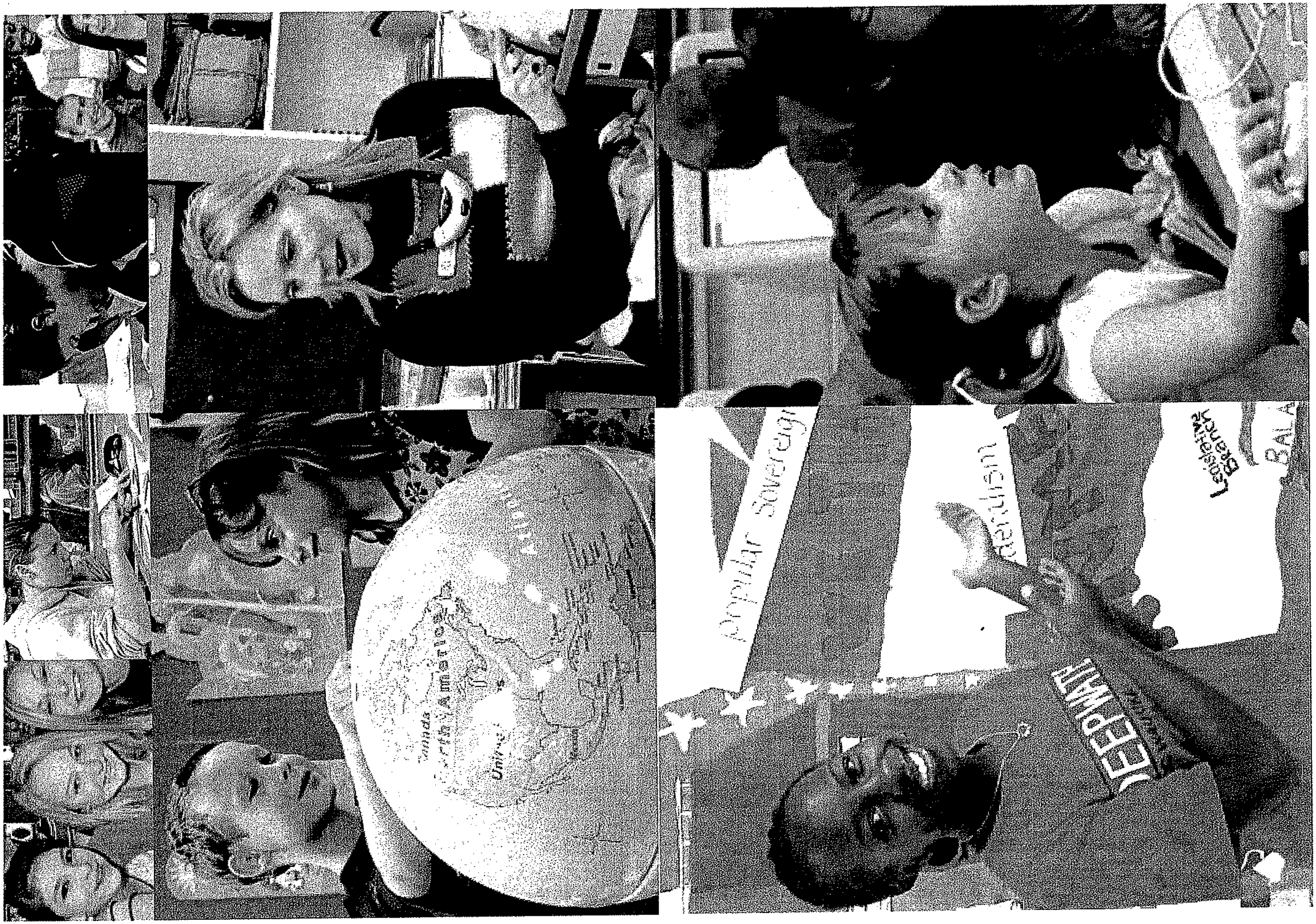
Actuarial Section



Education is not preparation for life; education is life itself.

John Dewey

GRS

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October 24, 2007

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, 2007

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, 2007

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. They are Enrolled Actuaries and Members of the American Academy of Actuaries, and they are experienced in performing valuations for large public retirement systems. They meet the Qualification Standards of the American Academy of Actuaries.

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, employer, State, and "federal matching" contribution rates are established by law. Members contribute 7.00% of covered compensation. Employers contributed 7.05% of covered member salaries in FY 2006. Beginning in FY 2007, higher employer contribution rates are being charged to employers who are covered by the new Education Employees Service Incentive Plan (EESIP). The 7.05% rate increased to 7.60% effective Jan. 1, 2007. This will be followed by increases to 7.85% effective July 1, 2007, 8.35% effective Jan. 1, 2008, 8.50% effective July 1, 2008, 9.00% effective Jan. 1, 2009, and 9.50% effective Jan. 1, 2010. For employers not covered by the EESIP—the comprehensive and regional four-year universities—the contribution rate will increase to 7.55% on Jan. 1, 2008, 8.05% on Jan. 1, 2009, and 8.55% on Jan. 1, 2010. In addition, the State of Oklahoma contributes a percentage of its revenues from sales taxes, use taxes, corporate income taxes, and individual income taxes to the System. This percentage was 4.50% in FY 2007, and it increased to 5.00% effective July 1, 2007. No further increases are scheduled in this rate. Additionally, the System receives "federal matching contributions" for positions whose funding comes from federal sources or certain grants. The federal matching contribution rate for FY 2007 was 7.00% and did not change for FY 2008. This federal matching rate is intended to approximate the contribution from the State of Oklahoma measured as a percentage of "state" payroll, i.e., payroll excluding that paid from federal or grant sources.

In the fiscal year ending June 30, 2007, the state's contribution plus the federal contribution was equivalent to a contribution of approximately 7.1% of covered payroll. Combined with the 7.05% employer contribution rate, the employing entities contributed 14.15% of covered payroll for FY 2007. This is expected to increase as the contribution rates for the employers covered by the EESIP and the State of Oklahoma are scheduled to increase per SB 357. We project that by 2011, the combined employer/State/federal contributions will amount to over 17% of payroll.

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, 2006 was $7,673 million, and it decreased to $7,603 million this year. The funded ratio - actuarial value of assets divided by actuarial accrued liability – increased from 49.3% to 52.6%.

Last year, the period required to completely amortize the UAAL (the funding period) based on the contribution schedule in effect at that time was 37.4 years, measured from June 30, 2006. This year, the funding period is 21.6 years. The decrease in the UAAL and the funding period is principally due to legislation (SB 357) enacted in FY 2007 increasing future employer contribution rates. Also important were the strong investment results in FY 2007, and the increase in the State's revenues, which drives the State's contribution.

Based on the current contribution schedule, assuming no actuarial gains or losses in the future, the UAAL is expected to decrease starting FY 2008 until it reaches zero in FY 2029.

DEFERRED ASSET LOSSES/GAINS

The UAAL and the funded ratio cited above are based on actuarial calculations that make use of the actuarial value of assets, not the market value. The actuarial value of assets is based on the market value, but asset gains and losses – earnings greater or less than the 8.00% investment return assumption – are recognized at a rate of 20% per year for five years. The current actuarial value, $8,422 million, is $871 million smaller than the market value of $9,293 million. The actuarial value is now 90.6% of the market value. The funded ratio determined using the market value rather than the actuarial value is 58.0%.

BENEFIT PROVISIONS

The actuarial valuation reflects the benefit and contribution provisions set forth in current statutes, including those adopted in the 2007 legislative session.

SB 357 was passed during the 2007 legislative session. This bill implements a phased-in increase in the employer contribution rates for EESIP employers to 9.50% and for non-EESIP employers to 8.55% by FY 2011. See Appendix II in the report for a more detailed description.

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 unchanged from last year.

We believe the assumptions are internally consistent and are reasonable, based on the actual experience of the plan

The results of the actuarial valuation are dependant on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods.

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, 2007 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.

ATTACHED SCHEDULES

We prepared all of the schedules and exhibits in this section except for the Schedule of Increases and Decreases of Benefit Recipients which was prepared by the System's staff. We have also prepared the Schedule of Funding Progress and the Schedule of Employer Contributions in the Financial Section. We have prepared the annual actuarial valuations each year, beginning with the one prepared as of June 30, 1989. Information related to earlier actuarial valuations was prepared by the previous actuary for the System.

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

Sincerely,

J. Christian Conradi

J. Christian Conradi, ASA, MAAA, EA
Senior Consultant

W. Michael Carter

W. Michael Carter, FSA, MAAA, EA
Senior Consultant

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Executive Summary

Item	2007	2006
Membership		
• Number of		
- Active members	88,133	87,194
- Retirees and beneficiaries	43,506	41,782
- Inactive, vested	6,637	6,171
- Inactive, nonvested	6,613	6,606
- Total	144,889	141,753
• Payroll	$ 3,599 million	$ 3,355 million
Statutory contribution rates	FY 2008	FY 2007
• Employers in EESIP	7.85%/8.35% *	7.05%/7.60% *
• Regional universities	7.05%/7.55% *	7.05%
• Federal/grant salaries	7.00%	7.00%
• Members	7.00%	7.00%
• State (% of tax revenues)	5.00%	4.50%
Assets		
• Market value	$ 9,293 million	$ 7,859 million
• Actuarial value	$ 8,422 million	$ 7,470 million
• Return on market value	18.0%	9.4%
• Return on actuarial value	12.4%	8.2%
• State/local/federal contributions	$ 536 million	$ 459 million
• External cash flow %	0.2%	-0.7%
• Ratio of actuarial to market value	90.6%	95.1%
Actuarial Information		
• Normal cost %	10.52%	10.52%
• Unfunded actuarial accrued liability (UAAL)	$ 7,603 million	$ 7,673 million
• Funded ratio	52.6%	49.3%
• Funding period	21.6 years	37.4 years
GASB 25 ARC (30 year, level %)	FY 2008	FY 2007
• Dollar amount	$590,495,652	$575,745,142
• Percent of pay	15.68%	16.60%
Gains/(losses)		
• Asset experience	$ 333 million	$ 13 million
• Liability experience	(123) million	119 million
• Benefit changes	0 million	(515) million
• Total	$ 210 million	($383) million

* First rate shown is effective for July-December, second rate shown is effective for January-June

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 $70 million, from $7.673 billion to $7.603 billion. The funded ratio – the ratio of the actuarial value of assets to actuarial accrued liability – increased from 49.3% to 52.6%. The funding period – the number of years that would be required under the current contribution schedule to amortize the UAAL – has gone from 37.4 years to 21.6 years. We now project that the System will be about 85% funded in 16 years, assuming no further changes in benefits or contribution rates and assuming no actuarial gains or losses.

These effects are primarily due to the passage of SB 357, which increased employer contribution rates, and to strong investment performance in FY 2007. This will provide more funds to amortize the UAAL.

OTRS remains among the most poorly funded of all statewide plans. The actuarial value of assets is just sufficient to cover the liabilities for currently retired members. However the passing of SB 357 will dramatically change the funding position of the plan. Future contributions projected to be received by the system could exceed the GASB 25 ARC Benchmark contribution beginning in FY 2008 or FY 2009.

The current combined state/local/federal contribution for FY 2007 was not sufficient to pay the normal cost and pay the interest on the UAAL, so negative amortization is still occurring. However, because we expect that deferred asset gains will be recognized over the next few years, we project that the UAAL will decrease further in FY 2008, and it is projected to be completely amortized by the end of FY 2029.

This report also determines the GASB Annual Required Contribution (ARC). This is the contribution required to fund the normal cost and to amortize the UAAL as a level percent of pay over 30 years. This amount is 15.68% of salary as shown in Table 1, compared to 16.60% last year. Our projections show that the ARC is expected to continue decreasing in the future, the result of the recognition of the deferred asset gains and the effect of the higher employer contribution rates.

ANALYSIS OF CHANGES

UAAL

Table 12a shows an analysis of the change in the UAAL. The UAAL, which was $7,672.9 million last year, has decreased to $7,602.5 million this year.

The System had a significant gain on the actuarial value of assets (AVA). This asset gain decreased the UAAL by $332.7 million. The gain was due to the fact that the AVA calculation reflects 20% of the asset returns greater than 8.00% for FY 2007, FY 2006, FY 2005 and FY 2004, offset by the recognition of the remaining 20% of the loss for FY 2003. The return on the actuarial value was 12.4% compared to the assumed 8.00% investment return rate. The actual return on market value was 18.0%. Despite the inclusion of the down years of FY 2001-2003, the plan's ten-year average market return, net of investment expenses, is now 9.8%.

There was a liability loss of $123.3 million, a result of actual experience being less favorable than expected based on our assumptions. This was due to salary increases larger than expected. The average increase for members active both at June 30, 2006 and June 30, 2007 was 8.25%. The salary loss was partially offset by gains from some of the other assumptions, including retirement.

Funding Period

The funding period (the period required to amortize the UAAL) decreased from 37.4 years to 21.6 years. This was mainly due to the passage of SB 357 which implemented a phased-in increase of employer contribution rates to 9.5% for EESIP employers and 8.55% for non-EESIP employers by FY 2011. The asset gain also had a significant impact on the funding period.

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.

There were no changes to the actuarial assumptions and methods for this year.

Development of Employer Cost

	June 30, 2007 (1)	June 30, 2006 (2)
1. Payroll		
a. Supplied by system	$ 3,598,926,888	$ 3,354,876,252
b. Adjusted for one year's pay increase	3,766,989,331	3,511,499,005
c. Adjusted for one year's pay increase with pay caps	3,766,989,331	3,467,673,925
2. Present value of future pay (paid monthly)	$ 28,625,597,268	$ 26,659,708,976
3. Normal cost rate (payable monthly)		
a. Total normal cost rate	10.52%	10.52%
b. Less: member rate	(7.00%)	(7.00%)
c. Employer normal cost rate	3.52%	3.52%
4. Actuarial accrued liability for active members		
a. Present value of future benefits for active members	$ 10,973,945,087	$ 10,293,629,599
b. Less: present value of future employer normal costs (Item 3c * Item 2)	(1,007,621,024)	(938,421,756)
c. Less: present value of future member contributions	(2,003,791,809)	(1,866,179,628)
d. Actuarial accrued liability	$ 7,962,532,254	$ 7,489,028,215
5. Total actuarial accrued liability for:		
a. Retirees and beneficiaries	$ 7,730,260,900	$ 7,340,004,548
b. Inactive members	331,600,462	314,325,057
c. Active members (Item 4d)	7,962,532,254	7,489,028,215
d. Total	$ 16,024,393,616	$ 15,143,357,820
6. Actuarial value of assets	$ 8,421,866,942	$ 7,470,433,915
7. Unfunded actuarial accrued liability (UAAL) (Item 5d - Item 6)	$ 7,602,526,674	$ 7,672,923,905
8. Funding period based on statutory contribution rates	21.6 years	37.4 years
9. GASB 25 ARC		
a. Employer normal cost (Item 1c * 3c)	$ 132,598,024	$ 122,062,122
b. Level % 30-year amortization of UAAL (payable monthly)	457,897,628	453,683,020
c. Total	$ 590,495,652	$ 575,745,142
d. Contributions as percentage of payroll	15.68%	16.60%

Actuarial Present Value of Future Benefits

		June 30, 2007 (1)	June 30, 2006 (2)
1.	Active members		
	a. Service retirement benefits	$ 9,659,766,185	$ 9,034,813,069
	b. Deferred termination benefits	491,618,941	467,179,118
	c. Refunds	29,203,497	26,790,728
	d. Death benefits	186,709,472	174,901,014
	e. Disability retirement benefits	226,636,138	211,711,810
	f. Supplemental medical insurance	346,973,635	345,836,668
	g. $5,000 post-retirement death benefit	33,037,219	32,397,192
	h. Total	$ 10,973,945,087	$ 10,293,629,599
2.	Retired members		
	a. Service retirements	$ 6,872,645,397	$ 6,515,186,407
	b. Disability retirements	132,443,995	129,088,372
	c. Beneficiaries	226,494,181	215,501,453
	d. Supplemental medical insurance	424,662,044	409,315,232
	e. $5,000 post-retirement death benefit	74,015,283	70,913,084
	f. Total	$ 7,730,260,900	$ 7,340,004,548
3.	Inactive members		
	a. Vested terminations	$ 285,381,471	$ 266,107,858
	b. Nonvested terminations	24,373,611	24,825,328
	c. Suspense fund	21,845,380	23,391,871
	d. Total	$ 331,600,462	$ 314,325,057
4.	Total actuarial present value of future benefits	$ 19,035,806,449	$ 17,947,959,204

Analysis of Normal Cost

		June 30, 2007 (1)	June 30, 2006 (2)
1.	Gross normal cost rate (payable monthly)		
	a. Retirement benefits	7.65%	7.65%
	b. Deferred termination benefits	1.33%	1.33%
	c. Refunds	0.78%	0.78%
	d. Supplemental medical insurance	0.28%	0.28%
	e. $5,000 Post-retirement death benefits	0.04%	0.04%
	f. Death Benefits	0.14%	0.14%
	g. Disability retirement benefits	0.30%	0.30%
	h. Total	10.52%	10.52%
2.	Less: member rate	7.00%	7.00%
3.	Employer normal cost rate	3.52%	3.52%

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

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
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%
June 30, 1997	$3,544.9	$8,257.2	$4,712.3	42.9%	$2,428.7	194.0%
June 30, 1998	$4,085.0	$8,891.3	$4,806.3	45.9%	$2,537.7	189.4%
June 30, 1999	$4,708.0	$9,458.6	$4,750.5	49.8%	$2,648.4	179.4%
June 30, 2000	$5,373.5	$10,009.2	$4,635.7	53.7%	$2,738.3	169.3%
June 30, 2001	$5,959.0	$11,591.1	$5,632.1	51.4%	$2,990.5	188.3%
June 30, 2002	$6,310.9	$12,275.9	$5,965.0	51.4%	$3,047.1	195.8%
June 30, 2003	$6,436.9	$11,925.2	$5,488.3	54.0%	$3,045.7	180.2%
June 30, 2004	$6,660.9	$14,080.1	$7,419.2	47.3%	$3,030.7	244.8%
June 30, 2005	$6,952.7	$14,052.4	$7,099.7	49.5%	$3,175.2	223.6%
June 30, 2006	$7,470.4	$15,143.4	$7,672.9	49.3%	$3,354.9	228.7%
June 30, 2007	$8,421.9	$16,024.4	$7,602.5	52.6%	$3,598.9	211.2%

Note : Dollar amounts in millions

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

Year Ending June 30,	Annual Required Contribution	Percentage Contributed
(1)	(2)	(3)
1996	$434,728,781	40.8%
1997	$446,459,961	62.0%
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%
2004	$534,811,845	70.2%
2005	$722,095,783	56.2%
2006	$535,228,038	85.8%
2007	$575,745,142	93.1%

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, 2007
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of payroll, open period
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return *	8.00%
Projected salary increase *	4.25% to 6.00%
* Includes inflation at:	3.00%
Cost of living adjustment	1.00%

Membership Data

		June 30, 2007 (1)	June 30, 2006 (2)
1.	Active members		
	a. Number	88,133	87,194
	b. Total payroll supplied by System	$ 3,598,926,888	$ 3,354,876,252
	c. Average salary	$ 40,835	$ 38,476
	d. Average age	45.8	45.7
	e. Average service	11.5	11.6
2.	Vested inactive members		
	a. Number	6,637	6,171
	b. Total annual deferred benefits	$ 49,993,687	$ 46,902,081
	c. Average annual deferred benefit	$ 7,533	$ 7,600
3.	Nonvested inactive members		
	a. Number	6,613	6,606
	b. Member contributions with interest due	$ 24,373,611	$ 24,825,328
	c. Average refund due	$ 3,686	$ 3,758
4.	Service retirees		
	a. Number	40,068	38,426
	b. Total annual benefits[1, 2]	$ 696,685,159	$ 660,869,739
	c. Average annual benefit	$ 17,388	$ 17,199
5.	Special service retirees		
	a. Number	91	122
	b. Total annual benefits[1, 2]	$ 208,106	$ 279,076
	c. Average annual benefit	$ 2,287	$ 2,288
6.	Disabled retirees		
	a. Number	1,471	1,427
	b. Total annual benefits[1, 2]	$ 15,770,285	$ 15,331,143
	c. Average annual benefit	$ 10,721	$ 10,744
7.	Beneficiaries and spouses		
	a. Number	1,876	1,807
	b. Total annual benefits[1, 2]	$ 26,691,199	$ 25,244,296
	c. Average annual benefit	$ 14,228	$ 13,970

[1] Benefit amounts exclude the supplemental medical insurance payment.

[2] Benefit amounts for 2006 include 2.00% COLA effective July 1, 2006

Historical Summary of Active Member Data

	Active Members		Covered Payroll		Average Salary			
Valuation as of June 30,	Number	Percent Increase	Amount in $ Millions	Percent Increase	$ Amount	Percent Increase	Average Age	Average Service
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
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
2004	81,683	(1.7%)	3,031	(0.5%)	37,104	1.3%	45.6	11.8
2005	84,286	3.2%	3,175	4.8%	37,671	1.5%	45.6	11.6
2006	87,194	3.5%	3,355	5.7%	38,476	2.1%	45.7	11.6
2007	88,133	1.1%	3,599	7.3%	40,835	6.1%	45.8	11.5

Plan Net Assets
(Assets at Market or Fair Value)

Item	Valuation as of June 30, 2007	Valuation as of June 30, 2006
(1)	(2)	(3)
1. Cash and cash equivalents	$ 4,771,218	$ 3,812,625
2. Receivables		
a. Employer and member contributions	$ 45,465,506	$ 36,461,726
b. State contribution	25,074,415	21,461,402
c. Net investment income and other accruals	(251,301,015)	(141,683,726)
d. Total receivables	$ (180,761,094)	$ (83,760,598)
3. Investments		
a. Invested cash and other	$ 480,385,331	$ 462,979,733
b. Domestic equities	5,052,869,614	3,953,519,890
c. International equities	1,640,103,192	1,548,705,880
d. Fixed income	2,679,194,330	2,314,691,783
e. Real estate, furniture & equipment	262,461	292,931
f. Total investments	$ 9,852,814,928	$ 8,280,190,217
4. Total assets	$ 9,676,825,052	$ 8,200,242,244
5. Liabilities		
a. Benefits payable	$ 14,243,809	$ 14,353,399
b. Insurance premium payable	2,524,353	2,500,540
c. Expenses	9,015,027	8,042,858
d. Total liabilities	$ 25,783,189	$ 24,896,797
6. Net assets available (Item 4 - Item 5)	$ 9,651,041,863	$ 8,175,345,447
7. Less: Teachers' Deposit Fund	(357,840,841)	(316,408,261)
8. Net assets available for OTRS benefits	$ 9,293,201,022	$ 7,858,937,186

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

	Item	Valuation as of June 30, 2007	Valuation as of June 30, 2006
	(1)	(2)	(3)
a.	Invested cash and other	4.9%	5.6%
b.	Domestic equities	51.3%	47.7%
c.	International equities	16.6%	18.7%
d.	Fixed income	27.2%	28.0%
e.	Real estate, furniture & equipment	0.0%	0.0%
f	Total investments	100.0%	100.0%

Reconciliation of Plan Net Assets

	Year Ending June 30, 2007 (1)	Year Ending June 30, 2006 (2)
1. Market value of assets at beginning of year, net of Teachers' Deposit Fund	$ 7,858,937,186	$ 7,238,087,324
2. Revenue for the year		
a. Contributions		
i. Member contributions, including state credit	$ 285,408,749	$ 248,961,067
ii. Federal matching funds	21,402,183	16,094,158
iii. State contribution	243,501,987	202,200,425
iv. Employer/district contributions	271,012,403	241,174,960
v. Total	$ 821,325,322	$ 708,430,610
b. Net investment earnings		
i. Interest, dividends and other income	$ 236,385,329	$ 203,649,117
ii. Net appreciation/(depreciation)	1,269,034,289	525,282,129
iii. Less: investment expenses	(30,790,763)	(25,899,915)
iv. Less: transfers to Teachers' Deposit Fund	(56,098,820)	(27,943,176)
v. Net investment earnings	$ 1,418,530,035	$ 675,088,155
c. Total revenue	$ 2,239,855,357	$ 1,383,518,765
3. Expenditures for the year		
a. Refunds	33,829,653	$ 30,864,619
b. Benefit payments, including insurance payments	767,212,709	727,379,278
c. Administrative expenses	4,549,159	4,425,006
d. Total expenditures	805,591,521	$ 762,668,903
4. Increase in net assets (Item 2 - Item 3)	$ 1,434,263,836	$ 620,849,862
5. Market value of assets at end of year, net of Teachers' Deposit Fund (Item 1 + Item 4)	$ 9,293,201,022	$ 7,858,937,186

Development of Actuarial Value of Assets

				Year Ending June 30, 2007
1.	Market value of assets at beginning of year			$ 7,858,937,186
2.	Net new investments			
	a. Contributions			$ 821,325,322
	b. Benefits paid			(767,212,709)
	c. Refunds			(33,829,653)
	d. Subtotal			20,282,960
3.	Market value of assets at end of year			$ 9,293,201,022
4.	Net earnings (3-1-2)			$ 1,413,980,876
5.	Assumed investment return rate			8.00%
6.	Expected return			$ 629,526,293
7.	Excess return (4-6)			$ 784,454,583
8.	Excess return on assets for last four years :			

	Period End	Excess Return (2)	Percent Deferred (3)	Deferred Amount (4)
a.	June 30, 2004	678,752,243	20%	$ 135,750,449
b.	June 30, 2005	129,636,869	40%	51,854,748
c.	June 30, 2006	93,608,695	60%	56,165,217
d.	June 30, 2007	784,454,583	80%	627,563,666
				$ 871,334,080

9.	Actuarial value of assets (Item 3 - Item 8)	$ 8,421,866,942
10.	Actuarial value as percentage of market value	90.6%

Estimation of Yields

	Year Ending	
	June 30, 2007	June 30, 2006
	(1)	(2)
A. Market value yield		
1. Beginning of year market assets	$ 7,858,937,186	$ 7,238,087,324
2. Net investment income (including realized and unrealized gains and losses)	$ 1,418,530,035	$ 675,088,155
3. End of year market assets	$ 9,293,201,022	$ 7,858,937,186
4. Estimated dollar weighted market value yield	18.0%	9.4%
B. Actuarial value yield		
1. Beginning of year actuarial assets	$ 7,470,433,915	$ 6,952,687,592
2. Actuarial return	$ 931,150,067	$ 567,559,610
3. End of year actuarial assets	$ 8,421,866,942	$ 7,470,433,915
4. Estimated actuarial value yield	12.4%	8.2%

History of Cash Flow

		Distributions and Expenditures						
Year Ending June 30,	Contributions	Benefit Payments	Refunds	Administrative Expenses	Total	External Cash Flow for the Year[1]	Market Value of Assets	External Cash Flow as Percent of Market Value
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
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%)
2004	608.4	(647.3)	(33.7)	(3.9)	(684.9)	(76.5)	6,666	(1.1%)
2005	640.8	(701.9)	(26.8)	(4.2)	(732.9)	(92.1)	7,238	(1.3%)
2006	708.4	(727.4)	(30.9)	(4.4)	(762.7)	(54.3)	7,859	(0.7%)
2007	821.3	(767.2)	(33.8)	(4.5)	(805.5)	15.8	9,293	0.2%

Dollar amounts in millions

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

Investment Experience Gain or Loss

Item (1)		Year Ending June 30, 2007 (2)	Year Ending June 30, 2006 (3)
1.	Actuarial assets, beginning of year	$ 7,470,433,915	$ 6,952,687,592
2.	Contributions during year	$ 821,325,322	$ 708,430,610
3.	Benefits and refunds paid	$ (801,042,362)	$ (758,243,897)
4.	Assumed net investment income at 8%		
	a. Beginning of year assets	$ 597,634,713	$ 556,215,007
	b. Contributions	32,853,013	28,337,224
	c. Benefits and refunds paid	(32,041,694)	(30,329,756)
	d. Total	$ 598,446,032	$ 554,222,475
5.	Expected actuarial assets, end of year (Sum of items 1 through 4)	$ 8,089,162,907	$ 7,457,096,780
6.	Actual actuarial assets, end of year	$ 8,421,866,942	$ 7,470,433,915
7.	Asset gain (loss) for year (Item 6 - Item 5)	$ 332,704,035	$ 13,337,135

Total Experience Gain or Loss

Item	Year Ending June 30, 2007	Year Ending June 30, 2006
(1)	(2)	(3)
A. Calculation of total actuarial gain or loss		
1. Unfunded actuarial accrued liability (UAAL), previous year	$ 7,672,923,905	$ 7,099,746,469
2. Normal cost for the year (employer and employee)	$ 364,799,297	$ 344,995,425
3. Less: total contributions for the year	$ (821,325,322)	$ (708,430,610)
4. Interest at 8 %		
a. On UAAL	$ 613,833,912	$ 567,979,718
b. On normal cost	14,591,972	13,799,817
c. On contributions	(32,853,013)	(28,337,224)
d. Total	$ 595,572,871	$ 553,442,311
5. Expected UAAL (Sum of Items 1 - 4)	$ 7,811,970,751	$ 7,289,753,595
6. Actual UAAL	$ 7,602,526,674	$ 7,672,923,905
7. Total gain (loss) for the year (Item 5 - Item 6)	$ 209,444,077	$ (383,170,310)
B. Source of gains and losses		
8. Asset gain (loss) for the year	$ 332,704,035	$ 13,337,135
9. Liability gain (loss) for the year	(123,259,958)	119,005,533
10. 2% Ad-Hoc COLA	-	(67,219,288)
11. EESIP*	-	(448,293,690)
12. Total	$ 209,444,077	$ (383,170,310)

*Education Employees Service Incentive Plan

Analysis of Change in Unfunded Actuarial Accrued Liability (UAAL)

Basis	June 30, 2007 UAAL (in $ Millions)	June 30, 2006 UAAL (in $ Millions)
1. From prior valuation	$ 7,672.9	$ 7,099.7
2. Impact of changes, gains and losses		
a. Expected increase based on expected contributions and passage of time	222.5	240.6
b. Liability (gain)/loss	123.3	(119.0)
c. Asset (gain)/loss	(332.7)	(13.3)
d. Impact of actual ctrb less than expected under schedule	(83.4)	(50.5)
e. 2% Ad-Hoc COLA	0.0	67.2
f. EESIP*	0.0	448.3
h. Total	(70.3)	573.2
3. Current UAAL (1+2h)	$ 7,602.5	$ 7,672.9

*Education Employees Service Incentive Plan

Columns may not total due to rounding

Projection of UAAL

Valuation Date (1)	UAAL (Millions) (2)
June 30, 2007	7,602.5
June 30, 2008	7,325.7
June 30, 2009	7,150.5
June 30, 2010	6,970.9
June 30, 2011	6,786.5
June 30, 2012	6,739.3
June 30, 2013	6,670.2
June 30, 2014	6,576.7
June 30, 2015	6,456.0
June 30, 2016	6,305.0
June 30, 2017	6,120.5
June 30, 2018	5,898.7
June 30, 2019	5,635.9
June 30, 2020	5,327.5
June 30, 2021	4,968.9
June 30, 2022	4,554.9
June 30, 2023	4,080.0
June 30, 2024	3,538.3
June 30, 2025	2,923.4
June 30, 2026	2,228.4
June 30, 2027	1,445.9
June 30, 2028	567.8

Solvency Test

Actuarial Accrued Liability and Percent of Active Member Payroll for:

	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			Portion of Accrued Liabilities Covered by Assets			
June 30,	(1)	% of Payroll	(2)	% of Payroll	(3)	% of Payroll	(4)	% of Payroll	Actuarial Value of Assets	(1)	(2)	(3)	(4)
1996	1,799.1	76%	3,586.3	151%	106.7	4%	2,351.1	99%	3,103.0	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%	0%
1998	2,143.4	84%	4,195.9	165%	125.7	5%	2,426.3	96%	4,085.0	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%	0%
2000	2,518.2	92%	4,803.8	175%	151.1	6%	2,536.1	93%	5,373.5	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%	0%
2002	2,934.3	96%	5,959.9	196%	184.9	6%	3,196.8	105%	6,310.9	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%	0%
2004	3,212.9	106%	6,899.0	228%	284.7	9%	3,683.6	122%	6,660.9	100%	50%	0%	0%
2005	3,381.7	107%	7,046.5	222%	301.4	9%	3,322.9	105%	6,952.7	100%	51%	0%	0%
2006	3,853.7	115%	7,340.0	219%	314.3	9%	3,635.3	108%	7,470.4	100%	51%	0%	0%
2007	4,057.5	113%	7,730.3	215%	331.6	9%	3,905.0	109%	8,421.9	100%	56%	0%	0%

Note : Dollar amounts in millions

Distribution of Active Members by Age and by Years of Service
As of 06/30/2007

	Years of Credited Service												
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35 & Over	Total
Attained Age	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	259	747	241	38	14	4	0	0	0	0	0	0	1,303
	$20,781	$29,238	$28,703	$23,152	$27,818	$21,576	$0	$0	$0	$0	$0	$0	$27,242
25-29	368	1,706	1,771	1,369	672	904	2	0	0	0	0	0	6,792
	$21,924	$31,118	$32,607	$34,140	$35,511	$35,158	$24,030	$0	$0	$0	$0	$0	$32,587
30-34	315	1,100	996	910	579	3,775	611	2	0	0	0	0	8,288
	$20,578	$31,652	$32,730	$34,634	$38,152	$38,107	$41,456	$17,508	$0	$0	$0	$0	$35,802
35-39	362	1,082	1,015	868	548	3,221	2,849	766	4	0	0	0	10,715
	$17,227	$30,268	$31,902	$34,449	$38,007	$39,999	$43,001	$44,000	$30,198	$0	$0	$0	$38,009
40-44	317	928	783	728	458	2,874	1,948	2,446	599	3	0	0	11,084
	$17,060	$29,567	$30,112	$32,274	$35,709	$39,656	$44,891	$45,540	$48,765	$40,492	$0	$0	$39,554
45-49	289	833	759	637	474	2,889	2,216	2,206	2,072	1,046	3	0	13,424
	$16,700	$28,329	$30,020	$32,286	$35,073	$38,479	$41,228	$46,700	$49,491	$50,285	$43,904	$0	$40,913
50-54	267	646	569	552	372	2,489	2,109	2,490	1,787	2,580	841	3	14,705
	$17,507	$31,587	$32,806	$34,134	$33,881	$38,774	$41,940	$45,042	$50,447	$53,382	$54,836	$58,088	$43,963
55-59	178	492	381	390	288	1,764	1,660	2,243	1,829	1,512	1,598	461	12,796
	$17,348	$33,781	$32,210	$32,218	$35,577	$39,837	$42,317	$43,544	$47,604	$56,376	$58,066	$58,222	$45,711
60-64	95	210	179	177	149	887	841	1,256	992	738	576	690	6,790
	$15,510	$28,927	$26,222	$32,907	$35,192	$38,433	$42,418	$43,895	$47,557	$55,023	$63,434	$66,326	$46,877
65 & Over	72	106	86	77	47	314	271	381	255	190	164	273	2,236
	$13,933	$22,467	$20,591	$25,216	$26,894	$29,702	$35,793	$43,005	$44,656	$53,836	$68,251	$88,653	$45,073
Total	2,522	7,850	6,780	5,746	3,601	19,121	12,507	11,790	7,538	6,069	3,182	1,427	88,133
	$18,494	$30,448	$31,476	$33,462	$35,964	$38,695	$42,438	$44,910	$48,774	$53,802	$58,696	$67,962	$40,835

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

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 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. The hypothetical group of new entrants was reset in the 2005 experience study, based on actual new members joining during FY 2000 through FY 2004.

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 the GASB Annual Required Contribution (ARC). This is the contribution required to pay the normal cost and amortize the UAAL over 30 years as a level percent of pay. The 30-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:

Years of Service	Merit/ Promotional Component	Total Salary Increase Rate
(1)	(2)	(3)
0	1.75%	6.00%
1	1.50%	5.75
2	1.00%	5.25
3	1.00%	5.25
4	1.00%	5.25
5	0.75%	5.00
6	0.50%	4.75
7	0.50%	4.75
8	0.50%	4.75
9	0.50%	4.75
10	0.25%	4.50
11	0.25%	4.50
12	0.25%	4.50
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. However, for years FY 2007 through FY 2010, revenue growth was decreased, reflecting the expected impact of new income tax rates.

5. Future ad hoc cost-of-living increases: 1.0% per year

B. Demographic Assumptions

1. Mortality rates - after retirement or termination.

   a. Healthy males - 1994 Unisex Pension Mortality Table for males, set back one year.

   b. Healthy females - 1994 Unisex Pension Mortality Table for females, set back one year.

   c. Disabled males - PBGC Table Va for disabled males eligible for Social Security disability benefits weighted by 80%.

   d. Disabled females - PBGC Table VIa for disabled females eligible for Social Security disability benefits.

   Sample rates are shown below:

	Expected Deaths per 100 Lives			
Age	Healthy Males	Healthy Females	Disabled Males	Disabled Females
(1)	(2)	(3)	(4)	(4)
40	0.11	0.07	2.26	2.09
45	0.16	0.10	2.58	2.24
50	0.25	0.14	3.06	2.57
55	0.43	0.22	3.86	2.95
60	0.76	0.42	4.82	3.31
65	1.39	0.82	5.42	3.70
70	2.34	1.37	5.91	4.11
75	3.66	2.19	6.74	4.92
80	6.01	3.80	9.02	7.46

2. Mortality rates - active members - Based on 1989 Experience Study, males and females separate. Sample rates are shown below:

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

3. Disability rates - Based on 2005 Experience Study, males and females separate. Sample rates are shown below:

	Expected Disabilities Occurring per 100 Lives	
Age	Male Members	Female Members
(1)	(2)	(3)
25	.025	.025
30	.025	.025
35	.035	.050
40	.065	.125
45	.100	.200
50	.300	.300
55	.450	.420
60	.175	.420
65	.000	.000

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 2005 Experience Study. Rates reflect terminations for causes other than death, disability or retirement. Sample rates are shown below:

a. During the first ten years of Credited Service:

Expected Terminations per 100 Lives

Credited Service (Years)	Males	Females
(1)	(2)	(3)
0	34.00	24.00
1	19.00	16.00
2	14.00	12.25
3	11.50	10.50
4	9.50	9.00
5	7.75	7.75
6	6.75	6.75
7	6.00	6.00
8	5.50	5.00
9	5.00	4.00

b. With 10 or More Years of Credited Service:

Expected Terminations per 100 Lives

Age	Males	Females
(1)	(2)	(3)
25	4.74	7.01
30	4.10	5.09
35	3.51	3.66
40	2.97	2.74
45	2.51	2.34
50	2.09	2.08
55	1.66	1.63
60	1.32	1.14
65	1.28	0.82

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 2005 Experience Study. Sample rates are shown below:

Expected Retirements per 100 Lives				
	Unreduced Retirement		Reduced Retirement	
Age	Male	Female	Male	Female
49	00	00	0	0
50	20	20	0	0
51	20	20	0	0
52	20	20	0	0
53	20	20	0	0
54	15	20	0	0
55	15	20	1	2
56	15	20	1	2
57	15	20	2	2
58	15	20	2	2
59	15	20	3	2
60	15	20	4	5
61	15	20	4	5
62	25	30		
63	20	25		
64	20	20		
65	30	40		
66	25	25		
67	25	25		
68	20	20		
69	20	20		
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.

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 be eligible to receive the supplemental insurance benefit, if they have at least 10 years of service credit at retirement.

8. Members who retire with at least 24 years of credited service are assumed to have 120 days of unused sick leave for which they will receive one year of service credit. This assumption only applies to reduced and unreduced retirement.

9. No assumption was made that current active members employed by the comprehensive universities will elect to transfer out of OTRS.

10. 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.

11. For EESIP eligible employees, if the refund amount to be paid exceeds the actuarial present value of the additional benefit, then we assume the member does not elect the enhanced benefit.

12. For those participants eligible for the EESIP, it is assumed that retirement is delayed in each year past first eligibility by 10%, until all eligible years are uncapped, at which point those delayed members are assumed to retire.

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 2005 experience study, and were adopted by the Board of Trustees in August 2005 and first reflected in the June 30, 2005 actuarial valuation. The adopted assumptions were recommended by the actuary. Some assumptions were left unchanged from the prior experience study in 1999, including female mortality for disabled retirees, the investment return rate, and active member mortality for males and females.

Since the June 30, 2004 valuation, there is 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.

Effective July 1, 2006, retirement assumptions were modified for members eligible for the EESIP.

ADDENDUM TO JUNE 30, 2007 ACTUARIAL VALUATION

Certification

We have prepared an actuarial valuation of the Oklahoma Teachers' Retirement System as of June 30, 2007, for the plan year ending June 30, 2008. 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, 2007.

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 regular June 30, 2007 valuation prepared for the Board of Trustees.

The results shown in this Addendum are not consistent with those in the June 30, 2007 valuation. The June 30, 2007 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 Board of Trustees. For those results, see the regular June 30, 2007 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

J. Christian Conradi, ASA, MAAA, EA — October 24, 2007

W Michael Carter

W. Michael Carter, FSA, MAAA, EA — October 24, 2007

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, 2007, 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	
	June 30, 2007	**June 30, 2006**	**Amount**	**Percent**
Summary of Costs				
Required State Contribution for Current Year under Prescribed Assumptions	$719,292,712	$750,523,585	-$31,230,873	-4.16%
Actual State Contribution Received in Prior Year	$243,501,987	$202,200,425	$41,301,562	20.43%
Funded Status				
Actuarial Accrued Liability	$18,494,245,830	$17,448,276,520	$1,045,969,309	5.99%
Actuarial Value of Assets	$8,421,866,942	$7,470,433,915	$951,433,027	12.74%
Unfunded Actuarial Accrued Liability	$10,072,378,888	$9,977,842,605	$94,536,283	0.95%
Market Value of Assets and Additional Liabilities				
Market Value of Assets	$9,293,201,022	$7,858,937,186	$1,434,263,836	18.25%
Present Value of Projected System Benefits	$22,287,584,027	$20,982,590,103	$1,304,993,923	6.22%

Summary of Contribution Requirements	Actuarial Valuation as of				% of Change
	June 30, 2007		June 30, 2006		
	Amount	% of Active Covered Comp	Amount	% of Active Covered Comp	
1. Payroll					
a. Supplied by system	$3,598,926,888		$3,354,876,252		7.27%
b. Adjusted for 1-year's pay increase	$3,766,989,331		$3,511,499,005		7.28%
c. Adjusted for 1-year's pay increase with pay caps	$3,766,989,331		$3,467,673,925		8.63%
2. Total normal cost (mid-year)	$481,736,177	12.79%	$443,458,644	12.79%	8.63%
3. Unfunded actuarial accrued liability (UAAL)	$10,072,378,888		$9,977,842,605		0.95%
4. Amortization of UAAL over 30 years from valuation date	$824,856,541	21.90%	$817,114,688	23.56%	0.95%
5. Total required contribution under prescribed assumptions (2+4)	$1,306,592,718	34.69%	$1,260,573,332	36.35%	3.65%
6. Estimated employee contribution (7% x 1c)	$263,689,253	7.00%	$242,737,175	7.00%	8.63%
7. Estimated local employer and federal/grant contributions					
a. Local employers	$298,797,594	7.93%	$244,471,012	7.05%	22.22%
b. Federal/grant	$24,813,159	0.66%	$22,841,560	0.66%	8.63%
c. Total	$323,610,753	8.59%	$267,312,572	7.71%	21.06%
8. Required state contribution to amortize UAAL over 30 years from valuation date (5 - 6 - 7c)	$719,292,712	19.09%	$750,523,585	21.64%	-4.16%
9. Previous year's actual State Contribution	$243,501,987	7.02%	$202,200,425	6.17%	20.43%
10. Funding period	Not Sufficient to Amortize UAAL		Not Sufficient to Amortize UAAL		N/A

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	
	June 30, 2007	**June 30, 2006**
1. Actuarial Present Value of Benefits		
a. Active members	$ 13,271,404,967	$ 12,431,232,745
b. Inactives	381,809,950	360,883,499
c. Retirees and beneficiaries	8,634,369,110	8,190,473,859
d. Total	22,287,584,027	20,982,590,103
2. Actuarial Present Value of Future Normal Costs	$ 3,793,338,197	$ 3,534,313,583
3. Total Actuarial Accrued Liability (1d - 2)	$ 18,494,245,830	$ 17,448,276,520
4. Actuarial Value of Assets	$ 8,421,866,942	$ 7,470,433,915
5. Unfunded Actuarial Accrued Liability (3-4, not less than $0)	**$ 10,072,378,888**	**$ 9,977,842,605**

Normal Cost

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

Component	June 30, 2007	June 30, 2006
Retirement Benefits	$ 364,644,567	$ 335,670,836
Withdrawal Benefits	54,593,236	50,255,396
Active Death Benefits	8,354,271	7,690,462
Refunds	25,240,978	23,235,394
Supplemental Medical Insurance	11,379,195	10,475,033
Post Retirement Death Benefits	1,762,388	1,622,353
Disability Benefits	15,761,542	14,509,170
Total Normal Cost (Mid-year)	**$ 481,736,177**	**$ 443,458,644**
Annual Covered Payroll (with pay caps)	$ 3,766,989,331	$ 3,467,673,925
Normal Cost Rate At Mid-year	12.79%	12.79%

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: 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	1.75%	6.00%
1	1.50%	5.75
2	1.00%	5.25
3	1.00%	5.25
4	1.00%	5.25
5	0.75%	5.00
6	0.50%	4.75
7	0.50%	4.75
8	0.50%	4.75
9	0.50%	4.75
10	0.25%	4.50
11	0.25%	4.50
12	0.25%	4.50
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. However, for years FY 2007 through FY 2010, revenue growth was decreased, reflecting the expected impact of new income tax rates.

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:

Expected Retirements per 100 Lives

	Unreduced Retirement		Reduced Retirement	
Age	Male	Female	Male	Female
49	00	00	0	0
50	20	20	0	0
51	20	20	0	0
52	20	20	0	0
53	20	20	0	0
54	15	20	0	0
55	15	20	1	2
56	15	20	1	2
57	15	20	2	2
58	15	20	2	2
59	15	20	3	2
60	15	20	4	5
61	15	20	4	5
62	25	30		
63	20	25		
64	20	20		
65	30	40		
66	25	25		
67	25	25		
68	20	20		
69	20	20		
70	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.

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)	(3)
25	.025	.025
30	.025	.025
35	.035	.050
40	.065	.125
45	.100	.200
50	.300	.300
55	.450	.420
60	.175	.420
65	.000	.000

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:

<u>During the first ten years of Credited Service:</u>

Credited Service (Years)	Expected Terminations per 100 Lives: Males	Females
(1)	(2)	(3)
0	34.00	24.00
1	19.00	16.00
2	14.00	12.25
3	11.50	10.50
4	9.50	9.00
5	7.75	7.75
6	6.75	6.75
7	6.00	6.00
8	5.50	5.00
9	5.00	4.00

With 10 or More Years of Credited Service:

Expected Terminations per 100 Lives		
Age	Males	Females
(1)	(2)	(3)
25	4.74	7.01
30	4.10	5.09
35	3.51	3.66
40	2.97	2.74
45	2.51	2.34
50	2.09	2.08
55	1.66	1.63
60	1.32	1.14
65	1.28	0.82

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

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.

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 be eligible to receive the supplemental insurance benefit, if they have at least 10 years of service credit at retirement.

8. Members who retire with at least 24 years credit are assumed to have 120 days of unused sick leave for which they will receive one year of service credit. This assumption only applies to reduced and unreduced retirement.

9. No assumption was made that current active members employed by the comprehensive universities will elect to transfer out of OTRS.

10. 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.

11. For EESIP eligible employees, if the refund amount to be paid exceeds the additional APV of the enhanced benefit, then the employee does not elect the enhanced benefit.

12. For those participants eligible for the EESIP, it is assumed that retirement is delayed in each ear past first eligibility by 10%.

Schedule of Increases and Decreases of Benefit Recipients Periods Ended June 30

	Added to Rolls		Removed from Rolls		Rolls-End of Year		% Increase in	
Year Ended	No.	Annual Allowances*	No.	Annual Allowances	No.	Annual Allowances	Annual Allowances	Average Annual Allowances**
2001	2,098	40,394,458	1,027	12,641,988	35,188	498,928,273	5.9%	1,231
2002	2,353	36,595,970	1,030	12,303,662	36,511	523,220,581	4.9%	1,231
2003	2,630	57,537,594	1,082	10,798,222	38,059	569,959,953	8.9%	1,304
2004	2,616	49,732,316	1,082	12,334,953	39,593	607,357,316	6.6%	1,315
2005	2,346	62,318,530	1,060	8,518,211	40,879	661,157,635	8.9%	1,373
2006	2,060	32,777,192	1,157	7,344,953	41,782	686,589,874	3.8%	1,376
2007	2,337	48,762,552	613	8,907,437	43,506	726,444,989	5.8%	1,419

* Includes post-retirement increases for members who retired in previous years and changes occurring due to plan options which offer a continuing monthly benefit payment to beneficiaries.

** Does not include special annuitants.