,810
ANCHOR FDG CORP	07/30/96	2,000,000	1,987,586
ANCHOR FDG CORP	08/05/96	2,000,000	1,987,213
ATLANTIC ASSET SEC	07/01/96	4,000,000	3,983,356
ATLANTIC ASSET SEC	07/18/96	2,000,000	1,993,074
B I FDG INC	07/31/96	2,500,000	2,487,203
BARTON CAO CORP	07/25/96	5,000,000	4,967,989
BERKELEY FDG INC	07/09/96	1,646,000	1,639,371
BROADWAY CAP CORP	07/15/96	2,532,000	2,519,159
BUDGET FDG CORP	07/01/96	5,000,000	4,995,508
CREATIVE CAP CORP	07/03/96	2,500,000	2,489,165
CREATIVE CAP CORP	07/18/96	2,488,000	2,480,018
DELAWARE FDG CORP	07/02/96	3,000,000	2,998,167
EATON CORP	07/01/96	4,965,000	4,962,704
ENTERPRISE FDG CORP	07/03/96	2,950,000	2,936,848
ENTERPRISE FDG CORP	07/26/96	2,000,000	1,986,873
FORD MTR CR CO	07/19/96	3,000,000	2,989,239
FRANKLIN RES INC	07/09/96	2,000,000	1,989,617
HERTZ CORP	07/16/96	5,000,000	4,974,736
HOLLAND LTD SEC	07/12/96	1,215,000	1,207,236
HOLLAND LTD SEC	07/15/96	1,322,000	1,313,945
HOLLAND LTD SEC	07/29/96	2,503,000	2,490,495
INDUSTRIES FDG CORP	07/02/96	5,200,000	5,181,968
MADISON FDG INC	07/10/96	4,600,000	4,572,656
MERCANTILE BANKSHARI	07/25/96	2,000,000	1,991,522
MET LIFE FDG INC	07/25/96	2,100,000	2,090,550
OMNIBUS FDG CORP	07/08/96	5,000,000	4,990,867
PURINA AG CAPITAL	07/23/96	5,000,000	4,979,675
RECEIVABLES CAP CORP	07/19/96	1,177,000	1,173,087
RELIASTAR MTG CORP	07/08/96	2,700,000	2,686,383
RELIASTAR MTG CORP	07/17/96	2,300,000	2,287,695
STELLAR CAP CORP	07/16/96	1,432,000	1,427,640
STELLAR CAP CORP	08/02/96	626,000	622,622
STRATEGIC ASSET FDG	07/03/96	1,000,000	995,500
TEMPLE INLAND INC	07/12/96	1,200,000	1,194,461
TRIPLE -A- FDG CORP	07/11/96	2,200,000	2,194,359
TRIPLE-A-ONE FDG CORP	07/02/96	3,156,000	3,154,068
TRIPLE-A-ONE FDG CORP	08/09/96	1,018,000	1,011,397
U. S. TREASURY BILLS	08/22/96	5,000,000	4,876,897
U. S. TREASURY BILLS	05/01/97	5,000,000	4,731,750
BANKERS TRUST CO GOVT SEC STIF			11,551
INTERNATIONAL CASH INVESTMENTS			<u>9,359,334</u>
TOTAL SHORT-TERM INVESTMENTS			128,163,454

FIXED INCOME INVESTMENTS

DOMESTIC FIXED INCOME:			
	Rate	Maturity Date	Market Value
U. S. TREASURY BONDS	8.125%	08/15/19	37,216,488
U. S. TREASURY BONDS	8.125%	05/15/21	1,576,750
U. S. TREASURY BONDS	9.250%	02/15/16	15,780,547
U. S. TREASURY BONDS	9.875%	11/15/15	1,301,720
U. S. TREASURY BONDS	10.375%	11/15/12	3,810,155
U. S. TREASURY BONDS	10.750%	02/15/03	5,881,171
U. S. TREASURY BONDS	10.750%	05/15/03	13,372,621
U. S. TREASURY BONDS	11.125%	08/15/03	4,381,020
U. S. TREASURY BONDS	11.625%	11/15/04	6,806,218
U. S. TREASURY BONDS	12.375%	05/15/04	13,402,310
U. S. TREASURY BONDS	12.750%	11/15/10	1,404,220
U. S. TREASURY NOTES	5.125%	11/30/98	8,782,020
U. S. TREASURY NOTES	5.500%	02/28/99	24,338,968
U. S. TREASURY NOTES	5.750%	08/15/03	14,589,849
U. S. TREASURY NOTES	5.750%	10/31/00	1,928,639
U. S. TREASURY NOTES	5.875%	04/30/98	4,980,450
U. S. TREASURY NOTES	6.000%	05/31/98	4,989,050
U. S. TREASURY NOTES	6.250%	02/15/03	6,876,380
U. S. TREASURY NOTES	6.250%	05/31/00	11,371,638
U. S. TREASURY NOTES	6.375%	01/15/99	1,003,280
U. S. TREASURY NOTES	6.375%	08/15/02	9,473,887
U. S. TREASURY NOTES	6.500%	04/30/99	16,668,040
U. S. TREASURY NOTES	6.500%	05/15/97	7,548,075
U. S. TREASURY NOTES	6.500%	08/15/97	5,032,800
U. S. TREASURY NOTES	6.500%	05/15/05	13,460,907
U. S. TREASURY NOTES	6.500%	08/15/05	10,989,663
U. S. TREASURY NOTES	6.500%	05/31/01	16,037,534
U. S. TREASURY NOTES	6.750%	02/28/97	15,608,965
U. S. TREASURY NOTES	6.750%	04/30/00	6,062,820
U. S. TREASURY NOTES	6.875%	07/31/99	2,028,440
U. S. TREASURY NOTES	6.875%	08/31/99	16,126,098
U. S. TREASURY NOTES	6.875%	05/15/06	12,335,298
U. S. TREASURY NOTES	7.125%	09/30/99	8,144,304
U. S. TREASURY NOTES	7.250%	05/15/04	3,108,270
U. S. TREASURY NOTES	7.250%	02/15/98	7,802,004
U. S. TREASURY NOTES	7.375%	11/15/97	3,765,897
U. S. TREASURY NOTES	7.500%	11/15/01	43,353,582
U. S. TREASURY NOTES	7.500%	05/15/02	2,093,740
U. S. TREASURY NOTES	7.500%	10/31/99	9,293,940
U. S. TREASURY NOTES	7.500%	12/31/96	15,145,350
U. S. TREASURY NOTES	7.500%	02/15/05	420,812
U. S. TREASURY NOTES	7.750%	11/30/99	10,829,000
U. S. TREASURY NOTES	7.750%	12/31/99	15,211,302
U. S. TREASURY NOTES	7.875%	04/15/98	13,054,440
U. S. TREASURY NOTES	7.875%	08/15/01	8,474,960
U. S. TREASURY NOTES	7.875%	11/15/99	5,222,650
U. S. TREASURY NOTES	8.000%	05/15/01	4,784,040

FIXED INCOME INVESTMENTS (Cont.)

	Rate	Maturity Date	Market Value		Rate	Maturity Date	Market Value
U. S. TREASURY NOTES	8.000%	08/15/99	5,228,100	FHLMC GROUP #308326	9.500%	07/01/18	20,659
U. S. TREASURY NOTES	8.125%	02/15/98	5,156,250	FHLMC GROUP #308327	8.500%	06/01/18	125,806
U. S. TREASURY NOTES	8.250%	07/15/98	16,112,715	FHLMC GROUP #308457	10.000%	11/01/18	93,559
U. S. TREASURY NOTES	8.500%	05/15/97	8,183,760	FHLMC GROUP #360021	10.000%	02/01/18	48,909
U. S. TREASURY NOTES	8.500%	04/15/97	10,721,445	FHLMC GROUP #360098	9.500%	03/01/20	149,869
U. S. TREASURY NOTES	8.500%	07/15/97	4,104,360	FHLMC GROUP #360122	9.500%	10/01/20	37,983
U. S. TREASURY NOTES	8.625%	08/15/97	1,955,518	FHLMC GROUP #380040	10.000%	02/01/04	42,266
U. S. TREASURY NOTES	8.750%	10/15/97	4,964,976	FHLMC GROUP #501688	8.500%	06/01/03	113,580
U. S. TREASURY NOTES	8.875%	11/15/98	3,172,020	FHLMC GROUP #502265	10.500%	05/01/04	35,062
U. S. TREASURY NOTES	8.875%	02/15/99	3,187,020	FHLMC GROUP #503923	8.500%	05/01/06	65,921
U. S. TREASURY NOTES	9.000%	05/15/98	4,033,805	FHLMC GROUP #537795	11.000%	08/01/19	12,080
U. S. TREASURY NOTES	9.125%	05/15/99	30,506,450	FHLMC GROUP #539462	8.500%	10/01/19	24,746
U. S. TREASURY NOTES	9.250%	8/15/98	8,905,344	FHLMC GROUP #540090	9.000%	10/01/19	66,284
U. S. TREASURY STRIP	0.000%	02/15/04	14,911,992	FHLMC GROUP #542546	11.000%	10/01/19	15,285
FEDERAL FARM CR BKS	8.650%	10/01/99	922,879	FHLMC GROUP #542819	7.500%	01/01/19	77,670
FEDERAL HOME LN BKS	5.740%	03/11/99	4,920,300	FHLMC GROUP #544194	8.500%	05/01/19	378,991
FEDERAL HOME LN BKS	6.000%	03/18/99	4,945,300	FHLMC GROUP #544794	9.500%	01/01/20	37,104
FEDERAL HOME LN BKS	6.160%	01/21/04	5,683,140	FHLMC GROUP #548780	9.500%	04/01/20	96,601
FEDERAL HOME LN BKS	7.780%	10/19/01	2,091,560	FHLMC GROUP #552314	9.000%	08/01/20	126,821
FEDERAL HOME LN BKS	9.250%	11/25/98	1,633,332	FHLMC GROUP #554845	8.500%	05/01/21	117,344
FHLMC DISCOUNT NOTE	0.000%	07/15/96	4,266,236	FHLMC GROUP #554866	8.500%	06/01/21	56,684
FHLMC SERIES A	6.375%	12/23/03	3,638,500	FHLMC GROUP #B00096	8.500%	05/01/06	97,887
FHLMC DEBENTURE	8.125%	09/30/96	1,751,153	FHLMC GROUP #C00078	9.000%	11/01/21	78,129
FHLMC GROUP #C00206	7.500%	01/01/23	430,372	FHLMC GROUP #C00109	8.000%	04/01/22	1,116,695
FHLMC GROUP #140154	6.500%	05/01/08	204,800	FHLMC GROUP #C00249	7.000%	07/01/23	1,148,307
FHLMC GROUP #170037	13.500%	10/01/10	179,489	FHLMC GROUP #C00262	7.000%	10/01/23	1,507,892
FHLMC GROUP #170043	12.500%	12/01/11	129,689	FHLMC GROUP #C00294	6.500%	02/01/24	867,557
FHLMC GROUP #170102	13.500%	10/01/14	532,606	FHLMC GROUP #C00449	7.000%	03/01/26	586,123
FHLMC GROUP #170195	9.000%	10/01/16	26,898	FHLMC GROUP #C80091	6.500%	01/01/24	1,211,063
FHLMC GROUP #180146	10.000%	10/01/10	154,469	FHLMC GROUP #C80174	7.500%	08/01/25	881,508
FHLMC GROUP #180782	13.000%	01/01/11	54,231	FHLMC GROUP #C80334	7.500%	04/01/07	784,930
FHLMC GROUP #187466	13.000%	11/01/13	85,926	FHLMC GROUP #D05867	9.000%	06/01/21	116,296
FHLMC GROUP #187809	13.000%	02/01/14	50,662	FHLMC GROUP #D09716	9.000%	10/01/21	151,409
FHLMC GROUP #216642	8.500%	04/01/02	37,923	FHLMC GROUP #D18415	9.000%	05/01/22	279,507
FHLMC GROUP #216897	8.000%	05/01/02	127,876	FHLMC GROUP #D31939	8.500%	01/01/07	474,534
FHLMC GROUP #217089	7.500%	05/01/02	74,137	FHLMC GROUP #D65109	7.000%	10/01/25	431,824
FHLMC GROUP #251477	12.500%	02/01/14	295,613	FHLMC GROUP #D67619	7.500%	02/01/26	802,738
FHLMC GROUP #251821	13.000%	01/01/15	99,874	FHLMC GROUP #E00067	8.500%	05/01/06	51,603
FHLMC GROUP #251821	13.000%	11/01/14	20,767	FHLMC GROUP #E00071	7.500%	01/01/07	154,377
FHLMC GROUP #256218	13.000%	06/01/15	71,960	FHLMC GROUP #E00185	7.000%	01/01/08	443,973
FHLMC GROUP #256807	13.000%	02/01/15	4,538	FHLMC GROUP #E00221	6.000%	04/01/08	777,870
FHLMC GROUP #261046	9.500%	11/01/19	141,382	FHLMC GROUP #E00268	6.000%	12/01/08	553,165
FHLMC GROUP #271900	13.000%	09/01/15	179,725	FHLMC GROUP #E00292	6.500%	04/01/09	828,160
FHLMC GROUP #272602	6.750%	04/01/00	104,702	FHLMC GROUP #E20015	7.000%	03/01/08	326,270
FHLMC GROUP #280491	9.000%	11/01/16	169,637	FHLMC GROUP #E20017	6.500%	03/01/08	339,033
FHLMC GROUP #292637	8.000%	05/01/17	545,029	FHLMC GROUP #E20037	7.000%	07/01/08	674,194
FHLMC GROUP #294662	8.500%	06/01/17	55,134	FHLMC GROUP #E36304	7.500%	04/01/08	196,931
FHLMC GROUP #303927	9.000%	05/01/18	58,676	FHLMC GROUP #E39298	7.000%	09/01/07	249,136
FHLMC GROUP #304659	9.000%	06/01/18	77,364	FHLMC GROUP #E45787	8.000%	03/01/23	481,411
FHLMC GROUP #306397	10.500%	08/01/18	33,155	FHLMC GROUP #E50093	6.500%	08/01/08	855,587

FIXED INCOME INVESTMENTS (Cont.)

	Rate	Maturity Date	Market Value		Rate	Maturity Date	Market Value
FHLMC GROUP #M90336	5.500%	05/01/99	812,467	FNMA POOL #056437	8.500%	07/01/17	89,594
FHLMC GROUP #M90340	6.500%	05/01/99	819,150	FNMA POOL #062424	9.500%	11/01/17	100,445
FHLMC GROUP #M90345	7.000%	05/01/99	406,604	FNMA POOL #063366	8.500%	06/01/18	27,395
FHLMC SERIES G039H	6.500%	12/25/11	2,653,868	FNMA POOL #070412	8.500%	10/01/19	240,751
FNMA DEBENTURE	7.900%	08/02/96	1,745,168	FNMA POOL #070425	9.000%	01/01/02	49,938
FNMA DEBENTURE	8.200%	03/10/16	1,888,439	FNMA POOL #080469	9.500%	04/01/18	91,786
FNMA DEBENTURE	8.350%	11/10/99	2,741,778	FNMA POOL #081871	12.500%	12/01/13	45,789
FNMA DEBENTURE	8.950%	07/10/97	771,795	FNMA POOL #083790	8.000%	01/01/03	103,925
FNMA SERIES 02	6.950%	09/10/02	1,476,555	FNMA POOL #088708	8.500%	01/01/20	79,487
FNMA MED TERM NOTES	6.850%	09/19/02	984,530	FNMA POOL #097679	9.500%	07/01/20	43,878
FNMA POOL #001026	12.500%	09/01/11	48,663	FNMA POOL #099336	10.000%	07/01/20	24,106
FNMA POOL #002463	11.000%	09/01/15	69,489	FNMA POOL #107878	9.000%	11/01/05	21,822
FNMA POOL #007238	8.000%	06/01/08	527,039	FNMA POOL #111744	9.000%	12/01/20	10,503
FNMA POOL #009152	12.500%	12/01/13	87,321	FNMA POOL #112137	9.500%	12/01/20	39,396
FNMA POOL #021002	12.500%	04/01/12	211,045	FNMA POOL #113143	9.000%	01/01/21	63,016
FNMA POOL #031946	9.000%	08/01/01	37,774	FNMA POOL #114232	9.000%	02/01/21	23,460
FNMA POOL #033611	9.000%	09/01/01	32,087	FNMA POOL #114548	9.000%	02/01/21	160,094
FNMA POOL #038794	9.500%	12/01/16	54,037	FNMA POOL #116855	9.500%	02/01/21	80,720
FNMA POOL #041028	9.500%	10/01/01	23,687	FNMA POOL #120271	8.500%	05/01/21	77,627
FNMA POOL #045681	9.000%	04/01/17	58,461	FNMA POOL #124087	8.000%	01/01/22	210,008
FNMA POOL #050150	9.500%	12/01/18	95,675	FNMA POOL #124418	8.000%	08/01/99	306,319
FNMA POOL #050219	10.000%	08/01/04	49,662	FNMA POOL #125133	8.500%	07/01/22	227,265
FNMA POOL #050252	9.000%	11/01/04	56,067	FNMA POOL #125178	8.000%	01/01/23	694,439
FNMA POOL #050265	9.500%	01/01/05	47,293	FNMA POOL #134325	8.500%	10/01/21	98,670
FNMA POOL #050275	9.000%	02/01/20	170,172	FNMA POOL #138130	9.000%	11/01/21	156,430
FNMA POOL #050291	9.000%	04/01/20	126,967	FNMA POOL #147256	8.500%	02/01/22	487,045
FNMA POOL #050308	9.500%	06/01/20	46,787	FNMA POOL #151099	8.000%	02/01/07	136,471
FNMA POOL #050353	9.500%	10/01/20	55,047	FNMA POOL #155611	8.000%	04/01/22	509,287
FNMA POOL #050402	9.000%	02/01/21	61,699	FNMA POOL #157207	8.000%	04/01/22	183,958
FNMA POOL #050432	8.500%	05/01/21	93,174	FNMA POOL #164997	8.000%	08/01/07	123,500
FNMA POOL #050437	8.000%	06/01/06	250,114	FNMA POOL #175241	8.500%	07/01/22	97,510
FNMA POOL #050478	9.000%	09/01/21	137,141	FNMA POOL #180152	6.500%	09/01/07	308,294
FNMA POOL #050492	9.000%	10/01/21	39,112	FNMA POOL #184634	8.000%	10/01/20	369,902
FNMA POOL #050505	8.000%	11/01/06	33,892	FNMA POOL #220521	6.500%	06/01/08	796,978
FNMA POOL #050542	7.500%	02/01/07	195,966	FNMA POOL #245598	7.000%	12/01/23	2,371,976
FNMA POOL #050573	8.000%	05/01/22	312,082	FNMA POOL #250005	7.000%	04/01/24	848,201
FNMA POOL #050576	7.500%	05/01/07	221,119	FNMA POOL #250039	6.000%	04/01/01	416,501
FNMA POOL #050577	8.000%	03/01/07	140,398	FNMA POOL #250059	7.000%	06/01/24	894,037
FNMA POOL #050588	8.500%	06/01/22	436,426	FNMA POOL #250097	7.500%	05/01/01	763,879
FNMA POOL #050589	7.500%	06/01/07	238,451	FNMA POOL #250460	7.000%	01/01/26	945,921
FNMA POOL #050656	7.500%	11/01/22	1,338,162	FNMA POOL #263199	6.000%	01/01/09	558,050
FNMA POOL #050659	7.000%	11/01/07	464,892	FNMA POOL #267733	6.500%	01/01/24	824,874
FNMA POOL #050682	7.000%	01/01/08	313,306	FNMA POOL #287411	7.500%	07/01/24	882,721
FNMA POOL #050920	7.500%	09/01/08	355,911	FNMA POOL #291648	7.500%	08/01/24	808,486
FNMA POOL #050929	6.500%	11/01/23	847,960	FNMA POOL #303776	6.500%	03/01/26	18,215,002
FNMA POOL #050945	6.000%	12/01/23	812,225	FNMA POOL #303970	6.000%	09/01/24	7,125,864
FNMA POOL #050951	6.000%	12/01/08	749,878	FNMA POOL #320013	7.500%	08/01/25	499,250
FNMA POOL #050952	6.500%	12/01/08	747,918	FNMA POOL #328961	6.000%	10/01/08	5,689,363
FNMA POOL #052576	9.500%	07/01/02	28,653	FNMA POOL #000VS1	6.250%	10/25/22	2,332,132
FNMA POOL #054527	8.000%	07/01/17	224,514	FNMA REMIC	5.000%	05/25/22	1,605,000

FIXED INCOME INVESTMENTS (Cont.)

	Rate	Maturity Date	Market Value		Rate	Maturity Date	Market Value
FNMA REMIC	5.700%	08/25/16	2,277,404	GNMA POOL #210811	10.000%	08/15/18	67,238
FNMA REMIC	6.000%	06/25/19	2,374,200	GNMA POOL #220644	8.500%	07/15/17	4,610,192
FNMA REMIC	6.000%	09/25/22	1,340,377	GNMA POOL #224571	9.500%	07/15/17	137,044
FNMA REMIC	6.250%	11/25/19	2,413,275	GNMA POOL #229860	8.500%	07/15/17	202,470
FNMA REMIC	7.000%	11/29/19	3,281,421	GNMA POOL #231202	8.500%	08/15/17	171,920
GNMA POOL #015861	7.500%	03/15/07	464,264	GNMA POOL #233089	10.500%	12/15/17	87,898
GNMA POOL #016755	8.000%	09/15/07	179,228	GNMA POOL #246455	9.500%	02/15/18	80,716
GNMA POOL #023421	9.000%	09/15/08	158,018	GNMA POOL #248333	9.000%	06/15/03	52,427
GNMA POOL #023423	8.500%	08/15/08	162,711	GNMA POOL #251806	9.500%	06/15/20	73,839
GNMA POOL #024439	8.500%	07/15/08	168,159	GNMA POOL #260331	10.000%	11/15/18	108,607
GNMA POOL #024712	8.000%	03/15/08	100,149	GNMA POOL #267848	10.500%	07/15/19	132,345
GNMA POOL #024975	8.000%	04/15/08	97,469	GNMA POOL #277809	10.000%	07/15/19	144,344
GNMA POOL #025062	8.000%	03/15/08	188,908	GNMA POOL #279072	10.500%	12/15/13	108,244
GNMA POOL #025306	8.000%	04/15/18	325,134	GNMA POOL #282824	8.500%	01/15/20	140,889
GNMA POOL #027078	9.000%	11/15/08	213,425	GNMA POOL #284663	9.000%	02/15/20	100,819
GNMA POOL #031007	9.000%	04/15/09	45,090	GNMA POOL #286697	9.500%	07/15/20	69,273
GNMA POOL #033875	9.500%	07/15/09	152,747	GNMA POOL #289097	9.000%	05/15/20	70,452
GNMA POOL #033876	9.500%	08/15/09	118,944	GNMA POOL #290324	10.000%	05/15/20	105,728
GNMA POOL #042932	9.000%	10/15/10	66,925	GNMA POOL #291199	9.500%	07/15/20	74,208
GNMA POOL #104302	13.000%	09/15/13	192,939	GNMA POOL #295474	10.000%	12/15/20	160,285
GNMA POOL #116273	13.000%	06/15/14	19,758	GNMA POOL #297500	10.000%	11/15/20	112,542
GNMA POOL #120665	12.500%	09/15/14	544,872	GNMA POOL #299710	9.000%	03/15/21	101,956
GNMA POOL #127322	11.000%	08/15/15	5,232	GNMA POOL #300829	9.500%	01/15/21	25,388
GNMA POOL #138005	11.000%	12/15/00	69,266	GNMA POOL #301699	8.000%	12/15/21	406,501
GNMA POOL #140085	11.000%	10/15/15	42,313	GNMA POOL #303789	8.000%	03/15/22	199,482
GNMA POOL #140507	11.000%	10/15/15	7,515	GNMA POOL #304488	9.000%	03/15/01	103,277
GNMA POOL #143589	6.500%	02/15/24	847,850	GNMA POOL #310324	9.000%	08/15/21	106,393
GNMA POOL #155675	9.000%	09/15/01	102,242	GNMA POOL #310727	8.000%	05/15/22	66,848
GNMA POOL #155969	9.000%	07/15/16	217,034	GNMA POOL #313005	8.500%	10/15/21	90,578
GNMA POOL #155986	9.000%	05/15/16	168,147	GNMA POOL #317684	7.500%	02/15/07	107,524
GNMA POOL #159478	9.000%	06/15/16	50,888	GNMA POOL #323284	8.000%	05/15/22	520,273
GNMA POOL #161371	9.000%	06/15/16	50,094	GNMA POOL #328950	7.000%	12/15/22	427,156
GNMA POOL #161692	9.500%	01/15/20	140,968	GNMA POOL #330772	6.500%	10/15/22	48,187
GNMA POOL #162138	9.000%	09/15/16	149,915	GNMA POOL #335642	7.000%	03/15/08	307,517
GNMA POOL #162698	9.000%	10/15/19	91,545	GNMA POOL #343613	7.500%	05/15/23	606,529
GNMA POOL #166004	9.500%	10/15/16	73,393	GNMA POOL #344243	7.500%	03/15/03	2,176,166
GNMA POOL #169342	9.500%	08/15/16	117,673	GNMA POOL #344470	8.000%	03/15/23	69,436
GNMA POOL #173875	10.000%	10/15/16	61,102	GNMA POOL #345052	6.500%	10/15/23	639,109
GNMA POOL #180499	6.500%	12/15/23	110,510	GNMA POOL #345586	6.500%	03/15/24	101,587
GNMA POOL #181658	8.500%	11/15/01	106,048	GNMA POOL #345885	7.000%	09/15/23	842,120
GNMA POOL #182898	8.000%	11/15/16	180,533	GNMA POOL #345965	7.000%	11/15/23	1,763,848
GNMA POOL #185865	9.500%	07/15/17	72,270	GNMA POOL #346374	7.500%	01/15/23	552,736
GNMA POOL #189629	10.000%	08/15/17	150,332	GNMA POOL #348308	8.000%	10/15/23	73,800
GNMA POOL #200750	8.000%	03/15/17	155,157	GNMA POOL #351337	6.500%	12/15/23	3,925,479
GNMA POOL #201689	9.000%	01/15/17	135,447	GNMA POOL #351408	6.500%	01/15/24	865,040
GNMA POOL #201804	8.000%	03/15/17	450,603	GNMA POOL #351419	6.500%	03/15/24	1,775,757
GNMA POOL #203186	8.500%	01/15/17	69,508	GNMA POOL #352030	6.500%	11/15/23	789,166
GNMA POOL #204730	8.000%	05/15/17	307,161	GNMA POOL #352704	6.500%	07/15/23	145,596
GNMA POOL #208182	8.000%	03/15/17	358,585	GNMA POOL #354733	6.500%	01/15/24	793,763
GNMA POOL #209804	7.500%	03/15/17	278,487	GNMA POOL #354832	7.000%	06/15/24	4,617,452

FIXED INCOME INVESTMENTS (Cont.)

	Rate	Maturity Date	Market Value		Rate	Maturity Date	Market Value
GNMA POOL #355688	7.500%	06/15/23	711,774	ALZA CORP	0.000%	07/14/14	1,592,938
GNMA POOL #360078	8.000%	11/15/23	182,063	AMERICAN EXPRESS CR	6.750%	06/01/01	1,195,656
GNMA POOL #361382	6.500%	11/15/23	859,288	AMERICAN GEN FIN CORP	6.875%	01/15/00	399,072
GNMA POOL #362141	8.000%	11/15/23	5,286,708	AMERICAN GEN FIN CORP	8.500%	08/15/98	466,893
GNMA POOL #362174	6.500%	01/15/24	64,549	ARCHER DANIELS MIDL	8.875%	04/15/11	455,448
GNMA POOL #362337	6.500%	12/15/23	64,119	ASSOCIATES CORP N A	6.000%	03/15/00	5,254,939
GNMA POOL #363350	6.500%	05/15/24	763,542	ASSOCIATES CORP N A	7.300%	03/15/98	506,710
GNMA POOL #363574	6.500%	12/15/23	745,608	ASSOCIATES CORP N A	8.800%	08/01/98	521,630
GNMA POOL #364852	6.500%	01/15/24	799,862	ASSOCIATES CORP N A	9.125%	04/01/00	1,612,590
GNMA POOL #366056	6.500%	12/15/23	67,127	ATLANTIC RICHFIELD CO	9.875%	03/01/16	5,579,103
GNMA POOL #367967	7.500%	10/15/23	845,293	AUBURN HILLS TR	12.000%	05/01/20	3,105,460
GNMA POOL #368924	7.000%	05/15/24	901,200	AVCO FINL SVCS INC	5.500%	04/01/00	381,164
GNMA POOL #371711	6.500%	04/15/24	3,922,154	BALTIMORE GAS & ELEC	8.400%	10/15/99	1,047,510
GNMA POOL #372204	8.000%	07/15/25	874,408	BANC ONE AUTO GR TR	6.100%	10/15/02	2,946,366
GNMA POOL #372836	8.000%	12/15/23	4,171,325	BANKAMERICA CORP	7.500%	03/15/97	606,240
GNMA POOL #376036	6.500%	05/15/24	747,404	BANKERS TRUST NY	9.400%	03/01/01	708,097
GNMA POOL #378896	6.500%	02/15/24	62,727	BOEING CO	8.625%	11/15/31	348,676
GNMA POOL #379195	6.500%	01/15/24	557,097	BP AMER INC	9.375%	11/01/00	437,792
GNMA POOL #382967	6.500%	03/15/24	89,673	BROWNING FERRIS INDS	7.400%	09/15/35	380,164
GNMA POOL #383982	6.500%	03/15/24	94,226	CHASE MANHATTAN CC	6.730%	02/15/02	7,182,340
GNMA POOL #387064	8.000%	07/15/25	893,099	CHASE MANHATTAN CC	7.040%	02/15/04	2,023,120
GNMA POOL #392020	6.500%	04/15/24	793,719	CHASE MANHATTAN CORI	8.125%	06/15/02	1,048,790
GNMA POOL #394972	8.500%	09/15/24	703,856	CHASE MANHATTAN GR TI	2.000%	02/15/02	1,703,924
GNMA POOL #396019	6.500%	06/15/24	71,577	CHASE MANHATTAN GR TI	6.000%	09/17/01	4,875,083
GNMA POOL #399601	8.500%	12/15/24	294,079	CHEMICAL BK N Y	6.700%	08/15/08	467,790
GNMA POOL #402148	8.000%	07/15/25	907,899	CHEMICAL MASTER CC	7.090%	02/15/09	8,704,428
GNMA POOL #405489	7.500%	09/15/25	6,691,408	CHIRON CORP	19.000%	11/17/00	1,669,063
GNMA POOL #405539	8.500%	12/15/25	825,697	CIBA GEIGY CORP	6.250%	03/15/16	6,157,500
GNMA POOL #412755	8.000%	06/15/25	73,181	CINCINNATI FINL CORP	5.500%	05/01/02	2,848,750
GNMA POOL #412952	8.000%	07/15/25	437,419	CITICORP	8.000%	02/01/03	1,356,485
GNMA POOL #413060	8.000%	07/15/25	850,460	COCA COLA ENTERPRISES	7.875%	02/01/02	261,370
GNMA POOL #423454	7.500%	01/15/26	4,338,325	COCA COLA ENTERPRISES	8.500%	02/01/22	437,716
GNMA POOL #429349	7.000%	03/15/26	4,833,400	COLEMAN WORLDWIDE	0.000%	05/27/13	1,662,500
GNMA POOL #576788	9.500%	08/15/19	104,624	COLUMBIA / HCA HLTH	7.500%	11/15/95	1,937,776
GNMA POOL #780047	9.000%	12/15/17	6,550,422	COMCAST CORP	3.375%	09/09/05	794,750
GNMA POOL #780201	9.000%	12/15/17	10,094,180	COMCAST CORP	11.250%	04/15/07	2,667,500
GNMA POOL #780327	8.000%	11/15/17	11,083,700	COMMERCIAL CR GROUP	5.900%	09/01/03	932,630
GNMA POOL #780340	9.000%	11/15/17	10,458,864	COMMERCIAL CR GROUP	10.000%	05/01/99	801,546
GNMA POOL #780367	8.000%	09/15/08	2,170,216	CONNER PERIPHERALS	6.750%	03/01/01	1,300,000
GNMA POOL #780373	7.000%	12/15/23	9,452,840	CONNER PERIPHERALS	6.500%	03/01/02	5,108,250
GNMA REMIC	7.500%	11/16/19	2,991,540	CONSOLIDATED RAIL COR	9.750%	06/01/00	435,652
PRIVATE EXPORT FDG	7.700%	01/31/97	1,752,124	COUNTRYWIDE FDG	6.050%	03/01/01	2,369,619
RESOLUTION FDG CORP	8.125%	10/15/19	3,830,110	COUNTRYWIDE FDG	6.280%	01/15/03	3,714,514
RESOLUTION FDG CORP	9.375%	10/15/20	1,682,438	CSX TRANSN INC	6.070%	03/15/01	483,930
TENNESSEE VALLEY AUTH	5.980%	04/01/36	1,794,708	DAIMLER-BENZ AUTO GR	3.900%	10/15/98	620,994
TENNESSEE VALLEY AUTH	8.375%	10/01/99	790,080	DAIMLER-BENZ AUTO GR	5.850%	05/15/02	1,927,623
TENNESSEE VALLEY AUTH	8.625%	11/15/29	1,429,910	DAYTON HUDSON CORP	9.750%	11/01/98	785,517
1ST UNION CORP	8.125%	06/24/02	630,654	DAYTON HUDSON CORP	9.625%	02/01/08	113,536
ABN AMRO BK CHICAGO	7.550%	06/28/06	4,187,674	DAYTON HUDSON CC	6.100%	02/25/02	3,553,864
ALABAMA PWR CO	9.250%	05/01/21	697,717	DEAN WITTER DISCOVER	6.875%	03/01/03	4,933,050

FIXED INCOME INVESTMENTS (Cont.)

	Rate	Maturity Date	Market Value		Rate	Maturity Date	Market Value
DISCOVER CARD MASTER	6.050%	08/18/08	1,101,000	JAPAN FINANCIAL CORP	9.125%	03/13/00	1,509,074
DU PONT E I DE NEMOURS	6.000%	12/01/01	384,596	KELLOGG CO	5.900%	07/15/97	1,998,520
DU PONT E I DE NEMOURS	8.250%	09/15/06	215,488	LOWES COMPANIES INC	3.000%	07/22/03	2,256,963
DU PONT E I DE NEMOURS	8.250%	01/15/22	286,908	MANITOBA PROVINCE	9.625%	03/15/99	1,331,847
DUKE PWR CO	7.000%	06/01/00	3,978,880	MANITOBA PROVINCE	9.625%	12/01/18	397,729
DUKE PWR CO	8.625%	03/01/22	783,697	MAY DEPT STORES CO	9.000%	08/15/35	6,158,208
EQUITABLE COS INC	9.000%	12/15/04	3,576,918	MAY DEPT STORES CO	9.875%	12/01/02	578,503
EXPORT DEV CORP	7.375%	02/01/97	655,376	MCKESSON CORP	4.500%	03/01/04	2,914,500
FEDERATED DEPT STORES	5.000%	10/01/03	1,624,000	MERRILL LYNCH & CO	9.000%	05/01/98	938,691
FINANCING CORP	10.700%	10/06/17	1,178,441	MOBIL CORP	8.625%	08/15/21	368,059
FIRST CHICAGO CORP	8.250%	06/15/02	1,262,328	MOBIL OIL CORP	9.170%	02/29/00	1,489,927
FIRST UN NATL BK N C	6.180%	02/22/36	4,396,384	MOLTEN METAL TECH	5.500%	05/01/06	2,437,500
FLORIDA PWR & LT CO	6.625%	02/01/03	867,924	MORGAN STANLEY GR INC	10.000%	06/15/08	390,869
FORD CAPITAL	9.375%	05/15/01	822,533	MORTON INTL INC IND	9.250%	06/01/20	354,534
FORD CR AUTO LN MR TR	5.500%	02/15/03	4,655,000	MOUNTAIN STS TEL & TEL	6.000%	08/01/07	777,719
FORD CR GRANTOR TR	5.900%	10/15/00	3,609,114	NATION BK CORP	7.500%	02/15/97	908,397
FORD HOLDINGS	9.250%	03/01/00	700,362	NATIONAL CITY CORP	6.625%	03/01/04	958,530
FORD MOTOR CO DEL	9.500%	09/15/11	469,396	NATIONAL RURAL UTILS	7.200%	10/01/15	4,620,125
FORD MOTOR CREDIT COI	7.500%	01/15/03	709,625	NATIONSBANK CORP	5.850%	01/17/01	5,758,740
FORD MOTOR CREDIT COI	8.000%	01/15/99	2,216,801	NCNB TEXAS NATL BK	9.500%	06/01/04	282,263
FORD MOTOR CREDIT COI	9.375%	12/15/97	1,465,145	NEW AMER HLDG INC	0.000%	03/11/13	2,523,475
GANNETT INC	5.250%	03/01/98	2,947,920	NEW YORK TEL CO	4.624%	10/01/97	1,959,080
GENERAL ELECTRIC CR	5.500%	11/01/01	368,444	NEW YORK TEL CO	5.250%	09/01/98	974,000
GENERAL ELECTRIC CR	8.750%	05/21/07	1,002,447	NEW YORK TEL CO	6.000%	09/01/07	769,385
GENERAL INSTR CORP	5.000%	06/15/00	2,586,964	NEW ZEALAND GOVT	10.625%	11/15/05	863,891
GENERAL MOTORS CORP	9.125%	07/15/01	511,026	NOBLE AFFILIATES INC	4.250%	11/01/03	1,054,030
GENERAL MOTORS CORP	9.625%	12/01/00	330,498	NORWEST FINL INC	8.500%	08/15/98	389,678
GENERAL MTRS AC CORP	6.625%	10/01/02	1,269,333	NYNEX CAP FDG CO	8.750%	12/01/04	2,995,704
GOLDEN WEST FINL	6.700%	07/01/02	785,112	ONTARIO PROVINCE	7.750%	06/04/02	3,234,974
GOLDEN WEST FINL	7.250%	08/15/02	401,396	ONTARIO PROVINCE	15.750%	03/15/12	726,349
GREAT WESTN BK FED SVC	9.500%	07/01/97	443,515	PACIFIC BELL	7.125%	03/15/26	283,386
GSX TRANS INC 1992	6.740%	12/01/99	1,675,145	PENNEY J C INC	9.050%	03/01/01	541,010
GTE CALIF INC	5.625%	02/01/01	1,234,857	PENNSYLVANIA PWR & LT	7.500%	01/01/03	795,232
HEINZ H J CO	6.875%	01/15/03	1,989,220	PENNSYLVANIA PWR & LT	9.250%	10/01/19	424,140
HERTZ CORP	7.375%	06/15/01	1,212,708	PENNZOIL CO	4.750%	10/01/03	6,339,938
HOME SHOPPING NETWRK	5.870%	03/01/06	3,415,464	PENNZOIL CO	9.625%	11/15/99	466,207
HYDRO-QUEBEC	6.270%	01/03/26	3,275,063	PEPSICO INC	6.875%	05/15/97	2,011,860
HYDRO-QUEBEC	8.500%	12/01/29	3,412,980	PEPSICO INC	7.625%	11/01/98	1,024,060
HYDRO-QUEBEC	9.500%	11/15/30	323,043	PHILIP MORRIS COS INC	6.375%	02/01/06	464,330
HYDRO-QUEBEC	9.750%	01/15/18	964,491	PHILIP MORRIS COS INC	8.250%	10/15/03	527,680
ICELAND REP	6.125%	02/01/04	932,020	PHILIP MORRIS COS INC	8.625%	03/01/99	624,402
ICI WILMINGTON INC	7.500%	01/15/02	1,015,480	PHILIP MORRIS COS INC	9.250%	12/01/97	415,384
ILLINOIS TOOL WKS INC	5.875%	03/01/00	974,320	PORTUGAL REP	5.750%	10/08/03	933,150
INCO LTD	5.750%	07/01/04	1,633,125	PREMIER AUTO TR	6.350%	12/06/98	3,030,000
INCO LTD	7.750%	03/15/16	3,142,500	PRIME CR CARD MASTER	6.700%	07/15/04	1,988,120
INTERN'L BUSINESS MACH	8.375%	11/01/19	567,247	PROCTOR & GAMBLE CO	8.500%	08/10/09	474,816
INTERN'L LEASE FIN	6.625%	04/01/99	5,976,480	PROCTOR & GAMBLE CO	8.700%	08/01/01	3,115,760
INTERN'L PAPER CO	6.125%	11/01/03	465,310	PUBLIC SVC CO COLO	7.125%	06/01/06	693,434
INTERN'L PAPER CO	7.625%	01/15/07	233,393	PUBLIC SVC ELEC & GAS	7.125%	11/01/97	5,037,500
J C PENNEY & CO	7.500%	06/15/21	336,063	PUBLIC SVC ELEC & GAS	8.750%	11/01/21	994,727

FIXED INCOME INVESTMENTS (Cont.)

	Rate	Maturity Date	Market Value
QUEBEC PROVINCE	8.800%	04/15/03	982,170
QUEBEC PROVINCE	9.125%	03/01/00	803,580
QUINTILES TRANSNATION	4.250%	05/31/00	2,798,500
REPUBLIC NY CORP	7.250%	07/15/02	1,008,040
ROCKWELL INTL CORP	8.375%	02/15/01	370,563
RPM INC OHIO	0.000%	09/30/12	1,784,500
RYDER SYS INC	7.560%	08/15/00	3,236,665
SAFECO CR INC	6.950%	01/13/00	5,021,800
SEARS CR MASTER TR II	6.250%	01/15/03	2,494,525
SEARS CR MASTER TR II	6.500%	11/15/99	4,985,309
SEARS ROEBUCK CO	8.550%	08/01/96	275,495
SEARS ROEBUCK CO	9.250%	04/15/98	470,831
SILICON GRAPHICS INC	0.000%	11/02/13	3,688,438
SOUTHERN CALIF EDISON	5.600%	12/15/98	976,030
SOUTHERN CALIF EDISON	8.875%	06/01/24	1,025,640
SOUTHERN CALIF GAS CO	6.875%	11/01/25	667,470
SOUTHERN NEW ENGLANI	6.125%	12/15/03	1,040,149
SOUTHERN NEW ENGLANI	6.500%	08/11/00	2,586,732
SOUTHWESTERN BELL	6.875%	02/01/11	1,137,564
STANDARD CC MASTER TR	6.700%	09/07/02	2,465,625
STANDARD CC MASTER TR	7.250%	04/07/06	3,303,942
STANDARD CC MASTER TR	6.550%	10/07/07	2,382,800
STATE STREET BOSTON	5.950%	09/15/03	926,990
STORAGE TECHNOLOGY	8.000%	05/31/15	1,771,875
SUN TRUST BANKS INC	7.375%	07/01/02	5,099,500
SUNGLASS HUT INTL INC	5.250%	06/15/03	717,605
TELE-COMMUNICATIONS	4.500%	02/15/06	1,118,000
TENNECO CREDIT CORP	9.625%	08/15/01	701,883
TEXACO CAP INC	9.000%	12/15/99	749,210
THERMOQUEST CORP	5.000%	08/15/00	668,720
TIME WARNER INC	0.000%	12/17/12	3,417,750
TIME WARNER INC	0.000%	06/22/13	2,437,500
TRANSMERICAL FINL GRO	8.750%	10/01/99	915,501
TRAVELERS/AETNA PPTY	6.750%	04/15/01	1,836,532
TRAVELERS/AETNA PPTY	7.750%	04/15/26	1,647,555
TRENWICK GROUP INC	6.000%	12/15/99	1,086,250
U S WEST INC	0.000%	06/25/11	1,447,063
UNION PAC CORP	9.625%	12/15/02	405,608
UNION PAC RR CO	6.440%	01/15/98	1,200,444
UNISYS CORP	8.250%	08/01/00	3,277,969
UNITED PARCEL SVC	8.375%	04/01/20	430,420
UNITED TECHNOLOGIES	8.875%	11/15/19	397,191
VIRGINIA ELEC & PWR CO	8.750%	04/01/21	419,200
WAL-MART STORES INC	8.625%	04/01/01	572,910
WASTE MGMT INC	7.700%	10/01/02	1,658,864
WESTVACO CORP	9.650%	03/01/02	385,578
WISCONSIN PUB SVC	6.800%	02/01/03	2,968,800
WORLD FINL NETWORK C	6.700%	02/15/04	3,500,560
XEROX CORP	7.150%	08/01/04	6,982,430
XEROX CR CORP	10.000%	04/01/99	<u>2,152,800</u>
TOTAL DOMESTIC FIXED INCOME INVESTMENTS			1,229,106,378

INTERNATIONAL FIXED INCOME:

	Rate	Maturity Date	Market Value
AUSTRALIA GOV'T	6.750%	11/15/06	3,378,522
AUSTRALIA GOV'T	9.500%	08/15/03	4,249,709
BAYERISCHE LANDESBAN	6.750%	08/03/05	4,626,199
BELGIUM GOVERNMENT	8.500%	10/01/07	1,325,293
BELGIUM GOVERNMENT	8.750%	06/25/02	2,537,920
EUROPEAN INVESTMENT I	4.500%	10/08/97	4,763,633
FED REP OF GERMANY	6.000%	01/05/06	2,397,280
FED REP OF GERMANY	6.000%	06/20/16	4,060,110
FED REP OF GERMANY	6.250%	01/04/24	3,391,581
FED REP OF GERMANY	6.375%	11/20/98	1,463,360
FED REP OF GERMANY	7.250%	10/20/97	6,846,012
FED REP OF GERMANY	7.375%	01/03/05	4,858,429
FED REP OF GERMANY	8.250%	09/20/01	1,680,502
GOV'T OF CANADA	4.250%	12/01/21	4,615,741
GOV'T OF CANADA	7.000%	12/01/06	835,440
GOV'T OF CANADA	7.500%	09/01/00	2,695,321
GOV'T OF CANADA	9.000%	06/01/25	1,004,064
GOV'T OF FRANCE	6.750%	10/25/03	2,775,788
GOV'T OF FRANCE	6.750%	10/25/04	2,380,747
GOV'T OF FRANCE	8.250%	02/27/04	497,992
GOV'T OF FRANCE	8.500%	10/25/19	1,649,236
GOV'T OF FRANCE	8.500%	11/25/02	3,715,617
GOVERNMENT OF SPAIN	7.400%	07/30/99	7,751,044
INT'L BANK RECON & DEV	6.000%	10/18/96	4,220,829
KINGDOM OF DENMARK	7.000%	11/10/24	1,322,649
KINGDOM OF DENMARK	7.000%	12/15/04	5,229,646
KINGDOM OF DENMARK	8.000%	03/15/06	957,463
KINGDOM OF DENMARK	8.000%	03/15/06	5,141,930
KINGDOM OF DENMARK	8.000%	05/15/03	2,165,544
KINGDOM OF DENMARK	8.000%	11/15/01	3,916,587
KINGDOM OF SPAIN	10.100%	02/28/01	3,777,171
NETHERLAND GOV'T	7.500%	01/15/23	925,747
NETHERLAND GOV'T	8.250%	09/15/07	3,108,553
NETHERLAND GOV'T	8.500%	03/15/01	3,626,391
NETHERLAND GOV'T	8.500%	06/01/06	3,497,130
NORWAY GOVERNMENT	5.375%	02/14/97	4,689,557
REPUBLIC OF ITALY	8.500%	01/01/99	6,566,704
REPUBLIC OF ITALY	8.500%	08/01/99	3,606,287
REPUBLIC OF ITALY	9.000%	10/01/03	2,222,796
REPUBLIC OF ITALY	9.000%	10/01/98	1,325,735
REPUBLIC OF ITALY	11.500%	03/01/03	1,935,335
TREUHANDANSTALT	6.750%	05/13/04	6,706,083
TREUHANDANSTALT	6.875%	06/11/03	3,877,138
U.S. TREASURY NOTE	6.500%	08/15/05	7,153,365
UK GOVERNMENT TREAS	7.000%	11/06/01	1,039,058
UK GOVERNMENT TREAS	7.750%	09/08/06	5,368,487
UK GOVERNMENT TREAS	8.000%	06/10/03	4,363,638
UK GOVERNMENT TREAS	8.750%	08/25/17	489,145
UK GOVERNMENT TREAS	8.500%	07/16/07	5,647,192
FORWARD CURRENCY CONTRACTS			<u>2,650,300</u>
TOTAL INTERNATIONAL FIXED INCOME INV			169,030,000
TOTAL FIXED INCOME INVESTMENTS			1,398,136,566

EQUITY INVESTMENTS

DOMESTIC EQUITIES:

Company	Shares Owned	Market Value	Company	Shares Owned	Market Value
AES CORP	330,000	9,326,730	DISNEY (WALT) COMPANY	100,000	6,287,500
AT & T CORP	515,000	31,930,000	DOW CHEM CO	72,000	5,472,000
AETNA LIFE & CAS CO	50,000	3,575,000	DU PONT E IDE NEMOURS & CO	67,100	5,309,288
AHMANSON H F & CO	475,300	17,041,850	DUN & BRADSTREET CORP	400,000	25,000,000
AIRTOUCH COMMUNICATION	400,000	11,301,200	DURACELL INTL INC	350,000	15,093,750
ALLSTATE CORP	100,000	3,950,000	EASTMAN KODAK CO	150,000	11,662,500
ALUMINUM CO AMER	173,000	9,925,875	ECHLIN INC	80,000	3,030,000
AMBAC INC	300,000	15,618,323	EDISON INTL	354,000	6,239,250
AMERICAN BRANDS INC	240,000	10,890,000	ELSAG BAINLEY FIN SECS	73,100	3,600,175
AMERICAN EXPRESS CO	240,000	12,810,000	ENTERGY CORP NEW	71,000	2,014,625
AMOCO CORP	250,000	18,031,250	FHP INTERNATIONAL CORP	75,000	1,912,500
ANHEUSER BUSCH COS INC	356,700	26,751,850	FEDERAL HOME LN MTG CORP	185,000	15,817,500
AON CORP	180,000	9,135,000	FEDERAL MOGUL	70,000	3,920,000
ASHLAND INC	235,000	11,785,375	FEDERAL NATL MTG ASSN	825,000	27,637,500
ATLANTIC RICHFIELD CO	40,000	4,730,000	FIFTH THIRD BANCORP	64,832	3,500,928
AUTODESK INC	175,000	5,228,125	FIRST OF AMERICA BANK CORP	96,300	4,309,425
AVNET INC	250,000	10,532,176	FIRST CHICAGO NBD CORP	50,600	3,371,225
AVON PRODS INC	280,000	12,635,000	FIRST DATA CORP	110,000	8,772,500
BANC ONE CORP	60,000	4,005,000	FIRST MISS CORP	100,000	2,225,000
BANKAMERICA CORP	110,000	8,332,500	FIRST UN CORP	480,000	29,220,000
BAXTER INTL INC	160,000	7,560,000	FORD MOTOR CO DEL	983,232	31,832,136
BELO A H CORP	140,000	5,215,000	FOSTER WHEELER CORP	250,000	11,185,600
BEVERLY ENTERPRISES (DEL)	200,000	2,400,000	FREEPORT MCMORAN	152,100	4,144,725
BLACK & DECKER CORP	65,000	2,510,625	GTE CORP	250,000	11,187,500
BOATMEN'S BANCSHARES	40,500	1,397,250	GANNETT INC	410,000	28,997,450
BRISTOL MYERS SQUIBB CO	200,000	24,300,000	GAYLORD ENTMT CO	409,500	11,517,188
BROWNING FERRIS INDS INC	249,800	7,371,034	GENERAL ELECTRIC CO	175,000	15,181,250
CMS ENERGY CORP	325,500	10,049,813	GENERAL INSTRUMENTS CORP	91,494	2,641,889
CABLEVISION SYSTEMS CORP	250,000	6,500,000	GENERAL MOTORS CORP	282,000	14,769,750
CAMPBELL SOUP CO	110,000	7,755,000	GEORGIA PAC CORP	60,000	4,260,000
CASE CORP	32,000	3,784,000	GILLETTE CO	120,000	7,485,000
CHASE MANHATTAN CORP NEW	159,960	11,297,175	GLOBAL STAR	60,000	2,655,000
CHEVRON CORP	68,000	4,012,000	GREAT WESTN FINL CORP	370,000	8,833,750
CIRCUS CIRCUS ENTERPRISE INC COM	200,000	8,201,168	GREENFIELD CAPITAL	45,700	2,330,700
CITICORP	145,000	11,998,750	HALLIBURTON CO	30,000	1,665,000
COASTAL CORP	570,000	23,797,500	HANSON PLC	555,000	7,874,340
COCA COLA CO	200,000	9,800,000	HARRAHS ENTMT INC	410,000	11,582,500
COMERICA INC	187,000	8,344,875	HARSCO CORP	90,000	6,052,500
COMPAQ COMPUTER CORP	385,000	18,913,125	HASBRO INC	130,000	4,647,500
CONRAIL INC	125,000	8,296,875	HEINZ H J CO	420,000	12,915,000
CORNING	40,000	2,285,000	HOME DEPOT INC	240,000	12,960,000
COOPER INDS INC	170,000	2,847,500	HOUSEHOLD INTL CORP	160,000	12,160,000
CRESTAR FINL CORP	75,000	4,003,125	ITT HARTFORD GROUP INC	360,000	19,170,000
CYPRUS AMAX MINERALS CO	20,600	1,122,700	ITT INDS INC	685,000	17,210,625
DTE ENERGY	140,000	4,322,500	INTERNATIONAL BUSINESS MACHS	120,000	11,880,000
DANA CORP COM	197,000	6,107,000	INTERNATIONAL PAPER CO	266,908	9,842,233
DEERE & CO	110,000	4,400,000	INTUIT INC	25,000	1,181,250
DIAMOND SHAMROCK	35,000	2,108,750	JAMES RIVER CORP	60,000	2,812,500
DILLARD DEPT STORES INC CLA	431,000	15,731,500	JEFFERSON PILOT CORP	85,000	6,927,500
			JOHNSON & JOHNSON	80,000	3,960,000
			K MART CORP	516,000	6,385,500

EQUITY INVESTMENTS (Cont.)

Company	Shares Owned	Market Value	Company	Shares Owned	Market Value
LEHMAN BROS HLDGS INC	270,000	6,682,500	SERVICE CORP INTL	300,000	17,250,000
LINCOLN NATL CORP IND	100,000	4,625,000	ST PAUL CAP LLC	55,000	2,887,500
LOCKHEED MARTIN CORP	115,590	9,709,560	STATE STR BOSTON CORP	45,000	2,295,000
LUKENS INC	230,650	5,506,769	TELE COMMUNICATIONS INC NEW	920,000	19,360,060
MBIA	80,000	6,230,000	TELEFONOS DE MEXICO	220,000	7,370,000
MBNA CORP	340,000	9,686,645	TELEPHONE & DATA SYS INC	250,000	11,250,000
MALLINCKRODT GROUP INC	430,000	16,716,250	TENET HEALTHCARE CORP	270,000	5,770,070
MANUFACTURED HOME CMNTYS INC	240,000	4,620,784	TENNECO INC	162,500	8,307,813
MARRIOTT INTL CORP	300,000	16,125,000	TEXACO INC	72,000	6,039,000
MAY DEPT STORES CO	315,000	13,781,250	TEXAS INSTRS INC	30,000	1,496,250
MCDONALDS CORP	275,000	12,856,250	TEXTRON INC	190,000	15,131,076
MCGRAW HILL COMPANIES INC	322,000	14,731,500	TIME WARNER INC	440,000	17,269,457
MERCANTILE STORES INC	57,800	3,388,525	TRANSAMERICA CORP	57,000	4,617,000
MERCK & CO INC	290,000	18,741,250	TRIBUNE CO NEW	170,000	12,348,616
MIRAGE RESORTS INC	60,000	3,210,000	TYCO INTERNATIONAL LTD	320,000	13,040,000
MOBIL CORP	131,000	14,721,125	UGI CORP	65,000	1,446,250
NABISCO HLDGS CORP	120,000	4,245,000	USX-MARATHON GROUP INC	298,000	6,537,750
NATIONSBANK CORP	70,000	5,783,750	USX-US STEEL GROUP	575,000	16,315,625
NEW YORK ST ELEC & GAS CORP	300,600	7,364,700	ULTRAMAR CORP	230,000	6,670,000
NEWHALL LD & FARMING CO CALIF	160,000	2,640,000	UNION CAMP CORP	300,000	14,625,000
NIAGARA MOHAWK PWR CORP	321,500	2,491,625	UNITED HEALTHCARE CORP	210,000	10,605,000
NORFOLK SOUTHN CORP	75,000	6,356,250	UNITED STATES SURGICAL CORP	35,000	1,085,000
NORTHERP GRUMMAN CORP	58,000	3,951,250	U S WEST INC	130,000	4,160,000
NYNEX CORP	141,000	6,697,500	UNITED TECHNOLOGIES CORP	60,000	6,900,000
OCCIDENTAL PETROLEUM	160,000	9,500,000	UNOCAL CORP	60,900	3,433,238
OLIN CORP	32,700	2,918,475	USLIFE CORP	162,000	5,325,750
PARKER & PARSLEY	75,000	4,162,500	VALASSIS COMMUNICATIONS INC	280,000	5,158,630
PECO ENERGY CO	345,000	8,970,000	VALERO ENERGY	35,000	1,837,500
PHH CORP	78,800	4,491,600	WMX TECHNOLOGIES INC.	880,000	28,820,000
PACIFIC TELESIS GROUP	250,000	8,437,500	WAL MART STORES INC	300,000	7,612,500
PENNEY J C INC	220,000	11,550,000	WESTERN NATL CORP	225,000	4,134,375
PEOPLES ENERGY CORP	135,000	4,522,500	WEYERHAEUSER CO	206,000	8,755,000
PHARMACIA & UPJOHN INC	330,000	14,637,150	WHEELABRATOR TECHNOLOGIES	400,000	6,098,682
PFIZER INC	150,000	10,706,250	WHIRLPOOL CORP	19,000	920,246
PHILIP MORRIS COS INC	216,000	22,464,000	WOOLWORTH CORP	251,300	5,654,250
PITNEY BOWES INC	220,000	10,505,000	WRIGLEY WM JR CO	55,000	2,777,500
PROCTER & GAMBLE CO	250,000	22,656,250	BANKERS TRUST RUSSELL 2000 VALUE INDEX		168,289,433
PROMUS HOTEL CORP	180,000	5,320,348	TOTAL DOMESTIC EQUITIES		1,846,522,069
PUBLIC SVC ENTERPRISE GROUP INC	191,300	5,260,750			
RJR NABISCO HLDGS CORP	520,000	9,692,500	INTERNATIONAL EQUITIES:		
REUTERS HLDGS PLC ADR B	140,000	10,150,000	Company	Shares Owned	Market Value
REYNOLDS METALS CO	220,000	11,076,500	ABB AG	760	939,906
ROUSE CO	230,000	6,911,250	ABN AMRO HOLDING	8,031	430,955
ROYAL DUTCH PETE CO	36,000	5,535,000	ACCOR	1,900	265,719
RYDER SYS INC	196,000	5,512,500	AKZO NOBEL	800	95,841
SCI FINANCE	33,000	3,188,625	ALCAN ALUMINIUM TORONTO	7,300	222,095
SANTA FE ENERGY	150,000	1,650,000	ALCATEL	45,000	3,924,597
SARA LEE CORP	376,100	12,223,250	ALCATEL ALSTHOM	2,627	229,109
SCHERING PLOUGH CORP	200,000	12,550,000	ALLIANZ AG HOLDING	241	418,924
SEARS ROEBUCK & CO	100,000	4,862,500	AMADA CO	45,000	484,113
			AMCOR LTD	25,600	174,280

EQUITY INVESTMENTS (Cont.)

Company	Shares Owned	Market Value	Company	Shares Owned	Market Value
			CS HOLDING	1,005	95,546
ARGENTARIA CORP BANCARIA DE ESI	50,000	2,179,932	DAI NIPPON PRINTING CO	41,000	792,450
ASAHI GLASS CO	53,000	632,993	DAIICHI PHARMACEUTICAL CO	30,000	462,232
ASDA GROUP	85,500	154,766	DAIKIN INDUSTRIES	44,000	481,378
ASSICURAZIONI GENERALI	11,000	253,647	DAIMLER BENZ	7,850	4,210,698
AUSTRALIA & NEW ZEALAND BANK	30,813	145,989	DAIMLER BENZ WARRANTS	350	48
BALOISE-HOLDINGS	1,100	2,390,349	DAIWA HOUSE INDUSTRY CO	22,000	340,976
BANCO BILBAO VIZCAYAS	680	275,256	DANIELI & C DI RISP ITL 500	20,000	71,101
BANCO CENTRAL HISPANO AMER	3,210	65,344	DAVID JONES LTD	67,000	92,807
BANCO DE SANTANDER	4,400	205,218	DELHAIZE FRERES	2,900	144,861
BANCO POPULAR ESP	880	156,762	DEN DANSKE BANK	40,800	2,733,679
BANK OF MONTREAL	12,200	298,367	DEUTSCHE BANK	11,200	530,495
BANK OF TOKYO-MITSUBISHI	21,600	500,195	DUTCH STATE MINES	1,600	158,875
BANK OF TOKYO-MITSUBISHI NEW	19,000	440,853	EAUX (CIE GENERALE DES)	4,249	474,560
BANQUE NATIONALE DE PARIS	8,880	311,679	EDISON IITL 1000	23,000	138,777
BARRICK GOLD CORP	4,000	108,516	ELECTRABEL	1,900	405,714
BASF	615	175,143	EMPRESA NACIONAL DE ELEC	4,850	302,238
BASS	35,500	446,232	ENERGIE VERSORGUNG NIEDER	10,800	1,492,060
BAT INDUSTRIES	44,500	346,057	ENI-ADR	6,600	330,000
BAYER	8,800	309,578	EANUC CO	17,500	695,627
BAYER MOTOREN WERK	370	213,658	FIAT SPA	82,000	143,884
BAYERISCHE VEREINSBANK	5,060	141,608	FKI PLC	74,375	195,876
BCO INTERCON	1,550	173,236	FLETCHER CHALLENGE BUILDING	52,500	102,504
BERLINER KRAFT & LIGHT	4,500	1,275,621	FLETCHER CHALLENGE ENERGY	52,500	115,811
BHP LTD	53,940	745,888	FLETCHER CHALLENGE LTD	18,445	22,871
BOOKER	20,500	120,082	FLETCHER CHALLENGE PAPER	106,000	204,782
BORAL LTD	35,600	92,460	FOMENTO DE CONSTRUCCIONES	1,300	107,476
BRIERLEY INV	305,000	288,347	FORTIS AG	1,639	215,011
BRITISH GAS	150,500	419,744	FUJI PHOTO FILM	140,000	4,416,275
BRITISH PETROLEUM	86,432	757,422	FUJITSU	26,000	237,042
BRITISH STEEL	124,000	316,936	GAN GROUP	1,520	40,744
BRITISH TELECOM	121,000	649,557	GENERAL ELECTRIC	142,800	768,804
CANADIAN PACIFIC	15,100	330,592	GENTINE BERHAD	9,000	70,332
CANON INC	38,000	789,897	GLAXO WELLCOME PLC	16,300	219,326
CANON SALES CO INC	13,700	380,954	GRAND METROPOLITAN	224,000	1,486,140
CARATER HOLT HARVEY	212,000	483,634	GROUPE BRUXELLES LAMBERT	1,060	132,627
CEP COMMUNICATIONS	1,568	132,486	GROUPE DANONE	29,000	4,388,051
CEP COMMUNICATIONS WARRANTS	1,568	4,569	GUINNESS	348,400	2,530,718
CHARTER	17,668	254,753	HANSON TRUST	90,000	252,408
CIBA-GEIGY	240	292,402	HILLSDOWN HDG	60,700	164,105
CIE FIN DE SUEZ	4,378	160,126	HITACHI	497,000	4,621,772
CITIZEN WATCH CO	41,000	341,277	HOECHST	4,400	148,574
COATS VIELLA	60,000	159,882	HONDA MOTOR CO	20,000	517,846
COLAS	757	135,570	HOUSE OF FRASER	136,000	367,682
COMMERZBANK	770	159,241	HUME INDS	21,000	102,673
COMPAGNIE BANCAIRE SA	2,027	228,359	IBERDROLA SA	30,500	312,814
COMPAGNIE DE ST GOBAIN	2,975	398,146	IMPERIAL OIL	5,400	227,751
COMPAGNIE UAP	113,069	2,295,070	INAX	58,000	576,377
COMPANIA TELEFONICA DE ESPANA	310,700	5,718,925	ING GROEP	19,176	571,798
CRA LTD	18,813	289,613	INSTITUTO MOBILIARE ITALIANO	388,000	3,239,582
CREDIT LOCAL DE FRANCE	4,550	370,307	INSTITUTO NAZ DELLE ASSICURAZIOI	37,000	55,149

EQUITY INVESTMENTS (Cont.)

Company	Shares Owned	Market Value	Company	Shares Owned	Market Value
INVESCO PLC	330,000	1,184,431	NIPPON MEAT PACKERS	28,000	398,231
ISETAN CO JPY	16,000	242,148	NIPPON STEEL CORP	36,000	123,408
ITO YOKADO CO	20,000	1,205,267	NIPPONDENSO CO	30,000	650,954
JARDINE MATHESON HOLDINGS	321,000	2,359,350	NOKIA	6,900	253,955
KANEKA CORP JPY	21,000	141,104	NORANDA INC	5,600	114,608
KAUFHOF AG	500	189,036	NORCEN ENERGY RESOURCES	6,300	110,482
KEIO TEITO ELECATRIC RAILWAY	50,000	296,303	NORTHERN TELECOM	3,300	179,413
KINKI BREWERY CO JPY	48,000	586,405	NOVA CORP	11,500	103,994
KINKI NIPPON RAILWAY	50,000	359,666	NV UNION MINIERE SA	1,750	134,057
KOKUYO CO JPY	12,000	331,494	OCEAN GROUP PLC	29,000	205,920
KONINKLIJKE HOOGOVENS	2,300	85,155	OKUMURA CORP	31,000	258,886
KONINKLIJKE PTT NEDERLAND	45,000	1,702,988	OSAKA GAS CO	182,000	665,377
KONINKLIJKE PTT NEDERLAND	11,535	436,533	OUTOKUMPU	2,700	45,328
KREDIETBANK BELGIUM	1,050	314,028	PACIFIC DUNLOP LTD	43,000	96,450
KUALA LUMPUR KEPONG	48,000	121,188	PECHINEY SA	3,905	157,693
KURARAY CO JPY	38,000	426,129	PENNINSULAR & ORIENT STEAM	30,000	226,538
LAND & GENERAL BERHAD	47,000	115,838	PETROFINA SA	960	300,900
LEGAL & GENERAL GROUP	21,500	223,485	PEUGEOT	4,350	582,163
LEND LEASE CORP	13,774	211,933	PHILIPS ELECTRONIC	6,000	195,079
LLOYDS ABBEY LIFE	30,000	237,958	PIONEER ELECTRONIC CORP	6,000	142,772
LLOYDS TSB GROUP PLC	185,224	906,550	PREUSSSAG	725	182,655
LVMH MOET-HENNESSY LOUIS VUITT	2,360	559,711	PUBLIC BANK	60,000	165,912
MAEDA ROAD CONSTRUCTION	10,000	172,311	QUANTAS AIRWAYS	51,468	87,090
MALAYAN BANKING BERHAD	20,000	192,362	RECKITT & COLMAN	23,125	242,892
MALAYSIAN INTGERN SHIPPING	26,000	80,752	REDLAND	21,500	133,790
MAN AG	300	75,187	REPSOL	60,000	2,084,780
MANNESMANN AG	950	327,027	REPSOL ADR	6,900	239,775
MARKS & SPENCER	45,000	328,970	RESORTS WORLD BERHAD	16,000	91,692
MARUI CO	7,000	155,080	RHONE POULENCSA	10,000	262,805
MATSUSHITA ELECTRIC IND	70,000	1,301,908	RINASCENTE DI RISP	22,000	60,990
MEDIOBANCA SPA	4,000	25,401	RINASCENTE SPA WARRANTS	1,100	895
MERITA BANK LTD	17,500	36,536	RJB MINING	25,000	214,807
MICHELIN	5,040	246,307	ROCHE HOLDINGS	35,000	266,897
MIM HOLDINGS	75,700	97,708	ROLLS ROYCE	48,900	169,813
MIRROR GROUP NEWSPAPER PLC	41,500	132,186	ROYAL BANK OF CANADA	8,900	213,425
MITSUBISHI BANK JPY	950,000	21,999	ROYAL DUTCH PETROLEUM	10,900	1,683,210
MITSUBISHI PAPER MILLS	56,000	349,728	ROYAL INSURANCE HOLDINGS	33,000	204,071
MOLSON	30,000	485,465	RTZ CORP	17,400	257,512
MONTEDISON ITL	74,000	43,009	RWE AG	5,500	213,901
MOORE CORP	3,000	56,125	SAI RISP ITL	17,000	65,869
MUNCHENER RUCKVERSICHERUNGS	164	335,068	SANKYO CO	32,000	828,553
MUNCHENER RUCKVERSICHERUNGS	12	1,514	SANTOS LTD	44,800	155,139
NATIONAL AUSTRALIA BANK LTD	32,081	296,672	SCHEIZERISCHE BANKGESELLSCHAFT	79	77,315
NATIONAL POWER	29,000	234,307	SCHERING AG	1,600	115,990
NATIONAL WESTMINSTER BANK	42,000	401,989	SCHINDLER HLDG	2,000	2,125,110
NESTLE MALAYSIA	11,000	88,607	SCOTTISH HYDRO ELECTRIC	23,900	110,291
NESTLE SA	439,000	5,063,207	SEAGRAM CO	5,800	194,296
NEWS CORP	33,000	187,258	SEARS	131,000	201,507
NGK INSULATORS	72,000	807,402	SECOM CO	10,000	660,071
NINTENDO CO	4,100	305,018	SEDGWICK GROUP	59,000	126,507
			SEINO TRANSPORTATION CO	16,000	252,359

EQUITY INVESTMENTS (Cont.)

Company	Shares Owned	Market Value	Company	Shares Owned	Market Value
SEITA	2,900	132,937	THYSSEN AG	1,250	228,699
SEKISUI HOUSE	85,000	968,681	TOKIO MARINE & FIRE INSURANCE	40,000	532,433
SEVILLANA DE ELEC	17,000	156,456	TOKYO ELECTRIC POWER	19,400	491,698
SGS THOMPSON MICROELECTRONIC	53,000	1,901,375	TOKYO STEEL MFG LTD	32,500	637,050
SHINMAYWA INDUSTRY	40,000	408,442	TONEN CORP	33,000	484,386
SIEMENS	74,000	3,965,918	TORAY INDUSTRIES	181,000	1,247,534
SIME DARBY BERHAD	67,000	185,268	TOSHIBA CORP	104,000	739,571
SMITH (W H) & SON	30,000	221,411	TOTAL	7,750	574,743
SMITHKLINE BEECHAM	24,000	256,743	TOYO SUISAN KAISHA	24,000	293,203
SOCIETE GEN DE SURVEILHOLDING	69	165,099	TOYOTA MOTOR CO	14,000	349,728
SOCIETE GENERALE	3,889	427,554	TRACTEBEL CAP	455	186,255
SOCIETE GENERALE DE BELGIQUE	1,535	116,362	TRANSCANADA PIPELINE	9,100	134,931
SOCIETE ITALIANA PERILGAS	634,000	2,367,621	UNILEVER	19,320	1,647,318
SOCIETE NATIONALE ELF AQUITAINE	4,873	358,355	UPM-KYMMENE	5,800	119,967
SOCIETE NATIONALE	28,000	2,059,088	USINOR SACILOR	15,600	224,987
SOLVAY ET CIE	300	184,089	VALLEHERMOSO SA	3,000	59,197
SONY CORP	11,600	762,509	VEBA AG	6,150	326,853
SSAB (SVENSKT STAL)	230,000	2,911,524	VENDEX INTERNATIONAL	5,500	191,711
STET SOCIETA FINANZIARIA TEL	1,300,000	4,392,588	VER NED UITGEVERS	12,800	198,711
SUMITOMO BANK	47,000	908,418	VISCOFAN ENVOLTRAS	5,400	85,286
SUMITOMO ELECTRIC	36,000	515,293	VODAFONE GROUP	35,200	130,988
TAKEDA CHEMICAL INDUSTRIES	34,000	601,357	WESTPAC BANKING CORP	60,173	266,625
TDK CORP	7,000	417,376	WMC LTD	17,500	125,334
TELECOM CORP OF NEW ZEALAND	99,000	415,072	YAMAZAKI BAKING CO	23,000	425,673
TELECOM ITALI DI RISP	143,000	246,723	YTL CORP	11,000	57,308
TELECOM ITALIA MOBILE	155,000	211,313	ZURICH VERSICHERUNGS	513	139,756
TELECOM NEW ZEALAND ADR	3,300	220,275	NET FORWARD CURRENCY CONTRACTS		<u>4,538</u>
TELEDANMARK	90,000	4,480,435	TOTAL INTERNATIONAL EQUITIES		157,141,931
TELEKOM MALAYSIA	29,000	258,005	TOTAL EQUITY INVESTMENTS		2,003,664,000
TENAGA NASIONAL	55,000	231,435	GUARANTEED INVESTMENT CONTRACTS		12,347,000
TESCO	82,500	376,865	TOTAL LONG-TERM INVESTMENTS		<u>3,414,147,566</u>
THAMES WATER	27,600	243,151	TOTAL INVESTMENTS		<u><u>3,542,311,020</u></u>
THOMSON CORP	14,800	234,078			