

1 ENGROSSED SENATE
2 BILL NO. 377

By: Mazzei of the Senate

and

McDaniel (Randy) of the
House

7 An Act relating to Board of Trustees of the Teachers'
8 Retirement System of Oklahoma; amending 70 O.S. 2001,
9 Section 17-106.1, as last amended by Section 31,
10 Chapter 46, 2nd Extraordinary Session, O.S.L. 2006
11 (70 O.S. Supp. 2010, Section 17-106.1), which relates
12 to duties of the Board of Trustees; requiring the
13 Board of Trustees to establish certain committee; and
14 providing an effective date.

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

15 SECTION 1. AMENDATORY 70 O.S. 2001, Section 17-106.1, as
16 last amended by Section 31, Chapter 46, 2nd Extraordinary Session,
17 O.S.L. 2006 (70 O.S. Supp. 2010, Section 17-106.1), is amended to
18 read as follows:

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

- 23 1. For the exclusive purpose of:

- 1 a. providing benefits to participants and their
2 beneficiaries, and
3 b. defraying reasonable expenses of administering the
4 System;

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

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

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

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

18 C. The Board of Trustees ~~may~~ shall establish an investment
19 committee. The investment committee shall be composed of not more
20 than five (5) members of the Board of Trustees appointed by the
21 chairman of the Board of Trustees. The committee shall make
22 recommendations to the full Board of Trustees on all matters related
23 to the choice of custodians and managers of the assets of the
24 System, on the establishment of investment and fund management

1 guidelines, and in planning future investment policy. The committee
2 shall have no authority to act on behalf of the Board of Trustees in
3 any circumstances whatsoever. No recommendation of the committee
4 shall have effect as an action of the Board of Trustees nor take
5 effect without the approval of the Board of Trustees as provided by
6 law.

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

23 E. Funds and revenues for investment by the investment managers
24 or the Board of Trustees shall be placed with a custodian selected

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

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

19 G. The Board of Trustees shall compile a quarterly financial
20 report of all the funds of the System on a fiscal year basis. The
21 report shall be compiled pursuant to uniform reporting standards
22 prescribed by the Oklahoma State Pension Commission for all state
23 retirement systems. The report shall include several relevant
24 measures of investment value, including acquisition cost and current

1 fair market value with appropriate summaries of total holdings and
2 returns. The report shall contain combined and individual rate of
3 returns of the investment managers by category of investment, over
4 periods of time. The Board of Trustees shall include in the
5 quarterly reports all commissions, fees or payments for investment
6 services performed on behalf of the Board. The report shall be
7 distributed to the Governor, the Oklahoma State Pension Commission,
8 the Legislative Service Bureau, the Speaker of the House of
9 Representatives and the President Pro Tempore of the Senate.

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

1 and any other information deemed relevant by the Board of Trustees.
2 The annual report shall be written in such a manner as to permit a
3 readily understandable means for analyzing the financial condition
4 and performance of the System for the fiscal year. In order to
5 standardize the information and analysis of the financial condition
6 of the System, the Board shall provide information regarding the
7 financial and actuarial condition of the System using assumptions or
8 requirements as hereinafter required for the report stating the
9 condition of the System as of July 1, 2002, and for each subsequent
10 reporting date, which information shall be contained in an appendix
11 or addendum to the annual report. For purposes other than the
12 reporting requirements contained in the appendix or addendum, all
13 actuarial and economic assumptions shall be those assumptions
14 adopted by the System in its annual actuarial valuation. The
15 appendix or addendum shall contain a statement of the financial
16 condition of the System:

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

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

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

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

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

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

18 SECTION 2. This act shall become effective November 1, 2011.
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1 Passed the Senate the 28th day of February, 2011.

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3 _____
4 Presiding Officer of the Senate

5 Passed the House of Representatives the ____ day of _____,
6 2011.

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8 _____
9 Presiding Officer of the House
10 of Representatives