STATE OF OKLAHOMA

2nd Session of the 52nd Legislature (2010)

HOUSE BILL 2357

By: Miller and Martin (Scott) of the House

and

Johnson (Mike) and Myers of the Senate

AS INTRODUCED

An Act relating to public retirement systems; amending 11 O.S. 2001, Section 50-105.4, as last amended by Section 3, Chapter 536, O.S.L. 2004 (11 O.S. Supp. 2009, Section 50-105.4), which relates to the duties of the Oklahoma Police Pension and Retirement Board; requiring submission of annual report to the Legislative Service Bureau; amending 11 O.S. 2001, Section 49-100.9, as last amended by Section 12, Chapter 46, 2nd Extraordinary Session, O.S.L. 2006 (11 O.S. Supp. 2009, Section 49-100.9), which relates to the duties of the Oklahoma Firefighters Pension and Retirement Board; requiring submission of annual report to the Legislative Service Bureau; amending 20 O.S. 2001, Section 1108, as last amended by Section 11, Chapter 415, O.S.L. 2008 (20 O.S. Supp. 2009, Section 1108), which relates to the duties of the Board of Trustees of the Oklahoma Public Employees Retirement System with relation to management of the Uniform Retirement System for Justices and Judges; requiring submission of annual report to the Legislative Service Bureau; amending 47 O.S. 2001, Section 2-303.1, as last amended by Section 2, Chapter 142, O.S.L. 2005 (47 O.S. Supp. 2009, Section 2-303.1), which relates to the duties of the Oklahoma Law Enforcement Retirement Board; requiring submission of annual report to the Legislative Service Bureau; amending 70 O.S. 2001, Section 17-106.1, as last amended by Section 31, Chapter 46, 2nd Extraordinary Session, O.S.L. 2006 (70 O.S. Supp. 2009, Section 17-

106.1), which relates to the duties of the Board of Trustees of the Teachers' Retirement System of Oklahoma; requiring submission of annual report to the Legislative Service Bureau; amending 74 O.S. 2001, Section 909.1, as last amended by Section 8, Chapter 415, O.S.L. 2008 (74 O.S. Supp. 2009, Section 909.1), which relates to the duties of the Oklahoma Public Employees Retirement System Board of Trustees; requiring submission of annual report to the Legislative Service Bureau; providing an effective date; and declaring an emergency.

BE IT ENACTED BY THE PEOPLE OF THE STATE OF OKLAHOMA:

SECTION 1. AMENDATORY 11 O.S. 2001, Section 50-105.4, as last amended by Section 3, Chapter 536, O.S.L. 2004 (11 O.S. Supp. 2009, Section 50-105.4), is amended to read as follows:

Section 50-105.4 A. The Oklahoma Police Pension and Retirement Board shall discharge their duties with respect to the System solely in the interest of the participants and beneficiaries and:

1. For the exclusive purpose of:

a. providing benefits to participants and their beneficiaries, and

b. defraying reasonable expenses of administering the System;

2. With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;

3. By diversifying the investments of the System so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; and

4. In accordance with the laws, documents and instruments governing the System.

B. The State Board may procure insurance indemnifying the members of the State Board from personal loss or accountability from liability resulting from a member's action or inaction as a member of the State Board.

C. The State Board may establish an investment committee. The investment committee shall be composed of not more than five (5) members of the State Board appointed by the chairman of the State Board. The committee shall make recommendations to the full State Board on all matters related to the choice of custodians and managers of the assets of the System, on the establishment of investment and fund management guidelines, and in planning future investment policy. The committee shall have no authority to act on behalf of the State Board in any circumstances whatsoever. No recommendation of the committee shall have effect as an action of the State Board nor take effect without the approval of the State Board as provided by law.

D. The State Board shall retain qualified investment managers to provide for the investment of the monies of the System. The investment managers shall be chosen by a solicitation of proposals

on a competitive bid basis pursuant to standards set by the State Board unless the State Board deems it necessary and prudent to do otherwise to fulfill its fiduciary responsibility. Subject to the overall investment guidelines set by the State Board, the investment managers shall have full discretion in the management of those monies of the System allocated to the investment managers. The State Board shall manage those monies not specifically allocated to the investment managers. The monies of the System allocated to the investment managers shall be actively managed by the investment managers, which may include selling investments and realizing losses if such action is considered advantageous to longer term return maximization. Because of the total return objective, no distinction shall be made for management and performance evaluation purposes between realized and unrealized capital gains and losses.

E. Funds and revenues for investment by the investment managers or the State Board shall be placed with a custodian selected by the State Board. The custodian shall be a bank or trust company offering pension fund master trustee and master custodial services. The custodian shall be chosen by a solicitation of proposals on a competitive basis pursuant to standards set by the State Board. In compliance with the investment policy guidelines of the State Board, the custodian bank or trust company shall be contractually responsible for ensuring that all monies of the System are invested in income-producing investment vehicles at all times. If a

custodian bank or trust company has not received direction from the investment managers of the System as to the investment of the monies of the System in specific investment vehicles, the custodian bank or trust company shall be contractually responsible to the State Board for investing the monies in appropriately collateralized short-term interest-bearing investment vehicles.

F. By November 1, 1988, and prior to August 1 of each year thereafter, the State Board shall develop a written investment plan for the System.

G. After July 1 and before November 1 of each year, the State Board shall publish widely an annual report presented in simple and easily understood language pursuant to uniform reporting standards prescribed by the Oklahoma State Pension Commission for all state retirement systems. The report shall be submitted to the Governor, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, the Oklahoma State Pension Commission, the Legislative Service Bureau and the members of the System. The annual report shall cover the operation of the System during the past fiscal year, including income, disbursements, and the financial condition of the System at the end of the fiscal year. The annual report shall also contain a summary of the results of the most recent actuarial valuation to include total assets, total liabilities, unfunded liability or over funded status, contributions and any other information deemed relevant by the State Board. The

annual report shall be written in such a manner as to permit a readily understandable means for analyzing the financial condition and performances of the System for the fiscal year. In order to standardize the information and analysis of the financial condition of the System, the Board shall provide information regarding the financial and actuarial condition of the System using assumptions or requirements as hereinafter required for the report stating the condition of the System as of July 1, 2002, and for each subsequent reporting date, which information shall be contained in an appendix or addendum to the annual report. For purposes other than the reporting requirements contained in the appendix or addendum, all actuarial and economic assumptions shall be those assumptions adopted by the System in its annual actuarial valuation. The appendix or addendum shall contain a statement of the financial condition of the System:

1. Using an assumed rate of return of seven and one-half percent (7.5%), net of investment expenses, per annum, compounded annually;

2. Using an actuarial assumption regarding cost-of-living adjustments for the System of two percent (2%) annually;

3. That relies upon the use of appropriate preretirement, postretirement and disability retirement information using generational projections taken from the RP-2000 Mortality Tables, published by the Society of Actuaries;

4. Which accurately and completely summarizes all sources of system assets, other than employee contributions, which shall include, but not be limited to, the total of all employer contributions, any dedicated tax or fee revenue of whatever kind or however denominated, and the total amount of any other source of revenue which accrues to the System, other than return on investments, such as federal monies used for the purpose of making employer contributions; and

5. Using an assumption that the unfunded actuarial accrued liabilities of the System are amortized over a period of thirty (30) years, in a manner consistent with the Governmental Accounting Standards Board Statement Number 25.

H. The State Board shall adopt a cost of living adjustment actuarial assumption in its annual actuarial valuation report.

SECTION 2. AMENDATORY 11 O.S. 2001, Section 49-100.9, as last amended by Section 12, Chapter 46, 2nd Extraordinary Session, O.S.L. 2006 (11 O.S. Supp. 2009, Section 49-100.9), is amended to read as follows:

Section 49-100.9 A. The Oklahoma Firefighters Pension and Retirement Board shall discharge their duties with respect to the System solely in the interest of the participants and beneficiaries and:

1. For the exclusive purpose of:

a. providing benefits to participants and their beneficiaries, and

b. defraying reasonable expenses of administering the System;

2. With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;

3. By diversifying the investments of the System so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; and

4. In accordance with the laws, documents and instruments governing the System.

B. The State Board may procure insurance indemnifying the members of the State Board from personal loss or accountability from liability resulting from a member's action or inaction as a member of the State Board.

C. The State Board may establish an investment committee. The investment committee shall be composed of not more than five (5) members of the State Board appointed by the chairman of the State Board. The committee shall make recommendations to the full State Board on all matters related to the choice of custodians and managers of the assets of the System, on the establishment of investment and fund management guidelines, and in planning future

investment policy. The committee shall have no authority to act on behalf of the State Board in any circumstances whatsoever. No recommendation of the committee shall have effect as an action of the State Board nor take effect without the approval of the State Board as provided by law.

D. The Board shall retain qualified investment managers to provide for the investment of the monies of the System. The investment managers shall be chosen by a solicitation of proposals on a competitive bid basis pursuant to standards set by the State Board. Subject to the overall investment guidelines set by the State Board, the investment managers shall have full discretion in the management of those monies of the System allocated to the investment managers. The State Board shall manage those monies not specifically allocated to the investment managers. The monies of the System allocated to the investment managers shall be actively managed by the investment managers, which may include selling investments and realizing losses if such action is considered advantageous to longer term return maximization. Because of the total return objective, no distinction shall be made for management and performance evaluation purposes between realized and unrealized capital gains and losses.

E. Funds and revenues for investment by the investment managers or the State Board shall be placed with a custodian selected by the State Board. The custodian shall be a bank or trust company

offering pension fund master trustee and master custodial services. The custodian shall be chosen by a solicitation of proposals on a competitive bid basis pursuant to standards set by the State Board. In compliance with the investment policy guidelines of the State Board, the custodian bank or trust company shall be contractually responsible for ensuring that all monies of the System are invested in income-producing investment vehicles at all times. If a custodian bank or trust company has not received direction from the investment managers of the System as to the investment of the monies of the System in specific investment vehicles, the custodian bank or trust company shall be contractually responsible to the State Board for investing the monies in appropriately collateralized short-term interest-bearing investment vehicles.

F. By November 1, 1988, and prior to August 1 of each year thereafter, the State Board shall develop a written investment plan for the System.

G. The State Board shall compile a quarterly financial report of all the funds of the System on a fiscal year basis. The report shall be compiled pursuant to uniform reporting standards prescribed by the Oklahoma State Pension Commission for all state retirement systems. The report shall include several relevant measures of investment value, including acquisition cost and current fair market value with appropriate summaries of total holdings and returns. The report shall contain combined and individual rate of returns of the

investment managers by category of investment, over periods of time. The State Board shall include in the quarterly reports all commissions, fees or payments for investment services performed on behalf of the State Board. The report shall be distributed to the Governor, the Oklahoma State Pension Commission, the Legislative Service Bureau, the Speaker of the House of Representatives and the President Pro Tempore of the Senate.

H. After July 1 and before December 1 of each year, the State Board shall publish widely an annual report presented in simple and easily understood language pursuant to uniform reporting standards prescribed by the Oklahoma State Pension Commission for all state retirement systems. The report shall be submitted to the Governor, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, the Oklahoma State Pension Commission, the Legislative Service Bureau and the members of the System. The annual report shall cover the operation of the System during the past fiscal year, including income, disbursements, and the financial condition of the System at the end of the fiscal year. The annual report shall also contain the information issued in the quarterly reports required pursuant to subsection G of this section as well as a summary of the results of the most recent actuarial valuation to include total assets, total liabilities, unfunded liability or over funded status, contributions and any other information deemed relevant by the State Board. The annual report shall be written in

such a manner as to permit a readily understandable means for analyzing the financial condition and performance of the System for the fiscal year. In order to standardize the information and analysis of the financial condition of the System, the Board shall provide information regarding the financial and actuarial condition of the System using assumptions or requirements as hereinafter required for the report stating the condition of the System as of July 1, 2002, and for each subsequent reporting date, which information shall be contained in an appendix or addendum to the annual report. For purposes other than the reporting requirements contained in the appendix or addendum, all actuarial and economic assumptions shall be those assumptions adopted by the System in its annual actuarial valuation. The appendix or addendum shall contain a statement of the financial condition of the System:

1. Using an assumed rate of return of seven and one-half percent (7.5%), net of investment expenses, per annum, compounded annually;

2. Using an actuarial assumption regarding cost-of-living adjustments for the System of two percent (2%) annually;

3. That relies upon the use of appropriate preretirement, postretirement and disability retirement information using generational projections taken from the RP-2000 Mortality Tables, published by the Society of Actuaries;

4. Which accurately and completely summarizes all sources of system assets, other than employee contributions, which shall include, but not be limited to, the total of all employer contributions, any dedicated tax or fee revenue of whatever kind or however denominated, and the total amount of any other source of revenue which accrues to the System, other than return on investments, such as federal monies used for the purpose of making employer contributions; and

5. Using an assumption that the unfunded actuarial accrued liabilities of the System are amortized over a period of thirty (30) years, in a manner consistent with the Governmental Accounting Standards Board Statement Number 25.

I. Effective July 1, 2000, the State Board is hereby authorized to do all acts and things necessary and proper to carry out the purpose of the System and to make the least costly amendments and changes, if any, as may be necessary to qualify the System under the applicable sections of the Internal Revenue Code of 1986, as amended.

SECTION 3. AMENDATORY 20 O.S. 2001, Section 1108, as last amended by Section 11, Chapter 415, O.S.L. 2008 (20 O.S. Supp. 2009, Section 1108), is amended to read as follows:

Section 1108. A. The Board of Trustees of the Oklahoma Public Employees Retirement System shall have the responsibility for management of the Uniform Retirement System for Justices and Judges

and the State Judicial Retirement Fund. All benefits payable under The Uniform Retirement System for Justices and Judges, refunds of contributions and overpayments, purchases or investments under the law, and all expenses in connection with the System shall be paid from the Oklahoma Judicial Retirement Fund. The State Judicial Retirement Fund shall be invested and managed in the same manner as now or hereinafter provided by law for the investment and management of funds belonging to the Oklahoma Public Employees Retirement System. The Uniform Retirement System for Justices and Judges shall be an instrumentality of the State of Oklahoma. The System shall be vested with the powers and duties specified in this act and such other powers as may be necessary to enable it, its officers, employees, and agents to carry out fully and effectively the purposes and intent of this act.

1. The Board shall distribute the corpus and income of the System to the members and their beneficiaries in accordance with the System's law. At no time prior to the satisfaction of all liabilities with respect to members and their beneficiaries shall any part of the corpus and income be used for, or diverted to, purposes other than the exclusive benefit of the members and their beneficiaries.

2. The Board may not engage in a transaction prohibited by Section 503(b) of the federal Internal Revenue Code.

3. The Board shall be responsible for the policies and rules for the general administration of the System, subject to the provisions of this act. Except as specifically provided in this act, the Uniform Retirement System for Justices and Judges shall generally be managed in the same manner as now or hereinafter provided by law or by rule for the management of the Oklahoma Public Employees Retirement System.

4. The Board shall establish rules for the administration of the System and for the transaction of its business consistent with law, which rules shall be promulgated in compliance with the Administrative Procedures Act.

5. The Board may adopt all necessary actuarial tables to be used in the operation of the System as recommended by the actuary and may compile such additional data as may be necessary for required actuarial valuation calculations.

6. All decisions of the Board as to questions of fact shall be final and conclusive on all persons except for the right of review as provided by law and except for fraud or such gross mistake of fact as to have effect equivalent to fraud.

7. Any person who shall knowingly make any false statement, or who shall falsify or permit to be falsified any record necessary for carrying out the intent of this act for the purpose of committing fraud, shall be guilty of a misdemeanor, and upon conviction shall be punished by a fine not exceeding Five Hundred Dollars ($500.00)

or by imprisonment for not exceeding one (1) year. Should any error in any records of the Uniform Retirement System for Justices and Judges result in any member or beneficiary receiving more or less than he or she would have been entitled to receive had the records been correct, the Board shall correct such error, and, as far as practicable, make future payments in such manner that the actuarial equivalent of the benefit to which such member or beneficiary was entitled shall be paid, and to this end, may recover any overpayments.

B. The Board of Trustees of the Oklahoma Public Employees Retirement System shall compile a quarterly financial report of all the funds of the State Judicial Retirement Fund on a fiscal year basis. The report shall be compiled pursuant to uniform reporting standards prescribed by the Oklahoma State Pension Commission for all state retirement systems. The report shall include several relevant measures of investment value, including acquisition cost and current fair market value with appropriate summaries of total holdings and returns. The report shall contain combined and individual rate of returns of the investment managers by category of investment, over periods of time. The Board of Trustees shall include in the quarterly reports all commissions, fees or payments for investment services performed on behalf of the Board of Trustees with respect to the State Judicial Retirement Fund. The report shall be distributed to the Governor, the Oklahoma State Pension

Commission, the Legislative Service Bureau, the Speaker of the House of Representatives and the President Pro Tempore of the Senate. In lieu of compiling and distributing the quarterly report, the Board may provide the Pension Commission with direct access to the same data from the custodian bank for the System.

C. There is hereby created the Retirement Medical Benefit Fund. The fund shall be maintained as a subaccount of the State Judicial Retirement Fund. The Retirement Medical Benefit Fund is composed of all assets which may be contributed to this subaccount to pay the retirement system's portion of the monthly retiree health insurance premium benefit described by Section 1316.2 of Title 74 of the Oklahoma Statutes. All such allocated assets and any earnings thereon in the Retirement Medical Benefit Fund shall be held for the exclusive purpose of providing retiree medical benefits. The Retirement Medical Benefit Fund is to be administered in accordance with the requirements of Section 401(h) of the Internal Revenue Code of 1986, as amended from time to time. The Board of Trustees may promulgate such rules as are necessary to implement the funding and administration of the fund pursuant to the provisions of this subsection.

D. After July 1 and before December 1 of each year, the Board of Trustees of the Oklahoma Public Employees Retirement System shall publish widely an annual report presented in simple and easily understood language pursuant to uniform reporting standards

prescribed by the Oklahoma State Pension Commission for all state retirement systems. The report shall be submitted to the Governor, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, the Oklahoma State Pension Commission, the Legislative Service Bureau and the members of the System. The annual report shall cover the operation of the System during the past fiscal year, including income, disbursements, and the financial condition of the System at the end of the fiscal year. The annual report shall also contain the information issued in the quarterly reports required pursuant to subsection B of this section as well as a summary of the results of the most recent actuarial valuation to include total assets, total liabilities, unfunded liability or overfunded status, contributions and any other information deemed relevant by the Board of Trustees. The annual report shall be written in such a manner as to permit a readily understandable means for analyzing the financial condition and performance of the System for the fiscal year. In order to standardize the information and analysis of the financial condition of the System, the Board shall provide information regarding the financial and actuarial condition of the System using assumptions or requirements as hereinafter required for the report stating the condition of the System as of July 1, 2002, and for each subsequent reporting date, which information shall be contained in an appendix or addendum to the annual report. For purposes other than the reporting requirements

contained in the appendix or addendum, all actuarial and economic assumptions shall be those assumptions adopted by the System in its annual actuarial valuation. The appendix or addendum shall contain a statement of the financial condition of the System:

1. Using an assumed rate of return of seven and one-half percent (7.5%), net of investment expenses, per annum, compounded annually;

2. Using an actuarial assumption regarding cost-of-living adjustments for the System of two percent (2%) annually;

3. That relies upon the use of appropriate preretirement, postretirement and disability retirement information using generational projections taken from the RP-2000 Mortality Tables, published by the Society of Actuaries;

4. Which accurately and completely summarizes all sources of system assets, other than employee contributions, which shall include, but not be limited to, the total of all employer contributions, any dedicated tax or fee revenue of whatever kind or however denominated, and the total amount of any other source of revenue which accrues to the System, other than return on investments, such as federal monies used for the purpose of making employer contributions; and

5. Using an assumption that the unfunded actuarial accrued liabilities of the System are amortized over a period of thirty (30)

years, in a manner consistent with the Governmental Accounting Standards Board Statement Number 25.

E. The Board shall adopt a cost of living adjustment actuarial assumption in its annual actuarial valuation report.

SECTION 4. AMENDATORY 47 O.S. 2001, Section 2-303.1, as last amended by Section 2, Chapter 142, O.S.L. 2005 (47 O.S. Supp. 2009, Section 2-303.1), is amended to read as follows:

Section 2-303.1 A. The Oklahoma Law Enforcement Retirement Board shall discharge its duties with respect to the System solely in the interest of the participants and beneficiaries and:

1. For the exclusive purpose of:

a. providing benefits to participants and their beneficiaries, and

b. defraying reasonable expenses of administering the System;

2. With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;

3. By diversifying the investments of the System so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; and

4. In accordance with the laws, documents and instruments governing the System.

B. The Board may procure insurance indemnifying the members of the Board from personal loss or accountability from liability resulting from a member's action or inaction as a member of the Board.

C. The Board may establish an investment committee. The investment committee shall be composed of not more than five (5) members of the Board appointed by the president of the Board. The committee shall make recommendations to the full Board on all matters related to the choice of custodians and managers of the assets of the System, on the establishment of investment and fund management guidelines, and in planning future investment policy. The committee shall have no authority to act on behalf of the Board in any circumstances whatsoever. No recommendation of the committee shall have effect as an action of the Board nor take effect without the approval of the Board as provided by law.

D. The Board shall retain qualified investment managers to provide for the investment of the monies of the System. The investment managers shall be chosen by a solicitation of proposals on a competitive bid basis pursuant to standards set by the Board. Subject to the overall investment guidelines set by the Board, the investment managers shall have full discretion in the management of those monies of the System allocated to the investment managers. The Board shall manage those monies not specifically allocated to the investment managers. The monies of the System allocated to the

investment managers shall be actively managed by the investment managers, which may include selling investments and realizing losses if such action is considered advantageous to longer term return maximization. Because of the total return objective, no distinction shall be made for management and performance evaluation purposes between realized and unrealized capital gains and losses.

E. All assets of the System shall be held in trust for the exclusive purpose of providing benefits for the members and beneficiaries of the System, including defraying reasonable expenses of administering the System, and shall not be encumbered for or diverted to any other purposes. Funds and revenues for investment by the investment managers or the Board shall be placed with a custodian selected by the Board. The custodian shall be a bank or trust company offering pension fund master trustee and master custodial services. The custodian shall be chosen by a solicitation of proposals on a competitive bid basis pursuant to standards set by the Board. In compliance with the investment policy guidelines of the Board, the custodian bank or trust company shall be contractually responsible for ensuring that all monies of the System are invested in income-producing investment vehicles at all times. If a custodian bank or trust company has not received direction from the investment managers of the System as to the investment of the monies of the System in specific investment vehicles, the custodian bank or trust company shall be contractually responsible to the

Board for investing the monies in appropriately collateralized short-term interest-bearing investment vehicles.

F. Prior to August 1 of each year, the Board shall develop a written investment plan for the System.

G. The Board shall compile a quarterly financial report of all the funds of the System on a fiscal year basis. The report shall be compiled pursuant to uniform reporting standards prescribed by the Oklahoma State Pension Commission for all state retirement systems. The report shall include several relevant measures of investment value, including acquisition cost and current fair market value with appropriate summaries of total holdings and returns. The report shall contain combined and individual rate of returns of the investment managers by category of investment, over periods of time. The Board shall include in the quarterly reports all commissions, fees or payments for investment services performed on behalf of the Board. The report shall be distributed to the Governor, the Oklahoma State Pension Commission, the Legislative Service Bureau, the Speaker of the House of Representatives and the President Pro Tempore of the Senate.

H. After July 1 and before October 31 of each year, the Board shall publish widely an annual report presented in simple and easily understood language pursuant to uniform reporting standards prescribed by the Oklahoma State Pension Commission for all state retirement systems. The report shall be submitted to the Governor,

the Speaker of the House of Representatives, the President Pro Tempore of the Senate, the Oklahoma State Pension Commission, the Legislative Service Bureau and the members of the System. The annual report shall cover the operation of the System during the past fiscal year, including income, disbursements, and the financial condition of the System at the end of the fiscal year. The annual report shall also contain the information issued in the quarterly reports required pursuant to subsection G of this section as well as a summary of the results of the most recent actuarial valuation to include total assets, total liabilities, unfunded liability or over funded status, contributions and any other information deemed relevant by the Board. The annual report shall be written in such a manner as to permit a readily understandable means for analyzing the financial condition and performance of the System for the fiscal year. The annual financial statements must be audited and filed in accordance with the requirements set forth for financial statement audits in Section 212A of Title 74 of the Oklahoma Statutes. In order to standardize the information and analysis of the financial condition of the System, the Board shall provide information regarding the financial and actuarial condition of the System using assumptions or requirements as hereinafter required for the report stating the condition of the System as of July 1, 2002, and for each subsequent reporting date, which information shall be contained in an appendix or addendum to the annual report. For purposes other

than the reporting requirements contained in the appendix or addendum, all actuarial and economic assumptions shall be those assumptions adopted by the System in its annual actuarial valuation. The appendix or addendum shall contain a statement of the financial condition of the System:

1. Using an assumed rate of return of seven and one-half percent (7.5%), net of investment expenses, per annum, compounded annually;

2. Using an actuarial assumption regarding cost-of-living adjustments for the System of two percent (2%) annually;

3. That relies upon the use of appropriate preretirement, postretirement and disability retirement information using generational projections taken from the RP-2000 Mortality Tables, published by the Society of Actuaries;

4. Which accurately and completely summarizes all sources of system assets, other than employee contributions, which shall include, but not be limited to, the total of all employer contributions, any dedicated tax or fee revenue of whatever kind or however denominated, and the total amount of any other source of revenue which accrues to the System, other than return on investments, such as federal monies used for the purpose of making employer contributions; and

5. Using an assumption that the unfunded actuarial accrued liabilities of the System are amortized over a period of thirty (30)

years, in a manner consistent with the Governmental Accounting Standards Board Statement Number 25.

I. The Board may retain an attorney licensed to practice law in this state. The attorney shall serve at the pleasure of the Board for such compensation as set by the Board. The Attorney General shall furnish such legal services as may be requested by the Board.

J. All information, documents and copies thereof contained in a member's retirement file shall be given confidential treatment and shall not be made public by the System without the prior written consent of the member to which it pertains, but shall be subject only to court order. Provided, the System, its employees or attorneys, may use such records in defense of any action brought against the System.

K. Effective July 1, 1999, the Board is hereby authorized to do all acts and things necessary and proper to carry out the purpose of the System and to make the least costly amendments and changes, if any, as may be necessary to qualify the System under the applicable sections of the Internal Revenue Code of 1986, as amended.

L. The Board shall adopt a cost of living adjustment actuarial assumption in its annual actuarial valuation report.

M. The Executive Director and such employees of the System as the Executive Director may designate are hereby authorized to prepare certified copies of records of the System and every such

certified copy shall be admissible in any proceeding in any court in like manner as the original thereof.

SECTION 5. AMENDATORY 70 O.S. 2001, Section 17-106.1, as last amended by Section 31, Chapter 46, 2nd Extraordinary Session, O.S.L. 2006 (70 O.S. Supp. 2009, Section 17-106.1), is amended to read as follows:

Section 17-106.1 A. The Board of Trustees of the Teachers' Retirement System of Oklahoma shall discharge their duties with respect to the System solely in the interest of the participants and beneficiaries and:

1. For the exclusive purpose of:

a. providing benefits to participants and their beneficiaries, and

b. defraying reasonable expenses of administering the System;

2. With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;

3. By diversifying the investments of the System so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; and

4. In accordance with the laws, documents and instruments governing the System.

B. The Board of Trustees may procure insurance indemnifying the members of the Board of Trustees from personal loss or accountability from liability resulting from a member's action or inaction as a member of the Board.

C. The Board of Trustees may establish an investment committee. The investment committee shall be composed of not more than five (5) members of the Board of Trustees appointed by the chairman of the Board of Trustees. The committee shall make recommendations to the full Board of Trustees on all matters related to the choice of custodians and managers of the assets of the System, on the establishment of investment and fund management guidelines, and in planning future investment policy. The committee shall have no authority to act on behalf of the Board of Trustees in any circumstances whatsoever. No recommendation of the committee shall have effect as an action of the Board of Trustees nor take effect without the approval of the Board of Trustees as provided by law.

D. The Board of Trustees may retain qualified investment managers to provide for the investment of the monies of the System. The investment managers shall be chosen by a solicitation of proposals on a competitive bid basis pursuant to standards set by the Board of Trustees. Subject to the overall investment guidelines set by the Board of Trustees, the investment managers shall have full discretion in the management of those monies of the System allocated to the investment managers. The Board of Trustees shall

manage those monies not specifically allocated to the investment managers. The monies of the System allocated to the investment managers shall be actively managed by the investment managers, which may include selling investments and realizing losses if such action is considered advantageous to longer term return maximization. Because of the total return objective, no distinction shall be made for management and performance evaluation purposes between realized and unrealized capital gains and losses.

E. Funds and revenues for investment by the investment managers or the Board of Trustees shall be placed with a custodian selected by the Board of Trustees. The custodian shall be a bank or trust company offering pension fund master trustee and master custodial services. The custodian shall be chosen by a solicitation of proposals on a competitive bid basis pursuant to standards set by the Board of Trustees. In compliance with the investment policy guidelines of the Board of Trustees, the custodian bank or trust company shall be contractually responsible for ensuring that all monies of the System are invested in income-producing investment vehicles at all times. If a custodian bank or trust company has not received direction from the investment managers of the System as to the investment of the monies of the System in specific investment vehicles, the custodian bank or trust company shall be contractually responsible to the Board of Trustees for investing the monies in

appropriately collateralized short-term interest-bearing investment vehicles.

F. By November 1, 1988, and prior to August 1 of each year thereafter, the Board of Trustees shall develop a written investment plan for the System.

G. The Board of Trustees shall compile a quarterly financial report of all the funds of the System on a fiscal year basis. The report shall be compiled pursuant to uniform reporting standards prescribed by the Oklahoma State Pension Commission for all state retirement systems. The report shall include several relevant measures of investment value, including acquisition cost and current fair market value with appropriate summaries of total holdings and returns. The report shall contain combined and individual rate of returns of the investment managers by category of investment, over periods of time. The Board of Trustees shall include in the quarterly reports all commissions, fees or payments for investment services performed on behalf of the Board. The report shall be distributed to the Governor, the Oklahoma State Pension Commission, the Legislative Service Bureau, the Speaker of the House of Representatives and the President Pro Tempore of the Senate.

H. After July 1 and before December 1 of each year, the Board of Trustees shall publish widely an annual report presented in simple and easily understood language pursuant to uniform reporting standards prescribed by the Oklahoma State Pension Commission for

all state retirement systems. The report shall be submitted to the Governor, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, the Oklahoma State Pension Commission, the Legislative Service Bureau and the members of the System. The annual report shall cover the operation of the System during the past fiscal year, including income, disbursements, and the financial condition of the System at the end of the fiscal year. The annual report shall also contain the information issued in the quarterly reports required pursuant to subsection G of this section as well as a summary of the results of the most recent actuarial valuation to include total assets, total liabilities, unfunded liability or over funded status, contributions and any other information deemed relevant by the Board of Trustees. The annual report shall be written in such a manner as to permit a readily understandable means for analyzing the financial condition and performance of the System for the fiscal year. In order to standardize the information and analysis of the financial condition of the System, the Board shall provide information regarding the financial and actuarial condition of the System using assumptions or requirements as hereinafter required for the report stating the condition of the System as of July 1, 2002, and for each subsequent reporting date, which information shall be contained in an appendix or addendum to the annual report. For purposes other than the reporting requirements contained in the appendix or addendum, all actuarial and economic

assumptions shall be those assumptions adopted by the System in its annual actuarial valuation. The appendix or addendum shall contain a statement of the financial condition of the System:

1. Using an assumed rate of return of seven and one-half percent (7.5%), net of investment expenses, per annum, compounded annually;

2. Using an actuarial assumption regarding cost-of-living adjustments for the System of two percent (2%) annually;

3. That relies upon the use of appropriate preretirement, postretirement and disability retirement information using generational projections taken from the RP-2000 Mortality Tables, published by the Society of Actuaries;

4. Which accurately and completely summarizes all sources of system assets, other than employee contributions, which shall include, but not be limited to, the total of all employer contributions, any dedicated tax or fee revenue of whatever kind or however denominated, and the total amount of any other source of revenue which accrues to the System, other than return on investments, such as federal monies used for the purpose of making employer contributions; and

5. Using an assumption that the unfunded actuarial accrued liabilities of the System are amortized over a period of thirty (30) years, in a manner consistent with the Governmental Accounting Standards Board Statement Number 25.

I. The Board of Trustees shall adopt a cost of living adjustment actuarial assumption in its annual actuarial valuation report.

SECTION 6. AMENDATORY 74 O.S. 2001, Section 909.1, as last amended by Section 8, Chapter 415, O.S.L. 2008 (74 O.S. Supp. 2009, Section 909.1), is amended to read as follows:

Section 909.1 A. The Oklahoma Public Employees Retirement System Board of Trustees shall discharge their duties with respect to the System solely in the interest of the participants and beneficiaries and:

1. For the exclusive purpose of:

a. providing benefits to participants and their beneficiaries, and

b. defraying reasonable expenses of administering the System;

2. With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;

3. By diversifying the investments of the System so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; and

4. In accordance with the laws, documents and instruments governing the System.

B. The Board of Trustees may procure insurance indemnifying the members of the Board of Trustees from personal loss or accountability from liability resulting from a member's action or inaction as a member of the Board of Trustees.

C. The Board of Trustees may establish an investment committee. The investment committee shall be composed of not more than five (5) members of the Board of Trustees appointed by the chairman of the Board of Trustees. The committee shall make recommendations to the full Board of Trustees on all matters related to the choice of custodians and managers of the assets of the System, on the establishment of investment and fund management guidelines, and in planning future investment policy. The committee shall have no authority to act on behalf of the Board of Trustees in any circumstances whatsoever. No recommendation of the committee shall have effect as an action of the Board of Trustees nor take effect without the approval of the Board of Trustees as provided by law.

D. The Board of Trustees shall retain qualified investment managers to provide for the investment of the monies of the System. The investment managers shall be chosen by a solicitation of proposals on a competitive bid basis pursuant to standards set by the Board of Trustees. Subject to the overall investment guidelines set by the Board of Trustees, the investment managers shall have full discretion in the management of those monies of the System allocated to the investment managers. The Board of Trustees shall

manage those monies not specifically allocated to the investment managers. The monies of the System allocated to the investment managers shall be actively managed by the investment managers, which may include selling investments and realizing losses if such action is considered advantageous to longer term return maximization. Because of the total return objective, no distinction shall be made for management and performance evaluation purposes between realized and unrealized capital gains and losses.

E. Funds and revenues for investment by the investment managers or the Board of Trustees shall be placed with a custodian selected by the Board of Trustees. The custodian shall be a bank or trust company offering pension fund master trustee and master custodial services. The custodian shall be chosen by a solicitation of proposals on a competitive basis pursuant to standards set by the Board of Trustees. In compliance with the investment policy guidelines of the Board of Trustees, the custodian bank or trust company shall be contractually responsible for ensuring that all monies of the System are invested in income-producing investment vehicles at all times. If a custodian bank or trust company has not received direction from the investment managers of the System as to the investment of the monies of the System in specific investment vehicles, the custodian bank or trust company shall be contractually responsible to the Board of Trustees for investing the monies in

appropriately collateralized short-term interest-bearing investment vehicles.

F. By November 1, 1988, and prior to August 1 of each year thereafter, the Board of Trustees shall develop a written investment plan for the System.

G. The Board of Trustees shall compile a quarterly financial report of all the funds of the System on a fiscal year basis. The report shall be compiled pursuant to uniform reporting standards prescribed by the Oklahoma State Pension Commission for all state retirement systems. The report shall include several relevant measures of investment value, including acquisition cost and current fair market value with appropriate summaries of total holdings and returns. The report shall contain combined and individual rate of returns of the investment managers by category of investment, over periods of time. The Board of Trustees shall include in the quarterly reports all commissions, fees or payments for investment services performed on behalf of the Board. The report shall be distributed to the Governor, the Oklahoma State Pension Commission, the Legislative Service Bureau, the Speaker of the House of Representatives and the President Pro Tempore of the Senate. In lieu of compiling and distributing the quarterly report, the Board may provide the Pension Commission with direct access to the same data from the custodian bank for the System.

H. After July 1 and before December 1 of each year, the Board of Trustees shall publish widely an annual report presented in simple and easily understood language pursuant to uniform reporting standards prescribed by the Oklahoma State Pension Commission for all state retirement systems. The report shall be submitted to the Governor, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, the Oklahoma State Pension Commission, the Legislative Service Bureau and the members of the System. The annual report shall cover the operation of the System during the past fiscal year, including income, disbursements, and the financial condition of the System at the end of the fiscal year. The annual report shall also contain the information issued in the quarterly reports required pursuant to subsection G of this section as well as a summary of the results of the most recent actuarial valuation to include total assets, total liabilities, unfunded liability or over funded status, contributions and any other information deemed relevant by the Board of Trustees. The annual report shall be written in such a manner as to permit a readily understandable means for analyzing the financial condition and performance of the System for the fiscal year. In order to standardize the information and analysis of the financial condition of the System, the Board shall provide information regarding the financial and actuarial condition of the System using assumptions or requirements as hereinafter required for the report stating the condition of the System as of

July 1, 2002, and for each subsequent reporting date, which information shall be contained in an appendix or addendum to the annual report. For purposes other than the reporting requirements contained in the appendix or addendum, all actuarial and economic assumptions shall be those assumptions adopted by the System in its annual actuarial valuation. The appendix or addendum shall contain a statement of the financial condition of the System:

1. Using an assumed rate of return of seven and one-half percent (7.5%), net of investment expenses, per annum, compounded annually;

2. Using an actuarial assumption regarding cost-of-living adjustments for the System of two percent (2%) annually;

3. That relies upon the use of appropriate preretirement, postretirement and disability retirement information using generational projections taken from the RP-2000 Mortality Tables, published by the Society of Actuaries;

4. Which accurately and completely summarizes all sources of system assets, other than employee contributions, which shall include, but not be limited to, the total of all employer contributions, any dedicated tax or fee revenue of whatever kind or however denominated, and the total amount of any other source of revenue which accrues to the System, other than return on investments, such as federal monies used for the purpose of making employer contributions; and

5. Using an assumption that the unfunded actuarial accrued liabilities of the System are amortized over a period of thirty (30) years, in a manner consistent with the Governmental Accounting Standards Board Statement Number 25.

I. The Board shall distribute the corpus and income of the System to the members and their beneficiaries in accordance with the System's laws and rules and regulations. At no time prior to the satisfaction of all liabilities with respect to members and their beneficiaries shall any part of the corpus and income be used for, or diverted to, purposes other than the exclusive benefit of the members and their beneficiaries.

J. The Board of Trustees shall adopt a cost of living adjustment actuarial assumption in its annual actuarial valuation report.

SECTION 7. This act shall become effective July 1, 2010.

SECTION 8. It being immediately necessary for the preservation of the public peace, health and safety, an emergency is hereby declared to exist, by reason whereof this act shall take effect and be in full force from and after its passage and approval.

52-2-9407 JM 01/04/10

THOMAS E. CUMMINS CONSULTING ACTUARY, INC.
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January 5, 2010

Representative Miller
Room 432-D

Representative S. Martin
Room 335

Re: RBH No. 9407

RBH No. 9407 adds the Legislative Service Bureau as a recipient of Summary Report each state retirement must provide. Currently the report is filed with the Speaker of the House, Pro Tempore of the Senate, and the Oklahoma State Pension Commission.

RBH No. 9407 is a nonfiscal retirement bill as defined by the Oklahoma Pension Legislation Actuarial Analysis Act.

Thomas E. Cummins

Thomas E. Cummins, MAAA