

**Teachers' Retirement System
of Oklahoma**

**ACTUARIAL VALUATION
June 30, 2003 (Revised)**



GABRIEL, ROEDER, SMITH & COMPANY

Consultants & Actuaries

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November 10, 2003

Board of Trustees
Teachers' Retirement System of Oklahoma
Oliver Hodge Education Building
2500 N. Lincoln Boulevard, 5th Floor
Oklahoma City, Oklahoma 73105

Dear Members of the Board:

Subject: Actuarial Valuation as of June 30, 2003 (Revised)

We certify that the information contained in this report is accurate and fairly presents the actuarial position of the Teachers' Retirement System of Oklahoma (the System) as of June 30, 2003.

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 purposes of the valuation report are to determine the adequacy of the current employer contribution rate, 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 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, state, federal and local employer contribution rates are established by law. Members contribute 7.00% of covered compensation. The state contributes 3.54% of its revenues from sales taxes, use taxes, corporate income taxes, and individual income taxes. Local employers contribute 7.05% of covered compensation. Additionally, OTRS receives "federal matching contributions" for positions whose funding comes from federal sources or certain grants. The federal matching contribution rate was 5.0% of federal/grant payroll for FY 2003. The Board decreased this to 4.5% for FY 2004, because of the decrease in the State's contribution based on the dedicated tax-revenue sources.

In the fiscal year ending June 30, 2003, the state's contribution plus the federal contribution was equivalent to a contribution of about 4.6% of covered payroll. Combined with the 7.05% employer contribution rate, the employing entities contributed about 11.65% of covered payroll for FY 2003. However, the state's contribution rate as a percent of the specified revenues is scheduled to increase to 3.75% in FY 2005, 4.00% in FY 2006, 4.50% in FY 2007, and 5.00% in FY 2008. Federal contributions should also increase in the same pattern. This should raise the state and federal contributions to 6.8% of covered payroll by the end of the transition period, and should result in a total employer contribution of about 13.85% of covered payroll by FY 2008.

The state, local and federal contributions, when combined with the contributions made by members, are intended to pay for the normal cost and to amortize the unfunded actuarial accrued liability (UAAL).

Progress Toward Realization of Financing Objectives

The UAAL at June 30, 2002 was \$5,965 million, and it decreased to \$5,488 million this year. The funded ratio - actuarial value of assets divided by actuarial accrued liability - increased from 51.4% to 54.0%.

Last year, the period required to completely amortize the UAAL (the funding period) based on the contribution schedule in effect at that time was 41.0 years, measured from June 30, 2002. This year, the funding period is 28.7 years. The decrease in the funding period and the increase in the funded ratio are primarily due to the impact of eliminating the 1% cost-of-living increase assumption, which more than offset the effect of recognizing actuarial investment losses from the last three years in the actuarial value of assets.

Based on the current statutes for determining the state, federal and employer contribution rates, the UAAL is expected to increase slowly, reaching about \$6,221.7 million in 2013, before beginning to decline. It is expected to be completely amortized by 2032.

Deferred Asset Losses

All of the figures above (the UAAL, the funded ratio, and the funding period) are based on actuarial calculations that make use of the actuarial value of assets, not the market value. Because asset gains and losses – earnings greater or less than the 8.00% investment return assumption – are recognized 20% per year for five years in the actuarial value of assets, the current actuarial value (\$6,437 million) is \$823 million larger than the market value (\$5,614 million). In the absence of a major market rebound, the \$823 million in deferred losses will be recognized over the next four years. As these losses are recognized, the unfunded liability can be expected to increase by a corresponding amount, over and above other expected increases.

Benefit Provisions

The actuarial valuation reflects the benefit provisions as set forth in current statutes, including those adopted in the 2003 legislative session. There were several changes that affected the current valuation. First, as of July 1, 2003 the service requirement for vesting was reduced from ten years to five years. (However, the ten-year requirement remains in effect for disability benefits and for the medical insurance supplement.) Second, the interest included in a regular (non-death) refund for a member with less than seven years of service was increased from 0% of the interest earned to 50% of the interest earned. (Interest earned is computed using an 8.00% rate.) Previously members with less than seven years of service received no interest. Third, a new partial lump-sum option (PLSO) was made available for members retiring with 30 or more years of service. Fourth, disabled retirees were given the right to elect Option 2 (the Joint & 100% Survivor option, with pop up).

Assumptions and Methods

Assumptions are set by the Board of Trustees, taking into account the recommendations of the plan's actuaries. The actuarial assumptions and methods used in this report are changed from last year. The Board decided that there is no "substantive commitment" to provide future ad hoc cost-of-living increases, and it is misleading to reflect these in the System's liabilities. All actuarial assumptions are internally consistent and are reasonably based on the actual experience of the System.

The Retirement Board is required to submit actuarial information about the System to the Oklahoma State Pension Commission. The required information is based on a prescribed set of actuarial assumptions which is different from the assumption set used in preparing the actuarial valuation. This information appears as an addendum to this report in Appendix IV.

Data

Member data for retired, active, and inactive participants was supplied as of June 30, 2003 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.

We thank both the staff and the auditors for their assistance.

Sincerely,

Gabriel, Roeder, Smith & Company



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Executive Summary

Item	2003	2002
Membership		
• Number of		
- Active members	83,127	85,366
- Retirees and beneficiaries	38,059	36,515
- Inactive, vested	3,731	3,575
- Inactive, nonvested	<u>9,028</u>	<u>8,755</u>
- Total	133,945	134,211
• Payroll	\$ 3,046 million	\$ 3,047 million
Statutory contribution rates		
• State (% of tax revenues)	3.54%	3.54%
• Local district (% of pay)	7.05%	7.05%
• Member (% of pay)	7.00%	7.00%
Assets		
• Market value	\$ 5,614 million	\$ 5,418 million
• Actuarial value	\$ 6,437 million	\$ 6,311 million
• Return on market value	4.8%	-5.4%
• Return on actuarial value	2.9%	5.8%
• State/local/federal contributions	\$ 362 million	\$ 365 million
• External cash flow %	-1.1%	0.0%
• Ratio of actuarial to market value	114.7%	116.5%
Actuarial Information		
• Normal cost %	9.90%	10.28%
• Unfunded actuarial accrued liability (UAAL)	\$ 5,488 million	\$ 5,965 million
• Funded ratio	54.0%	51.4%
• Funding period	28.7 years	41.0 years
GASB 25 ARC (40-year funding cost)		
• Dollar amount	\$534,811,845	\$585,168,488
• Percent of pay	17.11%	18.74%
Gains/(losses)		
• Asset experience	(\$320) million	(\$128) million
• Liability experience	10 million	89 million
• Benefit changes	27 million	(131) million
• Assumption changes	<u>965 million</u>	<u>0 million</u>
• Total	\$ 682 million	(\$170) million

Introduction

The results of the June 30, 2003 actuarial valuation of the Teachers' Retirement System of Oklahoma are presented in this report.

The purposes of any actuarial valuation report are to describe the financial condition of the System, to assess the adequacy of the current contributions, and to analyze changes in the funding requirements. In addition, this report presents information required by the System in connection with Governmental Accounting Standards Board Statement No. 25 (GASB 25).

Section C discusses the determination of the current funding period. Section D analyzes the changes in the Unfunded Actuarial Accrued Liability. This section also discusses the gains and losses resulting from differences between actual experience and the actuarial assumptions.

Section E deals with the System's assets, while Section F discusses the changes in the benefit and contribution provisions since the previous valuation. Section G discusses liabilities calculated for GASB 25 purposes. Sections H and I discuss the actuarial assumptions and methods used and the membership data. Section J discusses the alternative valuation results based on the set of assumptions prescribed for reporting to the State's Pension Commission. (Results of this alternative valuation are shown in Appendix IV.)

All of the tables referenced by the other sections appear in Section K.

Funded Status

Because the employer contribution rates are set by statute, this report determines the funding period required to amortize the Unfunded Actuarial Accrued Liability (UAAL).

The UAAL decreased by \$477 million, from \$5.965 billion to \$5.488 billion. The funded ratio – the ratio of the actuarial value of assets to actuarial accrued liability – increased from 51.4% to 54.0%. The funding period – the number of years that would be required under the current contribution schedule to amortize the UAAL – has decreased from 41.0 years to 28.7 years.

All of these effects, though, are due to the elimination of an assumption that ad hoc cost-of-living increases would continue to be granted in the future, and these would average 1.0% per year. The effect of this assumption change offset the recognition of actuarial investment losses.

OTRS remains among the most poorly funded of all statewide plans. The market value of assets is not large enough to cover all of the liabilities for currently retired members.

The current combined state/local/federal contribution rate of about 11.65% of pay for FY 2004 is not large enough to pay the normal cost and pay the interest on the UAAL. Therefore, negative amortization results. I.e., for the next several years the UAAL is expected to increase. See the schedule of projected UAAL's in Table 13. As may be seen, the UAAL is expected to continue increasing until around 2013, at which point positive amortization will begin to occur. It will take until about 2021 before the UAAL is again as low as it is now, in the absence of future gains or losses. The UAAL is scheduled to be completely amortized in FY 2032.

This report also determines the 40-year funding requirement under Section 17-106. This is the contribution required to fund the normal cost and to amortize the UAAL in level installments (not as a level percent of pay) over 40 years. This amount is reported as the Annual Required Contribution (ARC) under GASB 25, and is shown in Table 1.

Analysis of Changes

UAAL

Table 12a shows an analysis of the change in the UAAL. The UAAL, which was \$5,965.0 million last year, has decreased to \$5,488.3 million this year. However, an increase of \$204.8 million was expected, since the current statutory employer/state/federal contribution rate is not large enough to pay for the normal cost and for interest on the UAAL. Therefore, negative amortization is expected to occur.

Poor market performance also added to the UAAL. The asset loss increased the UAAL by \$320.0 million, even though 80% of the FY 2003 loss, 60% of the FY 2002 loss, and 40% of the FY 2001 loss are still deferred. I.e., they are not reflected in the actuarial value of assets. The return on the actuarial value was 2.9%, compared with the assumed 8.00% investment return rate. The actual return on market value was 4.8%. This is the second year since 1994 that the actuarial return was less than the assumed 8.00% rate.

There was a gain of \$965.5 million due to the elimination of the 1% cost-of-living assumption.

Funding Period

The funding period (the period required to amortize the UAAL) decreased from 41.0 years to 28.7 years. Without the change to remove the 1.00% COLA assumption, the funding period would have increased to 49.4 years. An analysis is shown on Table 12B.

System Assets

This report contains several tables that summarize key information with respect to the System's assets. Assets are reported at market value as required under GASB 25.

Table 6a summarizes the assets held by class. The total market value of assets increased from \$5.418 billion to \$5.614 billion. This excludes the value of the Teachers' Deposit Fund, which is subtracted from the assets in determining actuarial liabilities and costs. (The Teachers' Deposit Fund is the fund that holds the 403(b) plan assets.) Table 6b shows a comparison of the distribution of assets by category at the current and prior valuation dates. Equity investments increased from 58% to about 67% of total invested assets.

Table 7 reconciles the changes in the fund during the year. Employer contributions increased from \$210.8 million to \$218.8 million (7.05% of pay in the year just ended vs. 6.80% the year before). The state's contribution declined from \$141.1 million to \$128.9 million, reflecting the decline in state tax revenues. Active member contributions decreased from \$226.4 million to \$220.5 million, including state credits for contributions.

Table 8 shows the development of the actuarial value of assets. Rather than use the System's market value of assets, the valuation reflects a smoothed asset value. This actuarial value is calculated using a five-year average of the difference between expected and actual earnings. The actuarial value is 114.7% of market.

Table 9a provides a calculation of the estimated investment return for the year. As shown, the approximate investment return for 2002/2003 is 4.8% when measured on market value, and 2.9% when measured on actuarial value. Table 9b shows a history of return rates since the 1990/1991 plan year.

Table 10 shows an external cash flow history. External cash flow worsened this year, mainly because of the decline in the State's contribution and the investment loss (compared to the assumed 8.00% return). It is now a negative 1.1% of assets. However, the negative cash flow is small enough that is currently covered by dividend and coupon receipts.

Table 11a shows the development of the asset loss. Since the System earned less than the assumed rate of 8%, based on the actuarial value of assets, the UAAL has been increased by the loss. This increase was \$320.0 million for the current year.

Benefit and Contribution Provisions

Appendix I provides a summary of benefit and contribution provisions of the System, while Appendix II is a historical summary of legislative changes.

This valuation reflects new legislation adopted during the 2003 legislative session. Among the items that materially affected plan liabilities and costs were:

1. Decreasing the service requirement for vesting from 10 years to five years. (This change did not affect the ten-year service requirement for disability benefits or the 10-year service requirement for the medical insurance supplement.)
2. Including 50% of interest earned on member contributions in the refunds made to members who terminate with less than seven years of service.

These changes resulted in an increase in the normal cost (from 10.28% to 10.55% before recognizing the impact of the assumption change), a \$27 million decrease in the UAAL and an increase in the funding period of 3.3 years. The apparent paradox of a benefit increase reducing the UAAL is due to the fact that the present value of future normal costs increased more than the present value of future benefits. This in turn is due to the fact that the benefit improvements mainly benefited younger, shorter-service employees.

There were two other notable changes adopted that had no impact on costs or liabilities. These were (i) making available a partial lump-sum option (PLSO) for members who retire with 30 or more years of service, and (ii) permitting disabled members to elect Option 2, the Joint & 100% Survivor option (with pop-up). Neither change had any impact because the reduced benefits are determined actuarially.

GASB 25 Disclosure

This report includes three Tables--4a, 4b and 4c--showing information required to be reported under GASB 25. Table 4a shows a history of funding progress.

This table shows improvement in funded status over the last six valuations, from 45.9% at June 30, 1998, to 54.0% currently. The increase in the funded ratio at June 30, 2003 occurred in part because of the elimination of the 1% COLA assumption. There have been several minor benefit changes during this period; see Appendix II. Actuarial assumptions were changed in 2001 and again this year.

Table 4b shows the Annual Required Contribution (ARC) as computed under GASB 25, and it shows what percent of this amount was actually received. The ARC is computed as the normal cost plus a 40-year amortization of the UAAL. The 40-year period is re-determined each year (i.e., this is an "open amortization method"). The actual contributions that were compared with the ARC were the contributions received from employers, plus federal matching funds, plus the state's contribution.

Table 4c shows other information that must be included in the financial report.

Actuarial Assumptions and Methods

Appendix III summarizes the actuarial assumptions used to determine the plan's liabilities and the actuarial methods used to determine the normal cost, UAAL and funding period.

The most significant assumptions are the investment return rate (8%), the salary increase rate (averages about 4.7%), the payroll growth rate (3.5%), and the state revenue growth rate (3.5%). There were no changes in actuarial assumptions or methods since last year, except the Board voted to rescind their earlier decision to reflect a 1% annual ad hoc COLA each year in the future. Actuarial assumptions were last changed in 2001, when the Board adopted changes recommended by the actuary, based on a review of System experience for the five-year period ending June 30, 1999.

When the System's experience does not match the actuarial assumptions, gains or losses arise. These gains and losses result in changes to the UAAL for the System, and in turn they change the funding period.

The method used to determine the normal cost, UAAL, and funding period is the Entry Age actuarial cost method. We continue to believe the Entry Age method is appropriate for the System.

The effect of removing the 1.00% COLA assumption is shown in the table below:

Item	With the 1% COLA Assumption	With No Assumption for Future COLAs
(1)	(2)	(3)
Total normal cost rate	10.55%	9.90%
UAAL (millions)	\$6,453.8	\$5,488.3
Funded Ratio	49.9%	54.0%
Funding period	49.4 years	28.7 years
GASB Annual Required Contribution (millions)	\$633.3	\$534.8
GASB Annual Required Contribution (percent of pay)	20.27%	17.11%

Membership Data

Data on all members of the System, whether active, receiving a benefit, or entitled to a future benefit, was supplied by the System. See Item V of Appendix III for more information.

We did not verify the correctness of the data at the source, but we did perform various tests to ensure the internal consistency of the data and its overall reasonableness. In our review of this data we encountered a small number of records with missing or inconsistent information. We made adjustments to these records, but this did not materially impact the results shown.

Tables 5a and 5b show some key statistics for the various groups included, and Table 15 shows the distribution of active members by age and service.

There was a 2.6% decrease in the number of active members since the previous valuation, and a 0.0% increase in the payroll for active members. This was the first year we have seen such a significant decline in the number of active members. However, the staff confirmed that the figures are correct.

Membership has grown an average of 0.6% over the last five years, and 1.0% over the last ten years. Payroll for covered members (without regard to the pay caps) has grown an average of 3.7% over the last five years, and it has grown at that same 3.7% rate over the last ten years.

Over the last several years, the active group has slowly gotten older. As shown on Table 5b, the average active member is now over 45 years old, the average age for the active group has increased 1.9 years during the last ten years, and during that period, the average tenure of members has increased 0.8 years.

Prescribed Assumptions for Reporting Purposes

During the 2002 legislative session, legislation was adopted that requires the Retirement Board to annually submit information on the System to the Oklahoma State Pension Commission based on the following prescribed set of assumptions.

Interest rate = 7.5%

COLA assumption = 2.0%

Mortality = RP 2000 Generational Mortality Tables / active members, healthy annuitants,
and disabled annuitants

Amortization Period = 30 years open period

All contributions and revenues, including dedicated fee revenue and federal monies, must be reflected. All other assumptions, methodologies, and plan provisions used must be consistent with those used in the regular actuarial valuation.

We have presented this information as an addendum to this report in Appendix IV.

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Development of Employer Cost

	June 30, 2003 (1)	June 30, 2002 (2)
1. Payroll		
a. Supplied by system	\$ 3,045,676,600	\$ 3,047,149,510
b. Adjusted for one year's pay increase	3,183,653,000	3,187,766,000
c. Adjusted for one year's pay increase with pay caps	3,124,896,000	3,121,937,000
2. Present value of future pay (paid monthly, with pay caps)	\$ 24,551,829,000	\$ 24,578,171,000
3. Normal cost rate (payable monthly)		
a. Total normal cost rate	9.90%	10.28%
b. Less: member rate	<u>(7.00%)</u>	<u>(7.00%)</u>
c. Employer normal cost rate	2.90%	3.28%
4. Actuarial accrued liability for active members		
a. Present value of future benefits for active members	\$ 8,270,876,000	\$ 8,657,751,000
b. Less: present value of future employer normal costs (Item 3c * Item 2)	(712,003,041)	(806,164,009)
c. Less: present value of future member contributions	<u>(1,718,628,000)</u>	<u>(1,720,472,000)</u>
d. Actuarial accrued liability	\$ 5,840,244,959	\$ 6,131,114,991
5. Total actuarial accrued liability for:		
a. Retirees and beneficiaries	\$ 5,893,954,300	\$ 5,959,905,900
b. Inactive members	190,962,430	184,894,014
c. Active members (Item 4d)	5,840,244,959	6,131,114,991
d. Total	<u>\$ 11,925,161,689</u>	<u>\$ 12,275,914,905</u>
6. Actuarial value of assets	\$ 6,436,852,137	\$ 6,310,930,799
7. Unfunded actuarial accrued liability (UAAL) (Item 5d - Item 6)	\$ 5,488,309,552	\$ 5,964,984,106
8. Funding period	28.7 years	41.0 years
9. 40-year amortization cost		
a. Employer normal cost (Item 1c * 3c)	\$ 90,621,984	\$ 102,399,534
b. Level 40-year amortization of UAAL (payable monthly)	444,189,861	482,768,954
c. Total	<u>\$ 534,811,845</u>	<u>\$ 585,168,488</u>
d. Contribution as percentage of payroll (9c/1c)	17.11%	18.74%

Actuarial Present Value of Future Benefits

	June 30, 2003 <u>(1)</u>	June 30, 2002 <u>(2)</u>
1. Active members		
a. Service retirement benefits	\$ 7,163,826,000	\$ 7,518,001,000
b. Deferred termination benefits	84,266,000	80,354,000
c. Refunds	408,820,000	425,527,000
d. Death benefits	42,181,000	46,877,000
e. Disability retirement benefits	177,417,000	187,817,000
f. Supplemental medical insurance	365,119,000	371,321,000
g. \$5,000 post-retirement death benefit	29,247,000	27,854,000
h. Total	<u>\$ 8,270,876,000</u>	<u>\$ 8,657,751,000</u>
2. Retired members		
a. Service retirements	\$ 5,202,337,800	\$ 5,288,419,600
b. Disability retirements	97,501,200	98,154,600
c. Beneficiaries	146,886,900	145,743,100
d. Supplemental medical insurance	384,898,400	367,327,700
e. \$5,000 post-retirement death benefit	62,330,000	60,260,900
f. Total	<u>\$ 5,893,954,300</u>	<u>\$ 5,959,905,900</u>
3. Inactive members		
a. Vested terminations	\$ 124,116,565	\$ 125,327,693
b. Nonvested terminations	45,579,690	41,221,382
c. Suspense fund	21,266,175	18,344,939
d. Total	<u>\$ 190,962,430</u>	<u>\$ 184,894,014</u>
4. Total actuarial present value of future benefits	<u>\$ 14,355,792,730</u>	<u>\$ 14,802,550,914</u>

Analysis of Normal Cost

	<u>June 30, 2003</u> (1)	<u>June 30, 2002</u> (2)
1. Gross normal cost rate (payable monthly)		
a. Retirement benefits	7.25%	7.55%
b. Deferred termination benefits	0.21%	0.13%
c. Refunds	1.77%	1.91%
d. Supplemental medical insurance	0.35%	0.36%
e. \$5,000 Post-retirement death benefits	0.04%	0.03%
f. Disability retirement benefits	<u>0.28%</u>	<u>0.30%</u>
g. Total	9.90%	10.28%
2. Less: member rate	<u>7.00%</u>	<u>7.00%</u>
3. Employer normal cost rate	2.90%	3.28%
4. Effectiveness of member contributions		
a. Member rate	7.00%	7.00%
b. Less: cost of refunds	<u>(1.77%)</u>	<u>(1.91%)</u>
c. Net member rate available for benefits	5.23%	5.09%
d. Effectiveness rate (4c/4a)	74.71%	72.71%

Teachers' Retirement System of Oklahoma
Actuarial Valuation - June 30, 2003 (Revised)

Schedule of Funding Progress
(As required by GASB #25)

Valuation Date	Actuarial Value of Assets (AVA) (2)	Actuarial Accrued Liability (AAL) (3)	Unfunded Actuarial		Funded Ratio (2)/(3) (5)	Annual Covered Payroll (6)	UAAL as % of Payroll (4)/(6) (7)
			Accrued Liability (UAAL) (3) - (2) (4)	Accrued Liability (4)			
June 30, 1993	\$2,569.2	\$6,456.9	\$3,887.7	\$3,887.7	39.8%	\$2,122.0	183.2%
June 30, 1994	\$2,697.2	\$6,736.0	\$4,038.8	\$4,038.8	40.0%	\$2,189.5	184.5%
June 30, 1995	\$2,869.9	\$7,480.4	\$4,610.5	\$4,610.5	38.4%	\$2,336.1	197.4%
June 30, 1996	\$3,103.0	\$7,843.2	\$4,740.2	\$4,740.2	39.6%	\$2,375.5	199.5%
June 30, 1997	\$3,544.9	\$8,257.2	\$4,712.3	\$4,712.3	42.9%	\$2,428.7	194.0%
June 30, 1998	\$4,085.0	\$8,891.3	\$4,806.3	\$4,806.3	45.9%	\$2,537.7	189.4%
June 30, 1999	\$4,708.0	\$9,458.6	\$4,750.5	\$4,750.5	49.8%	\$2,648.4	179.4%
June 30, 2000	\$5,373.5	\$10,009.2	\$4,635.7	\$4,635.7	53.7%	\$2,738.3	169.3%
June 30, 2001	\$5,959.0	\$11,591.1	\$5,632.1	\$5,632.1	51.4%	\$2,990.5	188.3%
June 30, 2002	\$6,310.9	\$12,275.9	\$5,965.0	\$5,965.0	51.4%	\$3,047.1	195.8%
June 30, 2003	\$6,436.9	\$11,925.2	\$5,488.3	\$5,488.3	54.0%	\$3,045.7	180.2%

Note: Dollar amounts in millions

The results for June 30, 2001 and June 30, 2002 reflect an assumed 1% average future COLA.

Schedule of Employer Contributions
(As required by GASB #25)

<u>Year Ending June 30,</u> (1)	<u>Annual Required Contribution</u> (2)	<u>Percentage Contributed</u> (3)
1998	\$446,219,296	59.1%
1999	\$456,864,002	53.5%
2000	\$455,265,033	60.6%
2001	\$451,463,258	72.7%
2002	\$556,201,571	65.6%
2003	\$585,168,488	61.9%

Notes to Required Supplementary Information
(as required by GASB #25)

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, 2003
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 rate of return *	8.00%
Projected salary increase *	4.25% to 7.00%
* Includes inflation at:	3.00%
Cost of living adjustment	None

Membership Data

	June 30, 2003 (1)	June 30, 2002 (2)
1. Active members		
a. Number	83,127	85,366
b. Total payroll supplied by System	\$ 3,045,676,600	\$ 3,047,149,510
c. Average salary	\$ 36,639	\$ 35,695
d. Average age	45.3	44.9
e. Average service	11.5	11.1
2. Vested inactive members		
a. Number	3,731	3,575
b. Total annual deferred benefits	\$ 20,055,414	\$ 19,201,214
c. Average annual deferred benefit	\$ 5,375	\$ 5,371
3. Nonvested inactive members		
a. Number	9,028	8,755
b. Member contributions with interest due	\$ 45,579,690	\$ 41,221,382
c. Average refund due	\$ 5,049	\$ 4,708
4. Service retirees		
a. Number	35,073	33,623
b. Total annual benefits ¹	\$ 560,383,156	\$ 530,651,544
c. Average annual benefit	\$ 15,978	\$ 15,782
5. Special service retirees		
a. Number	264	330
b. Total annual benefits ¹	\$ 569,516	\$ 712,078
c. Average annual benefit	\$ 2,157	\$ 2,158
6. Disabled retirees		
a. Number	1,273	1,204
b. Total annual benefits ¹	\$ 12,871,448	\$ 12,163,236
c. Average annual benefit	\$ 10,111	\$ 10,102
7. Beneficiaries and spouses		
a. Number	1,449	1,358
b. Total annual benefits ¹	\$ 18,085,566	\$ 16,751,805
c. Average annual benefit	\$ 12,481	\$ 12,336

¹ Benefit amounts exclude the supplemental medical insurance payment.

2002 benefit amounts include COLA effective July 1, 2002

TABLE 5b

Teachers' Retirement System of Oklahoma
Actuarial Valuation - June 30, 2003 (Revised)

Historical Summary of Active Member Data

Valuation as of June 30,	Active Members		Covered Payroll		Average Salary		Average Age (8)	Average Service Age (9)
	Number (2)	Percent Increase (3)	Amount in \$ Millions (4)	Percent Increase (5)	\$ Amount (6)	Percent Increase (7)		
1990	69,062	2.0%	1,745	8.4%	25,265	5.0%	43.1	10.5
1991	71,936	4.2%	1,921	10.1%	26,709	5.7%	43.1	10.5
1992	73,568	2.3%	2,002	4.2%	27,218	1.9%	43.3	10.6
1993	75,599	2.8%	2,122	6.0%	28,069	3.1%	43.4	10.7
1994	76,280	0.9%	2,190	3.2%	28,704	2.3%	43.6	10.8
1995	79,044	3.6%	2,336	6.7%	29,555	3.0%	43.6	10.7
1996	78,942	(0.1%)	2,375	1.7%	30,091	1.8%	44.0	11.1
1997	79,510	0.7%	2,429	2.3%	30,546	1.5%	44.2	11.2
1998	80,578	1.3%	2,538	4.5%	31,493	3.1%	44.3	11.2
1999	81,851	1.6%	2,648	4.3%	32,356	2.7%	44.4	11.2
2000	83,024	1.4%	2,738	3.4%	32,982	1.9%	44.5	11.0
2001	84,387	1.6%	2,991	9.2%	35,438	7.4%	44.7	11.0
2002	85,366	1.2%	3,047	1.9%	35,695	0.7%	44.9	11.1
2003	83,127	(2.6%)	3,046	(0.0%)	36,639	2.6%	45.3	11.5

Plan Net Assets
(Assets at Market or Fair Value)

Item	Valuation as of	
	June 30, 2003	June 30, 2002
(1)	(2)	(3)
1. Cash and cash equivalents	\$ 6,427,508	\$ 3,281,205
2. Receivables		
a. Employer and member contributions	\$ 32,833,301	\$ 33,418,434
b. State contribution	13,113,939	12,968,052
c. Net investment income and other accruals	(240,894,169)	(45,726,674)
d. Total receivables	\$ (194,946,929)	\$ 659,812
3. Investments		
a. Invested cash and other	\$ 395,517,841	\$ 294,413,621
b. Domestic equities	3,179,821,394	2,602,427,287
c. International equities	930,793,198	734,074,081
d. Domestic fixed income	1,516,394,606	2,065,982,124
e. International fixed income	85,912,553	47,384,912
f. Real estate, furniture & equipment	309,543	404,771
g. Total investments	\$ 6,108,749,135	\$ 5,744,686,796
4. Total assets	\$ 5,920,229,714	\$ 5,748,627,813
5. Liabilities		
a. Benefits payable	\$ 49,354,141	\$ 45,185,670
b. Insurance premium payable	2,463,271	2,414,798
c. Expenses	5,098,874	4,144,139
d. Total liabilities	\$ 56,916,286	\$ 51,744,607
6. Net assets available (Item 4 - Item 5)	\$ 5,863,313,428	\$ 5,696,883,206
7. Less: Teachers' Deposit Fund	(249,249,470)	(278,991,127)
8. Net assets available for OTRS benefits	\$ 5,614,063,958	\$ 5,417,892,079

**Distribution of Assets at Market Value
 (Percentage of Total Investments)**

Item (1)	Valuation as of	
	June 30, 2003 (2)	June 30, 2002 (3)
a. Invested cash and other	6.47%	5.12%
b. Domestic equities	52.05%	45.31%
c. International equities	15.24%	12.78%
d. Domestic fixed income	24.82%	35.96%
e. International fixed income	1.41%	0.82%
f. Real estate, furniture & equipment	0.01%	0.01%
g. Total investments	100.00%	100.00%

Reconciliation of Plan Net Assets

	Year Ending	
	June 30, 2003	June 30, 2002
	(1)	(2)
1. Market value of assets at beginning of year, net of Teachers' Deposit Fund	\$ 5,417,892,079	\$ 5,727,193,205
2. Revenue for the year		
a. Contributions		
i. Member contributions, including state credit	\$ 220,503,412	\$ 226,445,669
ii. Federal matching funds	14,267,487	13,138,458
iii. State contribution	128,879,976	141,057,868
iv. Employer/district contributions	218,841,977	210,829,995
v. Total	\$ 582,492,852	\$ 591,471,990
b. Net investment earnings		
i. Interest, dividends and other income	\$ 166,272,272	\$ 189,838,153
ii. Net appreciation/(depreciation)	115,804,022	(499,102,940)
iii. Less: investment expenses	(16,040,134)	(16,469,508)
iv. Less: transfers to Teachers' Deposit Fund	(9,196,843)	16,817,828
v. Net investment earnings	\$ 256,839,317	\$ (308,916,467)
c. Total revenue	\$ 839,332,169	\$ 282,555,523
3. Expenditures for the year		
a. Refunds	\$ 30,176,320	\$ 26,728,503
b. Benefit payments, including insurance payments	608,976,123	561,222,392
c. Administrative expenses	4,007,847	3,905,754
d. Total expenditures	\$ 643,160,290	\$ 591,856,649
4. Increase in net assets (Item 2 - Item 3)	\$ 196,171,879	\$ (309,301,126)
5. Market value of assets at end of year, net of Teachers' Deposit Fund (Item 1 + Item 4)	\$ 5,614,063,958	\$ 5,417,892,079

Development of Actuarial Value of Assets

	<u>Year Ending June 30, 2003</u>		
1. Market value of assets at beginning of year	\$ 5,417,892,079		
2. Net new investments			
a. Contributions	\$ 582,492,852		
b. Benefits paid	(608,976,123)		
c. Refunds	<u>(30,176,320)</u>		
d. Subtotal	(56,659,591)		
3. Market value of assets at end of year	\$ 5,614,063,958		
4. Net earnings (3-1-2)	\$ 252,831,470		
5. Assumed investment return rate	8.00%		
6. Expected return	\$ 431,164,983		
7. Excess return (4-6)	\$ (178,333,513)		
8. Excess return on assets for last four years :			
<u>Period End</u>	<u>Excess Return</u>	<u>Percent Deferred</u>	<u>Deferred Amount</u>
	(2)	(3)	(4)
a. June 30, 2000	132,560,291	20%	\$ 26,512,058
b. June 30, 2001	(609,875,785)	40%	(243,950,314)
c. June 30, 2002	(771,138,521)	60%	(462,683,113)
d. June 30, 2003	(178,333,513)	80%	<u>(142,666,810)</u>
			\$ (822,788,179)
9. Actuarial value of assets (Item 3 - Item 8)	\$ 6,436,852,137		
10. Actuarial value as percentage of market value			114.7%

Estimation of Yields

	Year Ending	
	June 30, 2003 (1)	June 30, 2002 (2)
A. Market value yield		
1. Beginning of year market assets	\$ 5,417,892,079	\$ 5,727,193,205
2. Net investment income (including realized and unrealized gains and losses)	\$ 256,839,317	\$ (308,916,467)
3. End of year market assets	\$ 5,614,063,958	\$ 5,417,892,079
4. Estimated dollar weighted market value yield	4.8%	-5.4%
B. Actuarial value yield		
1. Beginning of year actuarial assets	\$ 6,310,930,799	\$ 5,959,008,704
2. Actuarial return	\$ 182,580,929	\$ 348,401,000
3. End of year actuarial assets	\$ 6,436,852,137	\$ 6,310,930,799
4. Estimated actuarial value yield	2.9%	5.8%

History of Investment Return Rates

<u>Year Ending June 30 of</u> (1)	<u>Market</u> (2)	<u>Actuarial</u> (3)
1990	9.7%	10.4%
1991	9.7%	9.0%
1992	13.7%	12.0%
1993	13.5%	12.7%
1994	2.0%	6.5%
1995	14.9%	11.2%
1996	14.6%	11.6%
1997	20.9%	13.5%
1998	21.4%	15.8%
1999	11.9%	17.1%
2000	10.5%	15.5%
2001	-2.3%	11.4%
2002	-5.4%	5.8%
2003	4.8%	2.9%

History of Cash Flow

Year Ending June 30, (1)	Contributions (2)	Benefit Payments (3)	Refunds (4)	Administrative Expenses (5)	Total (6)	External Cash Flow for the Year ¹ (7)	Market Value of Assets (8)	External Cash Flow as Percent of Market Value (9)
1994	340.6	(351.1)	(13.3)	(2.5)	(366.9)	(26.3)	2,684	(1.0%)
1995	307.1	(377.5)	(14.2)	(2.2)	(393.9)	(86.8)	2,991	(2.9%)
1996	321.0	(396.1)	(18.1)	(2.2)	(416.4)	(95.4)	3,325	(2.9%)
1997	443.2	(418.0)	(20.1)	(2.4)	(440.5)	2.7	4,041	0.1%
1998	444.8	(439.2)	(23.0)	(3.3)	(465.5)	(20.7)	4,884	(0.4%)
1999	435.0	(479.6)	(24.5)	(2.7)	(506.9)	(71.8)	5,387	(1.3%)
2000	471.8	(500.3)	(29.5)	(3.0)	(532.7)	(60.9)	5,890	(1.0%)
2001	544.8	(537.3)	(31.4)	(3.5)	(572.2)	(27.4)	5,732	(0.5%)
2002	591.5	(561.2)	(26.7)	(3.9)	(591.9)	(0.4)	5,418	(0.0%)
2003	582.5	(609.0)	(30.2)	(4.0)	(643.2)	(60.7)	5,614	(1.1%)

Dollar amounts in millions

¹ Column (7) = Column (2) + Column (6).

Investment Experience Gain or Loss

Item (1)	Year Ending June 30, 2003 (2)	Year Ending June 30, 2002 (3)
1. Actuarial assets, beginning of year	\$ 6,310,930,799	\$ 5,959,008,704
2. Contributions during year	\$ 582,492,852	\$ 591,471,990
3. Benefits and refunds paid	\$ (639,152,443)	\$ (587,950,895)
4. Assumed net investment income at 8%		
a. Beginning of year assets	\$ 504,874,464	\$ 476,720,696
b. Contributions	23,299,714	23,658,880
c. Benefits and refunds paid	<u>(25,566,098)</u>	<u>(23,518,036)</u>
d. Total	\$ 502,608,080	\$ 476,861,540
5. Expected actuarial assets, end of year (Sum of items 1 through 4)	\$ 6,756,879,288	\$ 6,439,391,339
6. Actual actuarial assets, end of year	\$ 6,436,852,137	\$ 6,310,930,799
7. Asset gain (loss) for year (Item 6 - Item 5)	\$ (320,027,151)	\$ (128,460,540)

Total Experience Gain or Loss

Item (1)	Year Ending June 30, 2003 (2)	Year Ending June 30, 2002 (3)
A. Calculation of total actuarial gain or loss		
1. Unfunded actuarial accrued liability (UAAL), previous year	\$ 5,964,984,106	\$ 5,632,078,525
2. Normal cost for the year (employer and employee)	\$ 320,935,124	\$ 314,592,878
3. Less: total contributions for the year	\$ (582,492,852)	\$ (591,471,990)
4. Interest at 8 %		
a. On UAAL	\$ 477,198,728	\$ 450,566,282
b. On normal cost	12,837,405	12,583,715
c. On contributions	(23,299,714)	(23,658,880)
d. Total	<u>\$ 466,736,419</u>	<u>\$ 439,491,117</u>
5. Expected UAAL (Sum of Items 1 - 4)	\$ 6,170,162,797	\$ 5,794,690,530
6. Actual UAAL	\$ 5,488,309,552	\$ 5,964,984,106
7. Total gain (loss) for the year (Item 5 - Item 6)	\$ 681,853,245	\$ (170,293,576)
B. Source of gains and losses		
8. Asset gain (loss) for the year	\$ (320,027,151)	\$ (128,460,540)
9. Liability gain (loss) for the year	9,551,020	89,211,564
10. Legislation changes	26,854,459	(131,044,600)
11. Assumption changes (elimination of 1% COLA assumption)	<u>965,474,917</u>	<u>0</u>
13. Total	\$ 681,853,245	\$ (170,293,576)

Analysis of Change in Unfunded Actuarial Accrued Liability (UAAL)

Basis	June 30, 2003 UAAL (in \$ Millions)	June 30, 2002 UAAL (in \$ Millions)
1. From prior valuation	\$ 5,965.0	\$ 5,632.1
2. Impact of changes, gains and losses		
a. Expected increase based on statutory contributions and passage of time	204.8	187.7
b. Liability (gain)/loss	(9.5)	(89.2)
c. Asset (gain)/loss	320.0	128.5
d. Impact of actual ctrb greater than expected under schedule	0.4	(25.1)
e. Legislative changes	(26.9)	131.0
f. Assumption changes (elimination of 1% COLA assumption)	(965.5)	0.0
h. Total	(476.7)	332.9
3. Current UAAL (1+2h)	\$ 5,488.3	\$ 5,965.0

Analysis of Change in Funding Period

Basis	June 30, 2003 Funding Period (Years)	June 30, 2002 Funding Period (Years)
1. Funding period (years) from prior valuation	41.0	62.2
2. Impact of changes, gains and losses		
a. Expected (decrease)/increase	(1.0)	(1.0)
b. Impact of payroll and revenue growth different than expected (incl decr in dedicated rev and recognition of fed matching money)	0.2	3.8
c. Impact of future increased percentage of dedicated revenue	0.0	(26.5)
d. Impact of contributions greater than expected	0.0	(0.4)
e. Impact of asset (gain)/loss	6.1	2.1
f. Impact of liability (gain)/loss	(0.2)	(1.5)
g. Impact of legislative changes	3.3	2.3
h. Impact of assumption changes	<u>(20.7)</u>	<u>0.0</u>
j. Total	(12.3)	(21.2)
3. Current funding period (years) (1+2j)	28.7	41.0

Projection of UAAL

	Valuation Date (1)	UAAL (Millions) (2)	
A. Actual	June 30, 1993	\$ 3,887.7	
	June 30, 1994	4,038.8	
	June 30, 1995	4,610.5	
	June 30, 1996	4,740.2	
	June 30, 1997	4,712.3	
	June 30, 1998	4,806.2	
	June 30, 1999	4,750.5	
	June 30, 2000	4,635.7	
	June 30, 2001	5,632.1	
	June 30, 2002	5,965.0	
	June 30, 2003	5,488.3	
	B. Projected	June 30, 2004	\$ 5,635.5
		June 30, 2005	5,772.8
June 30, 2006		5,897.8	
June 30, 2007		5,995.8	
June 30, 2008		6,061.1	
June 30, 2009		6,117.1	
June 30, 2010		6,162.6	
June 30, 2011		6,196.3	
June 30, 2012		6,216.5	
June 30, 2013		6,221.7	
June 30, 2014		6,210.1	
June 30, 2015		6,179.8	
June 30, 2016		6,128.5	
June 30, 2017		6,054.1	
June 30, 2018		5,954.0	
June 30, 2019		5,825.3	
June 30, 2020		5,665.3	
June 30, 2021	5,470.5		
June 30, 2022	5,237.4		
June 30, 2023	4,962.2		

Projection of UAAL (cont.)

<u>Valuation Date</u> (1)	<u>UAAL</u> <u>(Millions)</u> (2)
June 30, 2024	\$ 4,640.8
June 30, 2025	4,268.4
June 30, 2026	3,840.2
June 30, 2027	3,350.9
June 30, 2028	2,794.5
June 30, 2029	2,164.7
June 30, 2030	1,454.7
June 30, 2031	657.0

Teachers' Retirement System of Oklahoma
Actuarial Valuation - June 30, 2003 (Revised)

Solvency Test

Actuarial Accrued Liability and Percent of Active Member Payroll for:

June 30,	Accumulated Member Contributions Including Interest		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)	(1)	(2)	(3)	(4)
1994	1,467.9	67%	3,187.5	146%	102.5	5%	1,978.1	90%	2,697.2	100%	39%	0%	100%	39%	0%	0%
1995	1,628.4	70%	3,409.3	146%	96.7	4%	2,346.0	100%	2,869.9	100%	36%	0%	100%	36%	0%	0%
1996	1,799.1	76%	3,586.3	151%	106.7	4%	2,351.1	99%	3,103.0	100%	36%	0%	100%	36%	0%	0%
1997	1,967.9	81%	3,797.8	156%	114.4	5%	2,377.1	98%	3,544.9	100%	42%	0%	100%	42%	0%	0%
1998	2,143.4	84%	4,195.9	165%	125.7	5%	2,426.3	96%	4,085.0	100%	46%	0%	100%	46%	0%	0%
1999	2,330.6	88%	4,415.0	167%	136.4	5%	2,576.5	97%	4,708.0	100%	54%	0%	100%	54%	0%	0%
2000	2,518.2	92%	4,803.8	175%	151.1	6%	2,536.1	93%	5,373.5	100%	59%	0%	100%	59%	0%	0%
2001	2,728.4	91%	5,459.6	183%	173.1	6%	3,230.0	108%	5,959.0	100%	59%	0%	100%	59%	0%	0%
2002	2,934.3	96%	5,959.9	196%	184.9	6%	3,196.8	105%	6,310.9	100%	57%	0%	100%	57%	0%	0%
2003	3,072.8	101%	5,894.0	194%	191.0	6%	2,767.4	91%	6,436.9	100%	57%	0%	100%	57%	0%	0%

Note : Dollar amounts in millions

Teachers' Retirement System of Oklahoma
Actuarial Valuation - June 30, 2003 (Revised)

Distribution of Active Members by Age and by Years of Service
As of 06/30/2003

Attained Age	Years of Credited Service													Total	
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & Over		
	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	
Under 25	158 \$17,055	690 \$26,417	357 \$26,410	357 \$23,482	95 \$22,830	29 \$19,551	9 \$0	0 \$0	1,338 \$24,978						
25-29	216 \$17,328	1,054 \$28,797	1,445 \$30,062	1,288 \$30,467	1,131 \$31,130	1,208 \$32,724	4 \$31,368	0 \$0	6,346 \$30,198						
30-34	258 \$15,459	883 \$29,785	994 \$31,359	914 \$31,749	897 \$32,730	3,681 \$34,670	1,123 \$35,670	7 \$32,654	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	8,757 \$32,859
35-39	232 \$12,898	727 \$29,317	901 \$31,005	827 \$32,018	728 \$32,507	2,415 \$35,658	2,763 \$36,909	853 \$39,066	9 \$35,477	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	9,455 \$34,280
40-44	250 \$13,488	712 \$26,762	912 \$29,775	803 \$31,032	837 \$31,657	2,812 \$33,678	2,490 \$37,971	2,248 \$40,479	1,177 \$42,332	5 \$39,890	0 \$0	0 \$0	0 \$0	0 \$0	12,246 \$35,217
45-49	205 \$14,266	572 \$29,253	688 \$31,512	716 \$31,162	723 \$32,288	2,621 \$34,051	2,816 \$36,786	1,997 \$41,010	2,604 \$43,935	1,548 \$45,442	4 \$44,298	0 \$0	0 \$0	0 \$0	14,494 \$37,716
50-54	165 \$14,623	401 \$30,031	559 \$32,103	483 \$32,592	522 \$32,124	2,109 \$34,593	2,607 \$36,460	2,417 \$39,495	2,112 \$46,121	2,638 \$47,576	1,001 \$49,333	2 \$66,768	0 \$0	0 \$0	15,016 \$40,011
55-59	85 \$13,125	240 \$26,547	339 \$29,098	298 \$32,087	272 \$35,394	1,273 \$35,649	1,769 \$35,552	1,775 \$38,083	1,549 \$43,285	1,081 \$51,378	1,154 \$53,451	275 \$54,056	0 \$0	0 \$0	10,110 \$40,707
60-64	46 \$11,246	86 \$25,022	116 \$27,484	106 \$25,395	93 \$24,967	509 \$33,003	790 \$35,369	783 \$36,424	500 \$43,948	428 \$52,098	340 \$61,680	290 \$67,242	40 \$73,079	0 \$0	4,127 \$41,628
65-69	16 \$9,165	38 \$22,243	35 \$25,018	33 \$27,958	30 \$23,040	127 \$26,436	174 \$30,748	157 \$37,944	98 \$43,633	67 \$44,131	45 \$74,526	53 \$89,543	36 \$84,747	0 \$0	909 \$40,186
70 & Over	13 \$8,090	16 \$14,069	25 \$15,558	8 \$12,698	12 \$17,344	48 \$17,790	62 \$27,464	51 \$26,365	23 \$32,016	20 \$30,842	25 \$50,339	7 \$68,321	19 \$111,988	0 \$0	329 \$30,845
Total	1,644 \$14,606	5,419 \$28,348	6,371 \$30,305	5,571 \$31,093	5,274 \$31,921	16,812 \$34,305	14,598 \$36,528	10,288 \$39,398	8,072 \$44,102	5,787 \$47,945	2,569 \$53,260	627 \$63,354	95 \$85,282	0 \$0	83,127 \$36,639

Summary of Plan Provisions

1. Effective Date: July 1, 1943.
2. Plan Year: Twelve-month period ending June 30th.
3. Administration: The System is administered by a Board of Trustees, which is responsible for administration of the System and investment of System assets. Three members serve ex officio, while a total of ten others are appointed by the Governor (six), the President of the Senate (two), and the Speaker of the House (two), according to various guidelines.
4. Type of Plan: The System is a qualified governmental defined benefit retirement plan. For GASB purposes, it is a cost-sharing multiple-employer PERS.
5. Eligibility: All employees of any public school in Oklahoma, including public colleges and universities, are eligible to participate in the System. Classified personnel (teachers, supervisors, principals, registered school nurses, administrators, etc.) are required to participate, beginning at their date of employment. Non-classified employees (all other employees, such as drivers, secretaries, janitors, cooks, etc.) may, but are not required to, participate. Certain other State employees, such as employees of the System itself, participate in the System.
6. Maximum Pay: At one time, contributions under this system were based on pay up to a maximum dollar amount. Members could choose between a \$40,000 maximum and a \$25,000 maximum. The member's Final Average Compensation was limited by this same maximum, so the member's election affected his/her benefits, as well as contributions.

This maximum no longer applies in determining the required member and employer contributions for most members. It does still have an impact, however. As noted below, benefits based on service earned before July 1, 1995 are limited by the \$40,000 or \$25,000 maximum, whichever was elected.

In addition, members employed by one of the comprehensive universities who entered the system before July 1, 1995 still have their current member and employer contributions limited according to the schedule on the following page.

	<u>Elected \$40,000 Maximum</u>	<u>Elected \$25,000 Maximum</u>
1995/1996	\$44,000	\$27,500
1996/1997	49,000	32,500
1997/1998	54,000	37,500
1998/1999	59,000	42,500
1999/2000	59,000	42,500
2000/2001	64,000	47,500
2001/2002	69,000	52,500
2002/2003	74,000	57,500
2003/2004	79,000	62,500
2004/2005	84,000	67,500
2005/2006	89,000	72,500
2006/2007	94,000	77,500
Thereafter	No limit	No limit

Benefits for some members in higher education are likewise limited for the period before July 1, 2007.

7. Member Contributions: Generally, active members contribute 7% of all compensation to the System. As noted in the preceding item, however, contributions for some members in higher education are limited by a pay maximum. A school district may pay all or part of the contribution for its employees.
8. Employer Contributions: Employers are required to contribute a fixed percentage of pay on behalf of active members. The employer contribution rate is applied to all pay, except as already noted in the case of certain higher education employees. Beginning July 1, 2002, the local employer contribution rate is 7.05%.

In addition, the state will contribute a percentage of revenues from sales taxes, use taxes, corporate income taxes and individual income taxes. That percentage is currently 3.54%, but it is scheduled to increase to 5.00% by FY 2008, as shown below.

<u>Fiscal Year</u>	<u>Contribution Percentage</u>
FY 2003	3.54%
FY 2004	3.54%
FY 2005	3.75%
FY 2006	4.00%
FY 2007	4.50%
FY 2008	5.00%

If a member's salary is paid from federal funds or certain grant money, an additional contribution (the federal matching contribution) is required. The federal contribution rate is set by the Board of Trustees annually, and is intended to approximate the state's contribution, expressed as a percentage of non federal/grant salaries.

9. Service: Employees receive credit for a year of service if they are contributing members for at least six months within one school year. Credit may also be granted for service prior to the System's effective date, and non-classified employees can purchase credit for their prior service once they have joined the System. Credit is also available for some out-of-state and military service under certain circumstances.
10. Final Average Compensation (FAC): The average of the member's compensation for the three or five years on which the highest contributions are paid. For persons becoming members before July 1, 1992, the averaging period is three years. For other members, the averaging period is five years. For service prior to July 1, 1995, the FAC is limited to \$40,000 or \$25,000, depending on the member's election as discussed in Item 6 above.
11. Normal Retirement
 - a. Eligibility: A member is eligible to retire and receive a Normal Retirement benefit if (i) the member is at least age 62 and has credit for 5 or more years of service, or (ii) the sum of the member's age and service is at least 80 (Rule of 80). (For members joining after June 30, 1992, a "Rule of 90" is used instead of the "Rule of 80".)
 - b. Monthly Benefit: 2% of FAC (limited to \$40,000 or \$25,000, as appropriate) times years of service prior to July 1, 1995, plus 2% of FAC (unlimited) times years of service after June 30, 1995. Special provisions apply to higher education members for service during the period July 1, 1995 through June 30, 2007. Monthly benefits are equal to one-twelfth of the calculated amount.
 - c. Payment Form: Benefits are paid as a monthly life annuity, with a guarantee that if the payments made do not exceed the member's accumulated contributions, determined as of the date of retirement, the balance will be paid in a lump-sum to the member's beneficiary. Optional forms of payment are available; see below.
12. Early Retirement
 - a. Eligibility: A member may retire early after reaching age 55 with credit for five years of service, or at any age after 30 years of service.

b. Monthly Benefit: The normal retirement benefit (based on current years of service) multiplied by the early retirement factor below.

c. Early Retirement Factor:

<u>Retirement</u>	<u>Factor</u>
62 or later	1.0000
61	.9333
60	.8666
59	.8000
58	.7523
57	.7038
56	.6595
55	.6189
54	.5817
53	.5474
52	.5159
51	.4868
50	.4598
49	.4349
48	.4117
47	.3902

d. Payment Form: Same as for Normal Retirement above.

13. Disability Retirement

a. Eligibility: A member is eligible provided (i) he/she has credit for at least 10 years of service, and (ii) the disability is approved by the Medical Board, appointed by the Board of Trustees.

b. Monthly Benefit: Same as for Normal Retirement above (based on current service).

c. Payment Form: The disability benefit commences immediately upon the member's retirement. Benefits are reduced or cease entirely upon recovery or reemployment prior to age 60. Disability benefits are payable as a monthly life annuity, with a guarantee that if the payments made do not exceed the sum of the member's accumulated contributions as of the date of retirement, the balance will be paid in a lump-sum to the member's beneficiary. A married, disabled member may elect a reduced benefit under the Joint & 100% Survivor option (with pop up) form of payments (Option 2 described in item 17 below). The reduction factor is determined using a disabled-life mortality table for the retiree.

14. Vested Termination Benefit

- a. Eligibility: A member with at least 5 years of service who does not withdraw his/her contributions from the fund is eligible for a vested termination benefit.
- b. Monthly Benefit: Same as for Normal Retirement above (based on current service). If benefits commence prior to age 62, they may be reduced as for Early Retirement above.
- c. Payment Form: Benefits commence at age 62, or optionally as early as age 55. The form of payment is the same as for Normal Retirement above.

15. Withdrawal (Refund) Benefit

- a. Eligibility: All members leaving covered employment with less than 5 years of service for a reason other than the member's death. Optionally, members eligible for other benefits may withdraw their contributions in lieu of the regular benefits due.
- b. Benefit: The member who withdraws receives a lump-sum payment of his/her employee contributions, plus a portion of the interest credited by the System on these contributions. Interest is credited at an annual rate of 8%. The portion of the interest paid on termination depends on the member's years of service as follows:

<u>Years of Service</u>	<u>Percent of Interest Refunded</u>
0-15	50%
16-21	60%
22-25	75%
26 or more	90%

16. Death in Service

- a. Eligibility: Death must have occurred while an active member

- b. Benefit: Upon the death of an active member, a refund of the member's contributions and 100% of the interest credited is paid. In addition, a lump sum of \$18,000 will be paid. If the member is eligible for retirement (early or normal) at the time of death, and the member is married, the spouse may elect to receive a monthly life annuity equal to the retirement benefit for which the member was eligible, reduced as though the member had elected to receive benefits under Option 2 (see below). This annuity is paid in lieu of both (i) the \$18,000 lump-sum death benefit and (ii) the refund of contributions. Only a refund is available to persons becoming members after June 30, 1992.
17. Optional Forms of Payment: There are optional forms of payment available on an actuarially equivalent basis, as follows:
- a. Option 1 - A life annuity with a guaranteed refund of the member's contributions and interest, less a monthly adjustment for benefits paid.
- b. Option 2 - A joint life annuity payable while both the member and the joint annuitant are alive; and if the member dies before the joint annuitant, continuing without change to the joint annuitant; or if the joint annuitant dies before the member, "popping-up" to the original life annuity amount and continuing for the life of the member.
- c. Option 3 - A joint life annuity payable while both the member and the joint annuitant are alive; and if the member dies before the joint annuitant, continuing at 50% of this amount for the joint annuitant's lifetime; or if the joint annuitant dies before the member, "popping-up" to the original life annuity amount and continuing for the life of the member.
- d. Option 4 - A life annuity with a guarantee that if the member dies before 120 payments (10 years) have been made, the payments will be continued to the member's beneficiary for the balance of the ten-year period.
- e. Option 5 - A partial lump-sum option (PLSO) would be allowed for those members with at least 30 years of service upon retirement. The amount of the PLSO would be equal to 12, 24, or 36 times the member's monthly retirement benefit, determined before applying any reduction for the PLSO or any other optional form of payment. A member who elects to receive a PLSO will have his/her monthly retirement benefit reduced on an actuarial basis to compensate for the fact that a PLSO is provided. A member who elects a PLSO may elect any of the other optional forms of payment as well, taking a further reduction in the annuity amount.

Actuarial equivalence is based on tables adopted by the Board of Trustees.

18. Special Retirees: This is a group of retirees who have been granted a special \$150 per month benefit although they did not fulfill the requirements for service retirement. With cost of living increases, the special retirees now average \$180 per month.
19. Supplemental Medical Insurance
 - a. Eligibility: All retired members (including service retirees and disabled retirees but excluding the special retirees and spouses or beneficiaries) are eligible for a supplemental medical insurance payment.
 - b. Monthly Benefit: Eligible members receive the smaller of (i) a Medicare supplement benefit, if eligible, or (ii) an amount between \$100 and \$105 per month, depending on service and Final Average Compensation.
 - c. Payment Form: Benefits are payable as a life annuity on behalf of the retired member to (i) the Oklahoma Employees' Group Insurance plan, if the member has health coverage under this plan, or (ii) to the member's former employer, if the member retains health coverage under a plan maintained by the former employer.
20. Post-retirement Death Benefit
 - a. Eligibility: All retired members (including service retirees and disabled retirees but excluding the special retirees and spouses or beneficiaries) are eligible for a post-retirement death benefit.
 - b. Benefit: A lump-sum payment of \$5,000.
21. Cost-of-living Increase: From time to time, the System has been amended to grant certain post-retirement benefit increases. However, the System has no automatic cost-of-living increase features.

History of Major Legislative Changes

A. 1990 Legislative Session

1. An ad hoc benefit increase was granted to retirees and beneficiaries who had been receiving benefits for at least one year. Special retirees were not granted this increase. The increase was determined by adding an amount to the Final Average Compensation for the member, and then redetermining the benefit due. For classified members, the amount added was \$950, while for non-classified members, the amount added was \$475. In all cases, Final Average Compensation was capped at \$40,000.
2. The local employer contribution rate was increased from 1.0% of covered compensation in accordance with the following schedule:

<u>Year Beginning July 1</u>	<u>Local Employer Contribution Rate</u>
(1)	(2)
1990	1.0%
1991	1.5%
1992	2.0%
1993	2.5%

B. 1991 Legislative Session

No changes.

C. 1992 Legislative Session

SB 568 made the following changes:

- Increased employer rates (grading from 7% for 1992/1993 to 18% for 2004/2005) and changed State contributions to offset for employer contributions.
- Eliminated the salary cap effective July 1, 1995.
- Changed the member contribution rate to 7% (after July 1, 1997, phased in prior to that date).
- Changed the FAC averaging period to five years for new members.

- Eliminated the \$18,000 death benefit (and the optional survivor annuity) for new members.
- Changed the formula to cap FAC with the member's pay cap for service prior to July 1, 1995.
- Changed the Rule of 80 to the Rule of 90 for new members.

D. 1993 Legislative Session

SB 535 set forth a schedule which reduces the maximum payment for supplemental medical insurance from \$75/month to an amount between \$70 and \$75 per month, depending on service and Final Average Compensation.

E. 1994 Legislative Session

1. HB 2228 provided for an ad hoc COLA payable to members receiving benefits. The average increase is about 2.5%.
2. SB 768 changed the System's joint options to "pop-up" options. This change was and to \$48,000 and \$30,000 for 1996-97. The member contribution rate for these made for both current and future retirees. Under a pop-up option, if the joint annuitant predeceases the member, the member's benefit is increased to the amount it would have been if the member had elected a life only annuity.
3. SB 767 provided for the transfers of service credit between this System and the Oklahoma Public Employees Retirement System.
4. SB 615 provides that the local employer's contribution rate shall not be less than the local employer's contribution rate for the prior year.

F. 1995 Legislative Session

SB 527 modified the provisions affecting members employed in higher education who became members prior to July 1, 1995. For these members, the \$40,000 and \$25,000 pay caps were left in place for two additional years, but were indexed to \$44,000 and \$27,500 for 1995-96 members was set to 6.0% for 1995-96 and 6.5% for 1996-97. The benefit provisions were also modified so that only pay up to the maximum would be recognized for these years. After June 30, 1997, these members will contribute 7% of total pay like all other members. In addition, SB 527 modified the SB 568 employer contribution rate schedule. The new employer rates are 50 basis points lower in each year until the rate reaches 18.00%.

G. 1996 Legislative Session

SB 832 modified the provisions relating to (i) member contributions, (ii) maximum compensation, and (iii) the benefit formula, for members employed in higher education. Beginning July 1, 1995, all members will contribute on all pay, except for members employed by a comprehensive university who became a member before July 1, 1995, whose recognized compensation is limited to

	For members who elected the \$25,000 limit prior to June 30, 1995	For all other members
1996-97	\$32,500	\$49,000
1997-98	37,500	54,000
1998-99	42,500	59,000
1999-00	47,500	64,000
2000-01	52,500	69,000
thereafter	no limit	no limit

Employer contributions will be based on the same compensation as member contributions. In 1996-98, member contributions will be 6.5% of pay up to \$25,000 plus 7% of pay in excess of \$25,000, up to the maximum recognized compensation. The benefit formula was also adjusted so that for service earned between July 1, 1995 and June 30, 2001, members in higher education have their benefits adjusted for the compensation limits.

H. 1997 Legislative Session

The post-retirement death benefit was increased from \$4,000 to \$5,000.

I. 1998 Legislative Session

1. An ad hoc benefit increase was granted to retirees and beneficiaries who had been receiving benefits for at least one year. The increase was determined by adding an amount to the Final Average Compensation for the member, and then redetermining the benefit due. For classified members, the amount added was \$1,400, while for non-classified members, the amount added was \$700. Special retirees received a 5.4% increase.

2. The funding mechanism was changed, eliminating the state's contribution of 78% of its Gross Production Tax receipts after the 1999 fiscal year and substituting a contribution based on a percentage of general revenue available for appropriation (95% of general revenue). The percentage is 3.25% for the fiscal year ending June 30, 2000, and 3.50% thereafter. The local employer's contribution rates were revised for years after the 1999 fiscal year as follows:

<u>Year</u>	<u>Employer Rate</u>
1999/2000	4.80%
2000/2001	5.80%
2001/2002	6.80%
Thereafter	7.05%

J. 1999 Legislative Session

1. The pay caps applicable to certain members employed by one of the comprehensive universities were extended to FY 2007. The cap in effect for FY 1999 was left unchanged for FY 2000, and then will be increased \$5,000 each year thereafter. This change affects both contributions and benefit calculations for these members.
2. The state's funding mechanism was changed again. Now the state's annual contribution will be 3.54% of certain specified sales and income tax revenues. This amount is subject to a \$136.0 million maximum contribution for FY 2000 only.

K. 2000 Legislative Session

1. An ad hoc benefit increase was granted to retirees and beneficiaries who had been receiving benefits for at least one year. The increase was determined by adding an amount to the Final Average Compensation for the member, and then redetermining the benefit due. For classified members, the amount added was \$500, while for non-classified members, the amount added was \$250. Special retirees received a 1.8% increase.
2. SB 994 set forth a schedule which increases the maximum payment for supplemental medical insurance by \$30/month from an amount between \$70 and \$75 per month to an amount between \$100 and \$105 per month, depending on service and Final Average Compensation.

L. 2001 Legislative Session

1. No changes.

M. 2002 Legislative Session

1. An ad hoc benefit increase was granted to retirees and beneficiaries, beginning July 1, 2002, if they had been receiving benefits for at least one year. Retirees were given a 3% increase if they had less than 30 years of credited service and a 4% increase if they had 30 or more years of credited service. Special retirees received a 3% increase.
2. The State's contribution is equal to a percentage of the State's revenue from certain sales and income taxes. The percentage is currently 3.54%, but a bill was passed to increase the percentage over the next five years to 5.00%, according to this schedule.

FY 2003	3.54%
FY 2004	3.54%
FY 2005	3.75%
FY 2006	4.00%
FY 2007	4.50%
FY 2008	5.00%

N. 2003 Legislative Session

1. The service requirement for vesting was changed from ten years to five years. Under this provision, a member is now able to retire with an unreduced retirement benefit after reaching age 62 with credit for 5 or more years of service. A member who has reached age 55, but not age 62, with at least 5 years of service, is able to retire and receive a reduced retirement benefit. A member who has terminated before being eligible to retire, but who has at least 5 years of service, may elect a deferred retirement benefit in lieu of a refund. However, members must still have credit for at least 10 years of service in order to be eligible for a disability benefit or the medical insurance premium supplement.
2. Refunds for members who have less than seven years of service will receive their contributions plus 50% of the interest on their account. Previously members with less than seven years of service received no interest. Interest is computed at 8.00%
3. A partial lump-sum option (PLSO) was added. Members who retire with at least 30 years of service may elect a PLSO equal to 12, 24, or 36 times the member's monthly retirement benefit, determined before applying any reduction for the PLSO or any other optional form of payment. A member who elects to receive a PLSO will have his/her monthly retirement benefit reduced on an actuarial basis to compensate for the fact that a PLSO is provided.

4. Disabled members may now elect Option 2—the Joint & 100% Survivor option (with pop up).

Summary of Actuarial Assumptions and Methods
(Adopted Effective June 30, 2001, and Amended Effective June 30, 2003)

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 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 1999 fiscal 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 that 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 and the State's contribution increases at the State's revenue 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 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 3.00% inflation rate and a 5.00% net real rate of return.
2. Salary increase rate: A merit/promotional component dependent on service, plus a 3% inflation component, plus a 1.25% productivity increase, as follows:

<u>Years of Service</u>	<u>Merit/ Promotional Component</u>	<u>Total Salary Increase Rate</u>
(1)	(2)	(3)
0	2.75%	7.00%
1	2.00%	6.25
2	1.50%	5.75
3	1.00%	5.25
4	1.00%	5.25
5	1.00%	5.25
6	0.75%	5.00
7	0.75%	5.00
8	0.75%	5.00
9	0.50%	4.75
10	0.50%	4.75
11	0.50%	4.75
12	0.50%	4.75
13	0.25%	4.50
14	0.25%	4.50
15 or more	0.00%	4.25

3. Payroll growth rate: In the amortization of the unfunded actuarial accrued liability, payroll is assumed to increase 3.5% per year. This increase rate has no allowance for future membership growth.
4. State revenue growth rate: In determining the funding period, the state's sales and income tax revenues are anticipated to grow at 3.5% per year.
5. Future ad hoc cost-of-living increases: None.

B. Demographic Assumptions

1. Mortality rates - after retirement or termination.

- a. Healthy males - 1994 Unisex Pension Mortality Table for males, set back two years.
- b. Healthy females - 1994 Unisex Pension Mortality Table for females, set back two years.
- c. Disabled males - PBGC Table Va for disabled males eligible for Social Security disability benefits.
- d. Disabled females - PBGC Table VIa for disabled females eligible for Social Security disability benefits.

Sample rates are shown below:

Age	Expected Deaths per 100 Lives			
	Healthy Males	Healthy Females	Disabled Males	Disabled Females
(1)	(2)	(3)	(4)	(4)
40	0.10	0.06	2.82	2.09
45	0.15	0.09	3.22	2.24
50	0.23	0.13	3.83	2.57
55	0.39	0.21	4.82	2.95
60	0.68	0.36	6.03	3.31
65	1.23	0.72	6.78	3.70
70	2.14	1.26	7.39	4.11
75	3.35	1.97	8.42	4.92
80	5.40	3.41	11.28	7.46

2. Mortality rates - active members - Based on 1989 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 1999 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	.06	.06
30	.06	.06
35	.06	.08
40	.09	.11
45	.21	.20
50	.32	.38
55	.36	.51
60	.27	.42
65	.08	.12

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 the 1999 Experience Study. Rates reflect terminations for causes other than death, disability or retirement. Sample rates are shown below:

Age	Expected Terminations per 100 Lives (Male Members)				
	Years of Service				
	0	1	4	7	10 or more
(1)	(2)	(3)	(4)	(5)	(6)
25	27.27	21.13	8.25	6.26	3.66
30	26.66	18.89	8.21	5.58	3.17
35	27.75	19.04	7.79	5.12	2.71
40	31.50	20.20	7.12	4.82	2.30
45	35.05	21.43	6.49	4.75	1.94
50	37.48	22.58	6.29	5.02	1.62
55	38.50	23.77	7.02	5.80	1.28
60	39.65	25.17	9.08	7.18	1.02
65	40.44	26.81	12.61	9.18	.99

Age	Expected Terminations per 100 Lives (Female Members)				
	Years of Service				
	0	1	4	7	10 or more
(1)	(2)	(3)	(4)	(5)	(6)
25	26.81	19.23	10.27	7.96	5.96
30	24.40	17.31	8.85	6.49	4.33
35	26.56	17.50	7.49	5.40	3.11
40	29.62	18.05	6.28	4.69	2.33
45	31.25	18.11	5.40	4.34	1.99
50	31.56	18.28	5.11	4.32	1.77
55	32.04	18.56	5.67	4.67	1.39
60	32.68	18.93	7.27	5.44	0.97
65	33.66	19.50	9.97	6.67	0.70

Termination rates are not applied to a member who is eligible for a retirement benefit (reduced or unreduced).

5. Retirement rates - Separate male and female rates, based on age, developed from the 1999 Experience Study. Sample rates are shown below:

Age	Expected Retirements per 100 Lives					
	Unreduced Retirement				Reduced Retirement	
	After First Year		In First Year		Male	Female
	Male	Female	Male	Female		
49	40	40	60	60	0	0
50	40	40	60	60	0	0
51	40	40	60	60	0	0
52	40	40	40	40	0	0
53	15	25	40	45	0	0
54	15	25	30	50	0	0
55	15	25	30	52	1	2
56	15	25	30	54	1	2
57	15	25	30	56	2	2
58	15	25	40	52	2	2
59	15	25	40	42	3	2
60	15	25	40	40	4	5
61	25	35	40	40	4	5
62	50	50	50	50		
63	25	25	25	25		
64	25	25	25	25		
65	50	55	50	55		
66	30	30	30	30		
67	30	30	30	30		
68	30	30	30	30		
69	30	30	30	30		
70	100	100	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 age 62.
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 an electronic file 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 developed from the 1999 experience study, and were adopted by the Board of Trustees in May 2001 and first reflected in the June 30, 2001 actuarial valuation. The adopted assumptions were recommended by the actuary. Some assumptions were left unchanged from the prior experience study in 1995, including female mortality for disabled retirees, the investment return rate, and active member mortality for males and females.

In the June 30, 2001 and June 30, 2002 actuarial valuations, there was an assumption that future ad hoc cost-of-living increases would be granted from time to time, without additional funding, and these would average 1.00% per year. The Board voted to remove this assumption beginning with the June 30, 2003 actuarial valuation, because they concluded there was no "substantive commitment" to continue granting these increases, and the inclusion of the liability for any such future increases was likely to mislead readers.

Addendum to June 30, 2003 Actuarial Valuation

Certification

We have prepared an actuarial valuation of the Oklahoma Teachers' Retirement System as of June 30, 2003, for the plan year ending June 30, 2004. The results of the valuation are set forth in this report, which reflects the provisions of the System as amended and effective on June 30, 2003.

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

The results in this Addendum have been prepared for the sole purpose of meeting the Retirement Board's requirement to submit this information to the Oklahoma State Pension Commission, based on the following prescribed assumptions (70 O.S. 2001, Section 17-106.1, Section H):

Interest rate: 7.5%

COLA assumption: 2.0%

Mortality: RP 2000 Generational Mortality Tables (active members, healthy annuitants, and disabled annuitants)

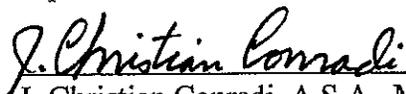
Amortization period: 30 years, open period

Sources of all contributions and revenues, including dedicated tax fee revenue and federal monies

All other assumptions, methodologies, and plan provisions used are consistent with those used in the June 30, 2003 valuation.

The results shown in this Addendum are not consistent with those in the June 30, 2003 valuation. The June 30, 2003 valuation results were determined in accordance with generally accepted actuarial principles and procedures, and are in compliance with the Actuarial Standards of Board Actuarial Standard of Practice No. 27-Selection of Economic Assumptions for Measuring Pension Obligations. The results shown in this Addendum are not based on the assumptions and methodologies adopted by the Retirement Board. For those results, see the June 30, 2003 actuarial valuation.

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



J. Christian Conradi, A.S.A., M.A.A.A., E.A.

October 22, 2003



W. Michael Carter, F.S.A., M.A.A.A., E. A.

October 22, 2003

GABRIEL, ROEDER, SMITH & COMPANY

Summary of Valuation Results Under Prescribed Assumptions

This supplemental report has been prepared by Gabriel, Roeder, Smith & Company for the Oklahoma Teachers' Retirement System to present the results of a valuation of the Oklahoma Teachers' Retirement System as of June 30, 2003, based on the prescribed assumptions under 70 O.S. 2001, Section 17-106.1, Section H of current State Statutes and regulations issued thereunder.

A summary of principal valuation results from the current valuation and the prior valuation.

	Actuarial Valuation as of		Change Between Years	
	July 1, 2003	July 1, 2002	Amount	Percent
Summary of Costs				
Required State Contribution for Current Year under Prescribed Assumptions	\$610,721,212	\$552,732,756	\$57,988,456	10.49%
Actual State Contribution Received in Prior Year	\$128,879,976	\$141,057,868	\$(12,177,892)	(8.63)%
Funded Status				
Actuarial Accrued Liability	\$14,506,297,789	\$13,796,461,768	\$709,836,021	5.15%
Actuarial Value of Assets	\$ 6,436,852,137	\$ 6,310,930,799	\$125,921,338	2.00%
Unfunded Actuarial Accrued Liability	\$ 8,069,445,652	\$ 7,485,530,969	\$583,914,683	7.80%
Market Value of Assets and Additional Liabilities				
Market Value of Assets	\$ 5,614,063,958	\$ 5,417,892,079	\$ 196,171,879	3.62%
Present Value of Projected System Benefits	\$17,776,393,728	\$16,987,619,495	\$ 788,774,233	4.64%

Summary of Contribution Requirements	Actuarial Valuation as of				% of Change
	July 1, 2003		July 1, 2002		
	Amount	% of Active Covered Comp.	Amount	% of Active Covered Comp.	
1. Payroll					
a. Supplied by System	\$3,045,676,600		\$3,047,149,510		(0.05)%
b. Adjusted for 1-year's pay increase	\$3,183,653,000		\$3,187,766,000		(0.13)%
c. Adjusted for 1-year's pay increase with pay caps	\$3,124,896,000		\$3,121,937,000		0.09%
2. Total Normal Cost Mid-Year	\$ 401,861,625	12.86%	\$ 391,490,900	12.54%	2.65%
3. Unfunded Actuarial Accrued Liability	\$8,069,445,652		\$7,485,530,969		7.80%
4. Amortization of Unfunded Actuarial Accrued Liability over 30 years from July 1, 2003	\$ 660,830,485	21.15%	\$ 613,012,005	19.64%	7.80%
5. Total Required Contribution under Prescribed Assumptions (2 + 4)	\$1,062,692,110	34.01%	\$1,004,502,905	32.18%	5.79%
6. Estimated Employee Contribution (7% x 1c)	\$ 218,742,720	7.00%	\$ 218,535,590	7.00%	0.09%
7. Estimated local employer and Federal contributions					
a. Local employers (7.05%)	\$ 220,305,168	7.05%	\$ 220,096,559	7.05%	0.09%
b. Federal	12,923,010	0.41%	13,138,000	0.42%	(1.64)%
c. Total	\$ 233,228,178	7.46%	\$ 233,234,559	7.47%	0.00%
8. Required State Contribution to amortize Unfunded Actuarial Accrued Liability over 30 years from July 1, 2003 (5 - 6 - 7c)	\$ 610,721,212	19.54%	\$ 552,732,756	17.70%	10.49%
9. Previous year's actual State Contribution	\$ 128,879,976	4.13% ¹	\$ 141,057,868	4.61% ²	(8.63)%
10. Funding Period	Not Sufficient to Amortize UAAL		Not Sufficient to Amortize UAAL		N/A

¹ Percent of previous years' annual compensation for active members.

² Percent of previous years' annual compensation for active members.

Unfunded Actuarial Accrued Liability

The actuarial accrued liability is the present value of projected system benefits allocated to past service by the actuarial funding method being used.

	Total System	
	July 1, 2003	July 1, 2002
1. Actuarial Present Value of Benefits		
a. Active Members	\$ 10,647,809,000	\$ 10,300,108,000
b. Inactive Members	219,363,228	203,994,595
c. Retirees and beneficiaries	6,909,221,500	6,483,516,900
d. Total	\$ 17,776,393,728	\$ 16,987,619,495
2. Actuarial Present Value of Future Normal Costs	\$ 3,270,095,939	\$ 3,191,157,727
3. Total Actuarial Accrued Liability (1d - 2)	\$ 14,506,297,789	\$ 13,796,461,768
4. Actuarial Value of Assets	\$ 6,436,852,137	\$ 6,310,930,799
5. Unfunded Actuarial Accrued Liability (3 - 4, not less than \$0)	\$ 8,069,445,652	\$ 7,485,530,969

Normal Cost

The components of normal cost under the System's funding method are:

Component	July 1, 2003	July 1, 2002
Retirement Benefits	\$ 310,927,152	\$ 300,018,146
Withdrawal Benefits	12,187,094	7,804,843
Refunds	51,873,274	56,819,253
Supplemental Medical Insurance	12,187,094	12,487,748
Death Benefits	1,249,958	936,581
Disability Benefits	13,437,053	13,424,329
Total Normal Cost (Mid-year)	\$ 401,861,625	\$ 391,490,900
Annual Covered Payroll (with pay caps)	\$ 3,124,896,000	\$ 3,121,937,000
Normal Cost Rate At Mid-year	12.86%	12.54%

Actuarial Assumptions

This section presents and describes the actuarial assumptions used for this supplemental valuation. The census of members, market and actuarial value of assets; actuarial basis and provisions of the Plan are the same as described elsewhere in this valuation report. The valuation is based on the premise that the Plan will continue in existence.

Economic Assumptions

1. Investment Return (Prescribed) 7.5%, net of investment and administrative expenses, per annum, compound annually.
2. Earnings Progression Sample rates below:

Years of Service	Merit/ Promotional Component	Total Salary Increase Rate
(1)	(2)	(3)
0	2.75%	7.00%
1	2.00%	6.25
2	1.50%	5.75
3	1.00%	5.25
4	1.00%	5.25
5	1.00%	5.25
6	0.75%	5.00
7	0.75%	5.00
8	0.75%	5.00
9	0.50%	4.75
10	0.50%	4.75
11	0.50%	4.75
12	0.50%	4.75
13	0.25%	4.50
14	0.25%	4.50
15 or more	0.00%	4.25

3. Payroll growth rate: In the amortization of the unfunded actuarial accrued liability, payroll is assumed to increase 3.5% per year. This increase rate has no allowance for future membership growth.
4. State revenue growth rate: In determining the funding period, the state's sales and income tax revenues are anticipated to grow at 3.5% per year.
5. Future ad hoc cost-of-living increases: We assume that in future years, cost-of-living increases will be granted that will average 2% per year.

Demographic Assumptions

1. Retirement rate - Sample rates are shown below:

Age	Expected Retirements per 100 Lives					
	Unreduced Retirement				Reduced Retirement	
	After First Year		In First Year		Male	Female
	Male	Female	Male	Female		
49	40	40	60	60	0	0
50	40	40	60	60	0	0
51	40	40	60	60	0	0
52	40	40	40	40	0	0
53	15	25	40	45	0	0
54	15	25	30	50	0	0
55	15	25	30	52	1	2
56	15	25	30	54	1	2
57	15	25	30	56	2	2
58	15	25	40	52	2	2
59	15	25	40	42	3	2
60	15	25	40	40	4	5
61	25	35	40	40	4	5
62	50	50	50	50		
63	25	25	25	25		
64	25	25	25	25		
65	50	55	50	55		
66	30	30	30	30		
67	30	30	30	30		
68	30	30	30	30		
69	30	30	30	30		
70	100	100	100	100		

2. Mortality rates - Active members – RP-2000 Generational Mortality Tables for active employees, males and females separate, projected with Scale AA.

Retirees (non-disabled) and beneficiaries – RP-2000 Generational Mortality Tables for healthy annuitants, males and females separate, projected with Scale AA. This table was extended to ages below 50 by assuming that the ratio of the mortality rate at each age below 50 to the rate at age 50 is the same as the comparable ratios determined using the valuation mortality table (UP-94, males and females, set back two years each).

Disabled retirees – RP-2000 Generational Mortality Tables for disabled annuitants, males and females separate, projected with Scale AA

3. Disability rates - Sample rates are shown below:

Age	Expected Disabilities Occurring per 100 Lives	
	Male Members	Female Members
	(1)	(2)
25	.06	.06
30	.06	.06
35	.06	.08
40	.09	.11
45	.21	.20
50	.32	.38
55	.36	.51
60	.27	.42
65	.08	.12

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. Withdrawal Rates - Sample rates are shown below:

Age	Expected Terminations per 100 Lives (Male Members)				
	Years of Service				
	0	1	4	7	10 or more
(1)	(2)	(3)	(4)	(5)	(6)
25	27.27	21.13	8.25	6.26	3.66
30	26.66	18.89	8.21	5.58	3.17
35	27.75	19.04	7.79	5.12	2.71
40	31.50	20.20	7.12	4.82	2.30
45	35.05	21.43	6.49	4.75	1.94
50	37.48	22.58	6.29	5.02	1.62
55	38.50	23.77	7.02	5.80	1.28
60	39.65	25.17	9.08	7.18	1.02
65	40.44	26.81	12.61	9.18	.99

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	26.81	19.23	10.27	7.96	5.96
30	24.40	17.31	8.85	6.49	4.33
35	26.56	17.50	7.49	5.40	3.11
40	29.62	18.05	6.28	4.69	2.33
45	31.25	18.11	5.40	4.34	1.99
50	31.56	18.28	5.11	4.32	1.77
55	32.04	18.56	5.67	4.67	1.39
60	32.68	18.93	7.27	5.44	0.97
65	33.66	19.50	9.97	6.67	0.70

Termination rates are not applied to a member who is eligible for a retirement benefit (reduced or unreduced).

6. Marital Status – Percentage married: 80% of employees are assumed to be married.
 Age Difference: Males are assumed to be three (3) years older than females.

Other Assumptions

1. 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.
2. 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.
3. Assumed age for commencement of deferred benefits: Members electing to receive a deferred benefit are assumed to commence receipt at age 62.
4. Administrative expenses: The assumed investment return rate represents the anticipated net return after payment of all investment and administrative expenses.
5. Supplemental medical insurance: All members, whether currently active, inactive, or retired, are assumed to receive the supplemental insurance benefit.
6. 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.