Pension returns up big over prior year

What a difference a year can make, especially when it comes to public pension fund investments.

In the recently completed fiscal year, investment returns on Oklahoma’s seven public pension funds jumped by double digits across the board compared to the prior year.

In FY-17, returns averaged 14 percent for the state’s systems, a 15 percent jump from FY-16.

A very good year

Reports released in August by New England Pension Consultants on behalf of the Oklahoma State Pension Commission, an oversight board for the state’s public systems, shows each system experienced healthy investment performance during FY-17.

The Oklahoma Teachers Retirement Systems (OTRS), the state’s largest system valued at $15.4 billion, posted the strongest performance in FY-17 at 15.2 percent. That compared to FY-16 returns of -2.2 percent.

The next largest system, the Oklahoma Public Employees Retirement System (OPERS), valued at $9.2 billion, reported returns of 12.8 percent. That is a 12.5 percentage point improvement.

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Oklahoma Pension Investment Performance
FY-17

- Teachers: 15.2%
- OPERS: 12.8%
- Firefighters: 14.3%
- Police: 11.6%
- Law: 13%
- Judges: 12.7%
- Wildlife: 11.3%

Source: NEPC
Oklahomans have a strong reputation of being able to confront challenges with a sense of purpose, pride and community. These winning attributes remain important as we strive for a more prosperous future.

Our state faces significant fiscal challenges. The Great Recession, followed by a collapse in energy prices, adversely impacted the state’s economy and budget. Policy decisions have also contributed to the situation, some many years in the making. For example, decades of neglect regarding the state pension systems led to soaring legacy costs, influencing the state’s bond rating and the resources available for other priorities.

In fact, not long ago, Oklahoma’s pension system ranked nationally near the bottom. The reported unfunded liability was over $16 billion, while the funding deficit was more than $500 million per year. Clearly, the status quo was not working. It was time for less talk and more action.

Leaders took responsibility and passed a series of major cost-saving reforms. Meanwhile, funding remained consistently robust as pension investments rebounded. As a result, the massive funding gap has been filled and the unfunded liability has dropped substantially.

The betterment is a product of teamwork and resolve. It has been an honor to work with Treasurer Miller and other key leaders as we strive to improve the fiscal health of the pension systems and the state.

This year’s strong investment returns are commendable, especially considering the persistently low interest rate environment. For the many Oklahomans whose retirement benefits rely on the durability of the pension system, the upswing provides more peace of mind.

Notwithstanding, the long-term nature of pensions requires maintaining a long-term perspective during both good and bad times. Future market volatility should be expected when employing growth investment strategies, even when portfolios are well-diversified and professionally managed.

Moreover, by the middle of this century, the Census Bureau estimates the number of Americans who will live to at least 65 will nearly double. This demographic reality will have major financial implications on many state.

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programs competing for resources, including the pension system.

As anticipated, the path to full restoration is long and steep. The situation is still too precarious to recklessly abandon the policy reforms and funding commitments that have been instrumental in the recovery. The mission continues. Vigilance is needed.

Consequently, I will again hold interim studies on the state retirement plans. During these studies, each plan’s finances will be analyzed, best practices discussed and different points of view heard.

At the end of the day, everyone involved has a duty to ensure that the retirement promises made to thousands of dedicated state and local employees are fulfilled, many of whom teach our children, serve in our communities and risk their lives everyday to protect the citizens of Oklahoma.

All states have financial concerns. In many places, pension problems have been swept under the rug, but not here. In Oklahoma, the situation has turned from a looming financial crisis to a clear pathway towards greater strength and stability.

The $2.5 billion Oklahoma Firefighters Pension and Retirement System posted gains of 14.3 percent during the fiscal year, compared to returns of 1.1 percent during FY-16.

The Oklahoma Police Pension and Retirement System, valued at $2.4 billion, experienced investment returns of 11.6 percent for FY-17, a jump of 11.9 percentage points from FY-16.

The $934.8 million Oklahoma Law Enforcement Pension System (OLERS) reported investment returns of 13 percent for the year. In FY-16, OLERS reported a 0.2 percent loss on its investments.

The Uniform Retirement System for Judges and Justices, valued at $320.5 million, saw investment returns of 12.7 percent in FY-17, compared to FY-16 investment performance of 0.6 percent.
Pensions
FROM PAGE 3

The Oklahoma Wildlife and Conservation Retirement Plan, with a value of $108.9 million, experienced investment returns of 11.3 percent during the year, compared to 0.9 percent the prior year.

Relative performance

Compared to similar public pensions nationwide, OTRS was a top performer in FY-17, outperforming 93 percent of peer systems. Firefighters also experienced strong performance with a ranking in the top 13 percent of its peers.

OLERS was next, with performance in the top 30 percent of peer systems, while OPERS’ returns bested 63 percent of similar systems.

Judges was ranked in the 41st percentile, while Police received a 64th percentile rank and Wildlife's performance was set in the 67th percentile.

All in perspective

While we celebrate this year’s returns, one must remember that such returns are unsustainable and the assumed rate of return has proven difficult to meet.

One-year investment returns are interesting, but it is long-term performance compared to assumed rates of return that really matter.

Both are factors in determining funded status – the fair value of total plan assets minus projected obligations.

Since the passage of reform legislation in 2011, the funded status for each of the state’s plans has improved.

The latest reports are being compiled and will be released in the coming weeks.

Learn more:
Read the complete State Pension Commission Investment Summary at go.usa.gov/xRHht
Twelve-month Gross Receipts to the Treasury turn positive for first time in two years

Total Gross Receipts to the Treasury during the past 12 months are higher than collections during the prior 12 months for the first time since August 2015, and monthly gross receipts topped collections from the same month of last year for a seventh time since January, State Treasurer Ken Miller announced on September 6.

Gross receipts for the past 12 months exceeded collections from the prior 12 months by $79 million, or 0.7 percent, and collections during August were more than the same month of last year by $47.4 million, or 5.7 percent, Miller said.

“Oklahoma’s economic recovery, slow and steady, continued through August,” Miller said.

“The energy sector remains the primary driver of the state’s economic expansion as evidenced by the continued rise in gross receipts.”

July Gross Receipts to the Treasury & General Revenue compared

July Gross Receipts to the Treasury totalled $926.9 million, while the General Revenue Fund (GRF), as reported by the Office of Management and Enterprise Services, received $411.4 million, or 44.4%, of the total.

The GRF received between 32.7% and 54.1% of monthly gross receipts during the past 12 months.

From July gross receipts, the GRF received:

- Individual income tax: 59.9%
- Corporate income tax: None
- Sales tax: 44.8%
- Gross production-Gas: 71.1%
- Gross production-Oil: 12.3%
- Motor vehicle tax: 24.7%
- Other sources: 31%

July GRF allocations are equal to the monthly estimate. In the first month of the fiscal year, year-to-date collections are identical to July figures.

July insurance premium taxes totaled $254,702, a decrease of $144,846, or 36.3%, from the prior year.

Tribal gaming fees generated $11.2 million during the month, up by $693,350, or 6.6%, from July 2016.

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in oil field employment and gross production tax payments.”

August gross production tax collections are higher than the prior year for an eleventh consecutive month. Monthly receipts from the production of oil and natural gas generated $43.8 million, an increase of $11.9 million, or 37.6 percent.

In the past 12 months, gross production receipts are up by $119 million, or 34.3 percent.

In August, sales and individual income tax collections were also ahead of the prior year, while corporate income and motor vehicle tax payments were lower.

During the last 12 months, gross production, sales and motor vehicle taxes are all higher than the prior period. Only individual and corporate income tax receipts remain below those of the previous 12 months.

**New revenue contributes to bottom line**

Legislation enacted last session that generates additional revenue for the state had an impact on gross receipts for the first time in August, adding $16.7 million to the bottom line.

The largest amount, $10.7 million, came from the new 1.25 percent state sales tax on motor vehicles. A $5 fee on motor vehicle registration boosted collections by $1.7 million for the month.

Elimination and suspension of gross production tax rebate payments added $3 million to gross collections.

Beginning next month, the state will start to see the impact of raising the 1 percent horizontal drilling gross production tax rate to 4 percent.

Ending a discount for businesses that remit sales tax generated an additional $1.2 million for the month. A new fee assessed on professional sports tickets contributed $34,855.

**August collections**

Receipts for August set gross collections at $879.7 million, up $47.4 million, or 5.7 percent, from August 2016.

Gross income tax collections, a combination of personal and corporate income taxes, generated $253.6 million, a decrease of $638,000, or 0.3 percent, from the previous August.

Individual income tax collections for the month are $246.7 million, up by $4.1 million, or 1.7 percent, from the prior year. Corporate collections are $6.8 million, a decrease of $4.7 million, or 40.7 percent.

Sales tax collections, including remittances on behalf of cities and counties, total $380.9 million in August. That is $29.6 million, or 8.4 percent, more than August 2016.

Gross production taxes on oil and natural gas generated $43.8 million in August, an increase of $11.9 million, or 37.6 percent, from last August. Compared to July reports, gross production collections are up by $1.8 million, or 4.4 percent.

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Revenue

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Motor vehicle taxes produced $67.9 million, down by $729,000, or 1.1 percent, from the same month of last year.

Other collections, consisting of about 60 different sources including use taxes, along with taxes on fuel, tobacco, horse race gambling and alcoholic beverages, produced $133.5 million during the month. That is $7.2 million, or 5.7 percent, more than last August.

Twelve-month collections

Gross revenue totals $11.1 billion from the past 12 months. That is $79 million, or 0.7 percent, more than collections from the previous 12 months.

Gross income taxes generated $3.9 billion for the September 2016-August 2017 period, reflecting a decrease of $147 million, or 3.6 percent, from the September 2015-August 2016 period.

Individual income tax collections total $3.5 billion, down by $38.3 million, or 1.1 percent, from the prior 12 months. Corporate collections are $399 million for the period, a decrease of $108.7 million, or 21.4 percent, over the previous period.

Sales taxes for the period generated $4.3 billion, an increase of $36.7 million, or 0.9 percent, from the prior year.

Oil and gas gross production tax collections brought in $466.1 million during the past 12 months, up by $119 million, or 34.3 percent, from the previous 12-month period.

Motor vehicle collections total $760.4 million for the period. This is an increase of $7.3 million, or 1 percent, from the trailing period.

Other sources generated $1.6 billion, up by $62.9 million, or 4 percent, from the previous 12 months.

About Gross Receipts to the Treasury

Since March 2011, the Office of the State Treasurer has issued the monthly Gross Receipts to the Treasury report, which provides a timely and broad view of the state’s macro economy.

It is provided in conjunction with the General Revenue Fund allocation report from the Office of Management and Enterprise Services, which provides important information to state agencies for budgetary planning purposes.

The General Revenue Fund receives less than half of the state’s gross receipts with the remainder paid in rebates and refunds, remitted to cities and counties, and placed into off-the-top earmarks to other state funds.

State unemployment tops U.S. jobless rate in July

Oklahoma’s seasonally-adjusted unemployment rate rose one-tenth of a percentage point to 4.4 percent in July, according to figures released by the Oklahoma Employment Security Commission.

State jobless numbers improved by seven-tenths of a percentage point over the year.

The Oklahoma rate is one-tenth of a percentage point higher than the July U.S. jobless rate after being set one-tenth of a point lower during June.

<table>
<thead>
<tr>
<th>July 2017</th>
<th>Unemp. rate*</th>
<th>Labor force*</th>
<th>Employment*</th>
<th>Unemployment*</th>
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</thead>
<tbody>
<tr>
<td>Oklahoma</td>
<td>4.4%</td>
<td>1,817,345</td>
<td>1,738,184</td>
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<td>United States</td>
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<td>OKLAHOMA</td>
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<td>June ’17</td>
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<td>May '17</td>
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<td>July ’16</td>
<td>5.0%</td>
<td>1,823,540</td>
<td>1,731,628</td>
<td>91,912</td>
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* Data adjusted for seasonal factors

Source: OESC
Economic Indicators

Unemployment Rate
January 1980 – July 2017

Gross Receipts vs. Oil & Gas Employment
January 2008 – August 2017

Leading Economic Index
January 2001 – July 2017

Oklahoma Stock Index
Top capitalized state companies
January 2009 – August 2017

Oklahoma Natural Gas Prices & Active Rigs
January 2011 – August 2017

Oklahoma Oil Prices & Active Rigs
January 2011 – August 2017

Sources:
- Bureau of Labor Statistics
- Federal Reserve
- Office of the State Treasurer
- Baker Hughes & U.S. Energy Information Administration