

October 7, 2014

Board of Trustees  
Teachers' Retirement System of Oklahoma  
Oliver Hodge Education Building  
2500 N. Lincoln Boulevard, 5th Floor  
Oklahoma City, Oklahoma 73105

**Subject: GASB 67 Reporting and Disclosure Information for Fiscal Year Ending  
June 30, 2014**

Dear Members of the Board:

This report provides information required by the Teachers' Retirement System of Oklahoma (OTRS) in connection with the Governmental Accounting Standards Board (GASB) Statement No. 67, "Financial Reporting for Pension Plans." The information provided herein was prepared for the purpose of assisting OTRS in the compliance with the financial reporting and disclosure requirements of GASB No. 67.

The calculation of the liability associated with the benefits referenced in this report was performed for the purpose of satisfying the requirements of GASB No. 67 and is not applicable for purposes of funding the plan. A calculation of the plan's liability for other purposes may produce significantly different results. This report may be provided to parties other than OTRS only in its entirety and only with the permission of OTRS.

The total pension liability, net pension liability, and certain sensitivity information shown in this report are based on an actuarial valuation performed as of June 30, 2014. It is our opinion that the recommended assumptions are internally consistent, reasonable, and comply with the requirements under GASB No. 67.

This report is based upon information, furnished to us by OTRS, which includes benefit provisions, membership information, and financial data. We did not audit this data and information, but we did apply a number of tests and concluded that it was reasonable and consistent. GRS is not responsible for the accuracy or completeness of the information provided to us by OTRS.

Certain tables included in the Required Supplementary Information should include a 10-year history of information. As provided for in GASB No. 67, this historical information is only presented for the years in which the information was measured in conformity with the requirements of GASB No. 67. The historical information in this report will begin with the information presented for the fiscal year ending June 30, 2014.

This report complements the actuarial valuation report as of June 30, 2014, provided for plan funding purposes, which was also provided to OTRS and they should be considered together as a complete report for the plan year ending June 30, 2014. Please see the actuarial valuation report as of

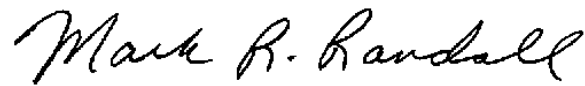
June 30, 2014 for additional discussion of the actuarial valuation, including the nature of actuarial calculations and more information related to participant data, economic and demographic assumptions, and benefit provisions.

To the best of our knowledge, this report is complete and accurate and is in accordance with generally recognized actuarial practices and methods. Mr. Falls and Mr. Randall are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Respectfully submitted,  
**Gabriel, Roeder, Smith & Company**



R. Ryan Falls, FSA, FCA, MAAA, EA  
Senior Consultant



Mark R. Randall, FCA, EA, MAAA  
Executive Vice President

## Summary of Population Statistics

The total pension liability described in this report is based on the plan membership as of June 30, 2014:

Inactive Plan Members or Beneficiaries Currently Receiving Benefits	56,389
Inactive Plan Members Entitled to But Not Yet Receiving Benefits*	20,439
Active Plan Members	89,570
Total Plan Members	<u>166,398</u>

\* Includes 9,735 nonvested terminated members entitled to a refund of their member contributions.

## Measurement of the Net Pension Liability

The net pension liability is measured as the total pension liability, less the amount of the plan's fiduciary net position. In actuarial terms, this is analogous to the accrued liability as measured using the individual entry age normal actuarial cost method less the market value of assets (not the smoothed actuarial value of assets seen in our actuarial valuations based on the Board's adopted assumptions and methods).

A single discount rate of 8.00% was used to measure the total pension liability as of June 30, 2013 and June 30, 2014. This single discount rate was based solely on the expected rate of return on pension plan investments of 8.00%. Based on the stated assumptions and the projection of cash flows, the pension plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The projection of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payroll. The projection of cash flows also assumed that the State's contribution plus the matching contributions will remain a constant percent of projected member payroll based on the past five years of actual contributions.

## Sensitivity of the Net Pension Liability to the Single Discount Rate Assumption

The following table provides the sensitivity of the net pension liability to changes in the discount rate as of June 30, 2014. In particular, the table presents the plan's net pension liability, if it were calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the single discount rate:

	Current Single Rate		
	1% Decrease	Assumption	1% Increase
	7.00%	8.00%	9.00%
\$	7,610,368,171	\$ 5,417,137,823	\$ 3,565,976,493

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
AS OF JUNE 30, 2014**

<b>Fiscal Year</b>	<b>2014</b>
<b>Additions</b>	
Contributions	
Member contributions, including state credit	\$ 301,300,811
Grant matching funds	24,352,831
State contribution	295,804,717
Employer/district contributions	386,895,127
<b>Total Contributions</b>	<u>\$ 1,008,353,486</u>
Investment Income	
Interest, dividends, and other income	\$ 365,572,440
Net realized and unrealized gains	2,255,051,791
Investment expenses	(48,916,279)
<b>Net Investment Income</b>	<u>\$ 2,571,707,952</u>
<b>Total Additions</b>	<b>\$ 3,580,061,438</b>
<b>Deductions</b>	
Benefit Payments	\$ 1,153,051,607
Refunds	28,718,256
Administrative Expense	4,282,605
Other	0
<b>Total Deductions</b>	<u>\$ 1,186,052,468</u>
<b>Net Increase in Net Position</b>	<b>\$ 2,394,008,970</b>
<b>Net Position Restricted for Pensions</b>	
Beginning of Year	<u>\$ 11,835,472,398</u>
End of Year	<u>\$ 14,229,481,368</u>

**SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY AND RELATED RATIOS**

Fiscal year ending June 30,	<u>2014</u>
<b>Total Pension Liability</b>	
Service Cost	\$ 409,199,801
Interest	1,491,722,137
Benefit Changes	0
Difference between actual & expected experience	(105,344,633)
Assumption Changes	0
Benefit Payments	(1,153,051,607)
Refunds	<u>(28,718,256)</u>
<b>Net Change in Total Pension Liability</b>	<b>\$ 613,807,442</b>
<b>Total Pension Liability - Beginning</b>	<u>19,032,811,749</u>
<b>Total Pension Liability - Ending (a)</b>	<b><u>\$ 19,646,619,191</u></b>
<b>Plan Fiduciary Net Position</b>	
Contributions - Employer/State	\$ 707,052,675
Contributions - Member	301,300,811
Net Investment Income	2,571,707,952
Benefit Payments	(1,153,051,607)
Refunds	(28,718,256)
Administrative Expense	(4,282,605)
Other	<u>0</u>
<b>Net Change in Plan Fiduciary Net Position</b>	<b>\$ 2,394,008,970</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<u>11,835,472,398</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b><u>\$ 14,229,481,368</u></b>
<b>Net Pension Liability - Ending (a) - (b)</b>	<b>\$ 5,417,137,823</b>
<b>Plan Fiduciary Net Position as a Percentage</b>	
<b>of Total Pension Liability</b>	72.43 %
<b>Covered Employee Payroll</b>	\$ 4,304,297,300
<b>Net Pension Liability as a Percentage</b>	
<b>of Covered Employee Payroll</b>	125.85 %

**Notes to Schedule:**

The covered employee payroll is an estimate of the actual payroll, imputed from individual member contributions, for the fiscal year ending June 30, 2014.

**SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

FY Ending June 30	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Contribution Covered Payroll	Actual Contribution as a % of Covered Payroll
2014	\$ 602,936,966	\$ 707,052,675	\$ (104,115,709)	\$ 4,304,297,300	16.43%

**NOTES TO SCHEDULE OF CONTRIBUTIONS**

**Valuation Date:** June 30, 2014

Notes Actuarially determined contribution rates are calculated as of June 30. Members and employers contribute based on statutorily fixed rates. The State of Oklahoma contributes 5.0% of revenues from sales taxes, use taxes, corporate and individual income taxes, and lottery proceeds. An additional contribution is made for members whose salary is paid from federal funds or certain grant money.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	Amortized over an open 30-year period
Asset Valuation Method	5-year smoothed market
Inflation	3.00%
Salary Increases	Composed of 3.00% inflation, plus 1.00% productivity increase rate, plus step-rate promotional increases for members with less than 25 years of service.
Investment Rate of Return	8.00%
Retirement Age	Experience-based table of rates based on age, service, and gender. Adopted by the Board in September 2010 in conjunction with the five year experience study for the period ending June 30, 2009.
Mortality	RP-2000 Combined Mortality Table, projected to 2016 using Scale AA, multiplied by 90% for males and 80% for females.