



# POPULAR ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

## ABOUT TRS

TRS was established in 1943 by the Oklahoma Legislature. As of June 30, 2017, the Plan consisted of 603 participating employers comprised of state institutions of higher education, state education entities, local school districts as well as career tech districts. The membership includes 87,795 active members, 11,796 inactive vested members, 13,070 inactive non-vested and 62,391 retirees and beneficiaries for a total of 175,052 members.

## COMPREHENSIVE ANNUAL FINANCIAL REPORT ONLINE

The 2017 Popular Annual Financial Report of the Teachers' Retirement System of Oklahoma (TRS) contains summary financial information from the 2017 Comprehensive Annual Financial Report. The full report can be viewed in its entirety online at [www.ok.gov/TRS/Publications/Annual\\_Report.html](http://www.ok.gov/TRS/Publications/Annual_Report.html).

## TRS Has Historic Year

Dear Members:

We are proud to issue the Teachers' Retirement System Popular Annual Financial Report (PAFR) for FY 2017. This publication is not only for the benefit of our membership but also for our many stakeholders and state leaders who are interested in the financial condition of TRS. It is a summarized version of the System's official Comprehensive Annual Financial Report (CAFR) written in laymen's terms. It's shorter than the CAFR, but it still contains the most important statistics of your retirement plan.

TRS had outstanding investment performance this fiscal year, and achieved the highest actuarial funded ratio in its 74 year history! The members of TRS rely on the continuing viability and fiscal strength of the System. Their retirement security depends on it. Our public educators and support staff members are crucial to the State's economy and quality of life. TRS is the oldest and largest state pension plan in Oklahoma. The System serves about 175,000 active, inactive and retired members who are currently or formerly employed by more than 600 employers. Not only is it important for our members and stakeholders to know the financial status of the System, but it's also important for Oklahoma citizens to have this information. We at TRS are proud to serve Oklahoma's educators and staff. The entire state benefits from the retirement income security TRS provides to its clients. Your retirement system has been providing this service for more than seven decades and we want to be a part of this State's bright future. We strive every year for excellence and will work to continue the historic success we enjoyed this year.

Sincerely,

Tom Spencer  
*Executive Director*

## 2017 TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

### POPULAR ANNUAL FINANCIAL REPORT

#### Plan Net Position

The "Plan net position" is calculated by taking the amount of assets of TRS and subtracting liabilities restricted for payment of monthly retirement benefits and other qualified distributions to TRS clients. A summary of net position restricted for benefits on June 30, 2017, 2016 and 2015, is shown to the right. As of June 30, 2017, OTRS net position was approximately \$15.63 billion. For simplicity, the 401(a), 403(b) and OPEB assets & liabilities on these schedules are combined. A separate schedule for the OPEB plan is on page 4 of the PAFR.

#### Changes in Plan Net Position

TRS is funded through a combination of member contributions, employer contributions, dedicated state revenue and investment earnings. For fiscal year 2017, plan net position increased \$1,643,766,971 or 11.74%. The increase was primarily from good investment performance. Deductions to plan net position are incurred primarily for the purpose for which TRS was created, namely the payment of benefits to retirees. In fiscal year 2017, retirement, death and survivor benefits increased \$54,849,028 or 4.36% due to a 2.82% increase (1,711 members) in the number of retired members and a 1.50% increase in the average benefit. Refunds and withdrawals

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#### CONDENSED SCHEDULE OF FIDUCIARY NET POSITION

	JUNE 30,		
	2017	2016	2015
<b>ASSETS:</b>			
CASH	\$ 6,982,258	\$ 19,857,301	\$ 95,635,452
RECEIVABLES	234,896,886	389,393,726	207,991,357
INVESTMENTS	15,623,835,941	14,058,889,353	14,635,937,831
SECURITIES LENDING COLLATERAL	1,699,984,799	1,624,015,378	4,729,952
CAPITAL ASSETS, NET	4,293,304	4,072,745	3,649,149
<b>TOTAL ASSETS</b>	<b>17,569,993,188</b>	<b>16,096,228,503</b>	<b>14,947,943,741</b>
<b>LIABILITIES:</b>			
OTHER LIABILITIES	232,211,101	478,182,808	299,107,398
SECURITIES LENDING COLLATERAL	1,699,984,799	1,624,015,378	4,729,952
<b>TOTAL LIABILITIES</b>	<b>1,932,195,900</b>	<b>2,102,198,186</b>	<b>303,837,350</b>
<b>NET POSITION RESTRICTED FOR PENSIONS</b>	<b>\$ 15,637,797,288</b>	<b>\$ 13,994,030,317</b>	<b>\$ 14,644,106,391</b>

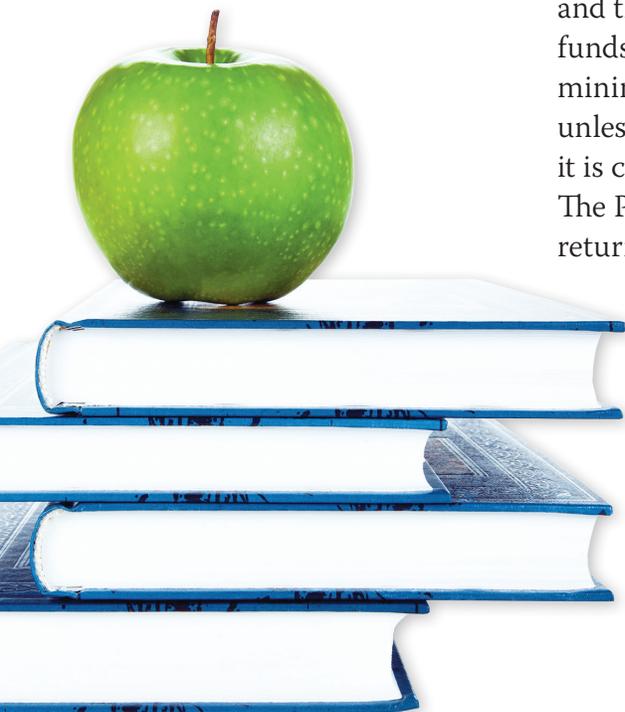
#### CONDENSED SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION

	JUNE 30,		
	2017	2016	2015
MEMBER CONTRIBUTIONS	\$ 292,949,337	294,459,091	\$ 303,677,304
EMPLOYER CONTRIBUTIONS	403,256,970	409,753,221	392,051,458
MATCHING CONTRIBUTIONS	23,027,846	25,787,244	24,445,212
DEDICATED TAX REVENUE	278,924,055	289,884,752	311,945,400
MEMBER TAX SHELTER CONTRIBUTIONS	2,548,206	2,222,812	2,823,513
NET INVESTMENT INCOME GAIN (LOSS)	2,011,242,293	(362,477,638)	420,630,551
SECURITY LENDING NET INCOME	8,705,649	7,870,757	11,832,523
<b>TOTAL ADDITIONS</b>	<b>3,020,654,356</b>	<b>667,500,239</b>	<b>1,467,405,961</b>
BENEFIT PAYMENTS	1,312,125,733	1,257,276,705	1,201,350,906
REFUNDS OF MEMBER CONTRIBUTIONS AND TAX SHELTERED ANNUITY	60,707,115	55,841,270	57,063,155
ADMINISTRATIVE EXPENSES	4,054,537	4,458,338	4,358,938
<b>TOTAL DEDUCTIONS</b>	<b>1,376,887,385</b>	<b>1,317,576,313</b>	<b>1,262,772,999</b>
<b>NET INCREASE (DECREASE) IN NET POSITION</b>	<b>\$ 1,643,766,971</b>	<b>(650,076,074)</b>	<b>\$ 204,632,962</b>

also increased \$4,834,466 or 13.38% as more participants withdrew their contributions on severance of service in fiscal 2017. Administrative costs decreased by \$403,801 (or 9.06%).

### Benefits Paid to Members

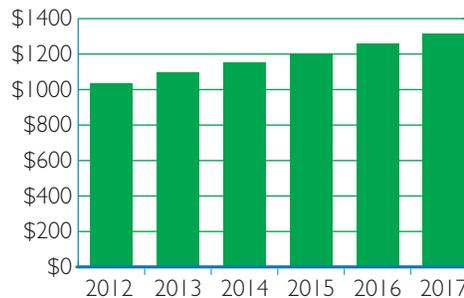
Members qualify for full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member on or after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90). Normal retirement age under the Plan is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule of 90 minimum age 60 if the participant became a member on or after November 1, 2011.



The Schedule of Benefit Payments below provides information on the total benefit expenses incurred by the Plan consisting of age and service, disability, and beneficiary death benefits. These totals have risen rapidly from \$1.03 billion in FY 2012 to \$1.31 billion in FY 2017.

### SCHEDULE OF BENEFIT PAYMENTS

(in millions)



### Investments

The Board of Trustees follows the "Prudent Investor Rule" which is considered the highest standard in making investment decisions for the Plan. The Board and its advisors invest the Plan's assets for the sole interest of our members and their beneficiaries. In addition, funds are to be diversified to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so. The Plan's overall investment return for the year ended June 30, 2017, was a gross return of 15.27%. Plan returns are primarily determined by how investments are diversified across asset classes. Domestic and international equity returns were up for the year. Domestic equity gained

21.89% and international equity returns showed a gain of 20.77%. Total fixed income returns were only 3.84% but high yield bonds returned 12.36%. Private equity investments returned 15.50% for the year. The System's Master Limited Partnership investments were positive but disappointing coming in at 4.66%. The Rate of Return table below reflects overall investment returns for the Plan over the past five fiscal years.

### RATE OF RETURN

Year Ending June 30,	Total
2017	15.3%
2016	-2.02%
2015	3.5%
2014	22.4%
2013	17.8%

The Board of Trustees has established the Statement of Investment Policy to guide investment decisions and outline the overall investment philosophy of the Plan. The primary investment goal of the Plan is total return, consistent with prudent investment management standards. Total return includes income plus realized and unrealized gains and losses on Plan assets. In addition, assets of the Plan are invested to ensure that principal is preserved and enhanced over time. All investments are managed by external investment managers. The managers are required to adhere to the investment policy and their respective mandates, but may use

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full discretion within the policy and guidelines. In the pursuit of long-term returns while maintaining the goal of capital preservation, TRS has adopted a diversified asset allocation policy that is carried out primarily through active management. The resulting portfolio is designed to enhance long-term returns while mitigating short-term volatility. At fiscal year end, the portfolio was managed by 31 investment management firms across several asset classes and areas of expertise. For fiscal year end 2017, investments provided

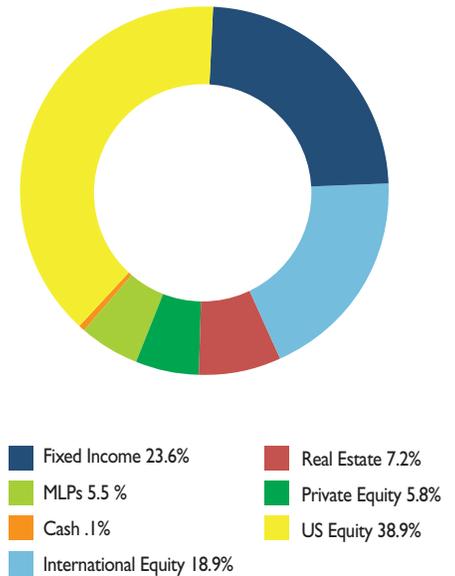
a gain of 15.27%. The annualized rate of return was 4.99% over the last three years and 10.78% over the last five years. The allocation of the investment portfolio as of June 30, 2017 is shown in the Asset Mix chart to the right.

### Funding

A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. It must also have a revenue source sufficient to keep up with future obligations. The funding objective for TRS is to

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ASSET MIX  
June 30, 2017



## New Accounting Standards for Other Postemployment Benefits (OPEB)

TRS must follow accounting standards established by the Governmental Accounting Standards Board (GASB). This year TRS implemented a new accounting standard called GASB 74 that applies to accounting for "other postemployment benefits" or OPEB. TRS provides a monthly health insurance subsidy to its retirees who keep their employer-based health insurance in retirement. This amount varies from \$100 to \$105 based on the credited service years of the retiree, and their benefit amount. It is paid directly to the insurer or the retiree's former employer. GASB 74 requires TRS to treat this supplemental benefit like a separate benefit plan for accounting purposes. The liabilities to TRS from these OPEB payments must be separately stated, and an amount of assets must be identified that are available to pay the benefits. To the right are condensed schedules of the TRS OPEB "net position" and the changes in net position. As indicated on page 2, these assets and liabilities are included in the main schedules for the total plan.

### CONDENSED SCHEDULE OF OPEB NET POSITION

	JUNE 30, 2017	
ASSETS	\$	532,505,936
LIABILITIES		59,147,716
<b>NET POSITION FOR OPEB</b>	<b>\$</b>	<b>473,358,220</b>

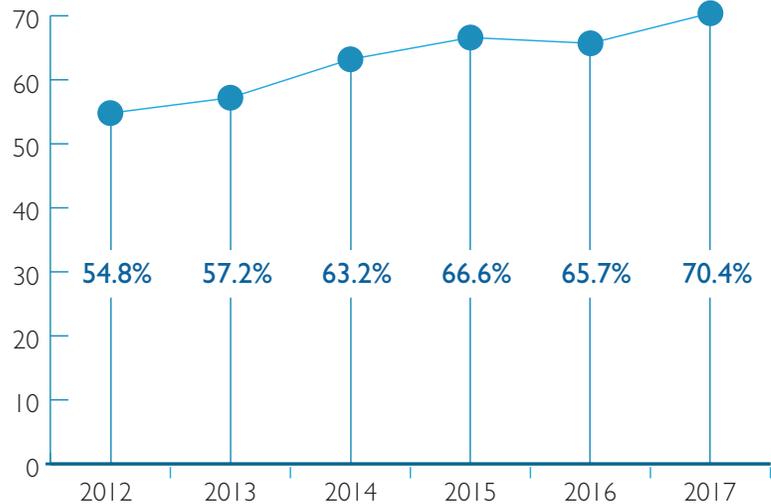
### CONDENSED SCHEDULE OF CHANGES IN OPEB NET POSITION

	JUNE 30, 2017	
ADDITIONS	\$	68,811,185
DEDUCTIONS		30,335,584
<b>NET INCREASE (DECREASE) IN NET OPEB POSITION</b>	<b>\$</b>	<b>38,475,601</b>

meet long-term benefit promises through contributions that remain approximately level as a percent of member payroll. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the level of investment potential. The advantage of a well-funded plan is that the participants can look at assets that are committed to the payment of benefits. The actuarial accrued liability (the amount the System owes) and actuarial value of assets (the amount the System has) of TRS as of July 1, 2017, amounted to \$22.05 billion and \$15.51 billion, respectively.

The TRS funded status was 70.4% at June 30, 2017, compared to 65.7% at June 30, 2016. The key items responsible for the improvement in funded status were a significant asset gain from investment performance, and an actuarial assumption change. The change dealt with how many TRS retirees retain their employer-provided health insurance and qualify for the \$100 to \$105 per month subsidy. The assumption was reduced from 100% to 50% based on actual experience. The Funded Ratio chart to the upper right shows the change in funded status over the past five fiscal years.

FUNDED RATIO



## TRS Awarded For Excellence In Financial Reporting And Popular Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Annual Financial Reporting to the Teachers' Retirement System of Oklahoma for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016. The Award for Outstanding Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

To receive an Award for Outstanding Achievement in Annual Financial Reporting, a government unit must publish a Comprehensive Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal. An Award for Outstanding Achievement in Annual Financial Reporting is valid for a period of one year only. TRS has received the award for the last 24 consecutive years. We believe our current CAFR continues to conform to the award requirements, and it has been submitted to the GFOA.

In addition, TRS also received an award from the GFOA for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for its submission in FY 2016. This was the 2nd consecutive year TRS received this award. We will continue to strive for excellence and we look forward to continuing our commitment to quality financial reporting of all kinds.



## OKLAHOMA TEACHERS RETIREMENT SYSTEM

Oliver Hodge Building, 5th Floor,  
2500 N. Lincoln Blvd.,  
Oklahoma City, OK 73105

1-877-738-6365 or 405-521-2387

[www.ok.gov/TRS](http://www.ok.gov/TRS)

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### DIRECTOR'S CORNER

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## Oklahoma Needs Vision

Many of you may have seen a recent editorial in The Oklahoman that singled out TRS as a “bright spot” in State government. It was indeed an historic year. TRS earned 15.3% on its portfolio to be the fifth best performing public pension fund in the U.S. for FY 2017. But the more notable statistic was that TRS reached a 70.4% funded ratio reflected in its recent actuarial report. That means TRS has 70.4% of the assets on hand to pay its pension liabilities. That’s the highest in its history. The reason TRS got to this point is because of the vision of state leaders over the last 25+ years. The vision was to work toward a 100% funded ratio by properly funding TRS. This was done by a combination of dedicating a certain percentage of state tax receipts to TRS, as well as adopting a variety of pension reforms

to stem the growth of higher pension liabilities. Trustees and staff did their part by investing TRS funds prudently. What is truly amazing is that this was a bipartisan vision. Republican and Democrat governors and legislators have had mostly a shared vision to make this happen. How often do you hear that?

But where is the vision for education, infrastructure, public health and many other State functions? There seems to be widespread distrust in state government, but without the vision of a series of state leaders and Oklahoma congressmen Oklahoma would not have accomplished much in its 110 year history. What sort of water resources would we have without infrastructure projects like dams and the construction of

lakes and reservoirs? What type of transportation system would we have without the federal – state partnership for financing roads & bridges? What sort of higher education system would we have without public investment in our colleges and universities?

Government is not the only answer but the truly big things we do as a State require a “can do” vision by our state leaders. We need leaders who have a vision of what we can do when we work together for the betterment of our great state. It is time for current elected officials, and those who will be elected next year, to step up and develop a vision for our state.

**Tom Spencer**  
*Executive Director*