



# POPULAR ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

## ABOUT TRS

TRS was established in 1943 by the Oklahoma Legislature. As of June 30, 2019, the Plan consisted of 601 participating employers comprised of state institutions of higher education, state education entities, local school districts as well as career tech districts. The membership includes 90,014 active members, 12,784 inactive vested members, 13,516 inactive non-vested and 64,821 retirees and beneficiaries for a total of 181,135 members.

## COMPREHENSIVE ANNUAL FINANCIAL REPORT ONLINE

The 2019 Popular Annual Financial Report of the Teachers' Retirement System of Oklahoma (TRS) contains summary financial information from the 2019 Comprehensive Annual Financial Report. The full report can be viewed in its entirety online at [www.ok.gov/TRS/Publications/Annual\\_Report.html](http://www.ok.gov/TRS/Publications/Annual_Report.html).

## TRS Finds Challenges in FY 2019

Dear Members:

We are proud to issue the Teachers' Retirement System Popular Annual Financial Report (PAFR) for FY 2019. This publication is not only for the benefit of our membership but also for our many stakeholders and state leaders who are interested in the financial condition of TRS. It is a summarized version of the System's official Comprehensive Annual Financial Report (CAFR) written in laymen's terms. It is not presented in a manner which conforms with generally accepted accounting principles (GAAP). It's shorter than the CAFR, but it still contains the most important statistics of your retirement plan. TRS' CAFR is prepared to conform to GAAP and as noted in the lower left portion of this page is available online.

TRS had positive returns in FY 2019 but fell short of its main goal of at least earning 7.5% per year. That is the "assumed rate of return" for actuarial purposes. The TRS gross return for FY2019 was 5.5%. But one year in the market is not the most important metric by which to evaluate TRS' financial success. Long-term returns are still strong. The TRS 10-year gross return was 10.67%, 7-year was 9.64% and 3-year was 9.83%. While the TRS funded ratio didn't increase, it only slipped from 72.9% to 72.4%. TRS added new benchmark data with its return information so our members can see where TRS beat the market or lagged in certain categories. Our funding period stayed at 14 years. That is the period of time it should take to achieve a 100% funded ratio if all of our actuarial assumptions are met. TRS remains an important financial institution not only in State government, but in the state generally. With around 64,000 retirees living in every county in the state, sending benefit payments totaling \$1.4 billion in FY 2019, this creates a very positive economic impact.

The financial information in this Report is important for our members and stakeholders, but is also important for Oklahoma citizens to have this information. We at TRS are proud to serve Oklahoma's educators and staff. TRS continues to deliver retirement income security to its members and has done so for more than seven decades. We strive every year for excellence and will work to keep TRS fiscally strong for many years to come.

Tom Spencer  
*Executive Director*

**2019 TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA**  
POPULAR ANNUAL FINANCIAL REPORT

**PLAN NET POSITION**

The "Plan net position" is calculated by taking the amount of assets of TRS and subtracting liabilities restricted for payment of monthly retirement benefits and other qualified distributions to TRS clients. A summary of net position restricted for benefits on June 30, 2019, 2018 and 2017, is shown to the right. As of June 30, 2019, TRS net position was approximately \$17.28 billion. For simplicity, the 401(a), 403(b) and OPEB assets & liabilities on these schedules are combined. A separate schedule for the OPEB plan is on page 4 of the PAFR.

**CHANGES IN PLAN NET POSITION**

TRS is funded through a combination of member contributions, employer contributions, dedicated state revenue and investment earnings. For fiscal year 2019, plan net position increased \$488,227,719 or 2.9%. The increase was primarily from positive investment performance. Deductions to plan net position are incurred primarily for the purpose for which TRS was created, namely the payment of benefits to retirees. In fiscal year 2019, retirement, death and survivor benefits increased \$53,810,121 or 4.0% due to a 1.6% increase (1,025 members) in the number of retired members and a 1.2% increase in the average benefit. Refunds and withdrawals decreased significantly by \$5,593,727 or 9.2% as fewer participants withdrew their contributions on severance of service in fiscal 2019. Administrative costs increased by \$987,522 (or 23.4%). A substantial portion of this number included an increase in depreciation expense for a software asset that had not previously been depreciated.

**BENEFITS PAID TO MEMBERS**

Members qualify for full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for

**CONDENSED SCHEDULE OF FIDUCIARY NET POSITION**

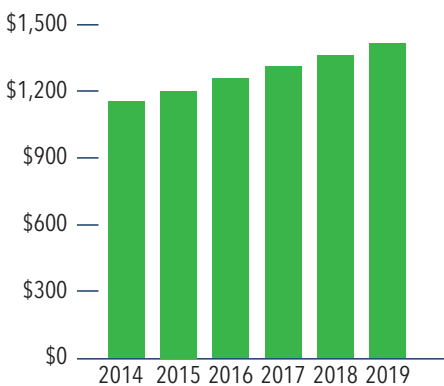
	<b>JUNE 30,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>ASSETS:</b>			
Cash	\$ 22,473,742	\$ 14,647,016	\$ 6,982,258
Receivables	309,141,320	336,640,442	234,896,886
Investments	17,537,310,521	16,785,027,025	15,623,835,941
Securities Lending Collateral	1,400,061,005	1,729,963,543	1,699,984,799
Capital Assets, Net	4,419,523	4,500,123	4,293,304
<b>Total Assets</b>	<b>19,273,406,111</b>	<b>18,870,778,149</b>	<b>17,569,993,188</b>
<b>LIABILITIES:</b>			
Other Liabilities	589,414,538	345,111,757	232,211,101
Securities Lending Collateral	1,400,061,005	1,729,963,543	1,699,984,799
<b>Total Liabilities</b>	<b>1,989,475,543</b>	<b>2,075,075,300</b>	<b>1,932,195,900</b>
Net Position Restricted For Pensions	\$ 17,283,930,568	\$ 16,795,702,849	\$ 15,637,797,288

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

	<b>JUNE 30,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Member Contributions	\$ 325,766,148	312,866,576	\$ 292,949,337
Employer Contributions	447,039,678	415,981,030	403,256,970
Matching Contributions	27,969,601	26,437,350	23,027,846
Dedicated Tax Revenue	343,701,556	318,172,751	278,924,055
Member Tax Shelter Contributions	1,660,076	1,723,454	2,548,206
Net Investment Income Gain (Loss)	810,595,831	1,500,561,135	2,011,242,293
Security Lending Net Income	6,282,180	7,746,700	8,705,649
<b>Total Additions</b>	<b>1,963,015,070</b>	<b>2,583,488,996</b>	<b>3,020,654,356</b>
Benefit Payments	1,414,686,012	1,360,875,891	1,312,125,733
Refunds Of Member Contributions And Tax Sheltered Annuity	54,902,369	60,496,096	60,707,115
Administrative Expenses	5,198,970	4,211,448	4,054,537
<b>Total Deductions</b>	<b>1,474,787,351</b>	<b>1,425,583,435</b>	<b>1,376,887,385</b>
Net Increase (Decrease) In Net Position	\$ 488,227,719	1,157,905,561	\$ 1,643,766,971

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

### SCHEDULE OF BENEFIT PAYMENTS (in Millions)



The Schedule of Benefit Payments above provides information on the total benefit expenses incurred by the Plan consisting of age and service, disability, and beneficiary death benefits. These totals have risen rapidly from \$1.15 billion in FY 2014 to \$1.41 billion in FY 2019.

### INVESTMENTS

The Board of Trustees follows the "Prudent Investor Rule" which is considered the highest standard in making investment decisions for the Plan. The Board and its advisors invest the Plan's assets for the sole interest of our members and their beneficiaries. In addition, funds are to be diversified to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so. The Plan's overall investment return for the year ended June 30, 2019, was a gross return of 5.5% and net 5.22%. Plan returns are primarily determined by how investments

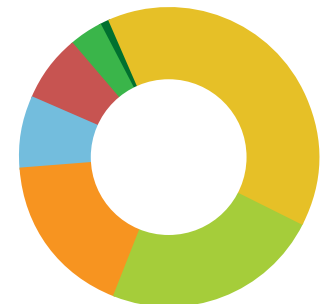
are diversified across asset classes. Domestic equity returns were up for the year. Domestic equity gained a net return of 5.3% compared to 9% for the benchmark Russell 3000. Total fixed income net returns were 8.5% due to interest rate easing compared to the Bloomberg Barclays U.S. of 8.1%. International equity returned -3.3% compared to the MSCI All Country World ex-U.S. of 0.8%. Real estate (core and non-core) had a net return of 9.6% compared to the NCREIF Property Index of 6.5%. Private equity and private credit investments returned 19.6% for the year compared to a custom benchmark of the Russell 2000 + 4% that returned 9.2%. The System's Master Limited Partnership investments continued to disappoint. Net returns for MLPs were negative at -2.9% compared to the Alerian MLP index of 3.09%. The Rate of Return table below reflects overall gross investment returns for the Plan over the past five fiscal years.

Year Ending June 30,	Total
2019	5.5%
2018	10.0%
2017	15.3%
2016	-2.02%
2015	3.5%

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

mandates, but may use full discretion within the policy and guidelines. In the pursuit of long-term returns while maintaining the goal of capital preservation, TRS has adopted a diversified asset allocation policy that is carried out primarily through active management. The resulting portfolio is designed to enhance long-term returns while mitigating short-term volatility. At fiscal year end, the portfolio was managed by 33 investment management firms across several asset classes and areas of expertise. As stated previously investments in FY 2019 provided a gross return of 5.5%. The annualized rate of return was 9.83% over the last three years and 9.64% over the last seven years. The allocation of the investment portfolio as of June 30, 2019 is shown in the Asset Mix chart below.

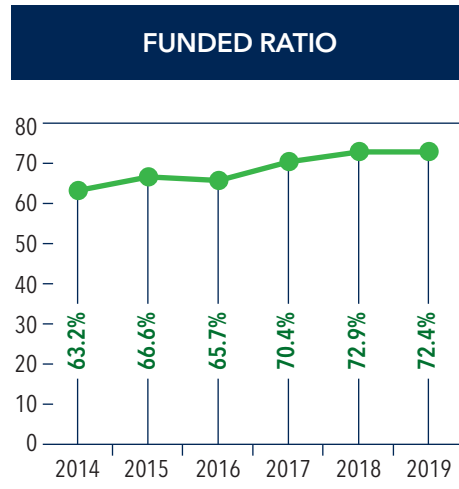
### ASSET MIX June 30, 2019



US Equity	39.1%
Fixed Income	23.5%
International Equity	17.9%
Real Estate	7.8%
Private Equity	7.2%
MLPs	3.6%
Cash	0.9%

## FUNDING

A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. It must also have a revenue source sufficient to keep up with future obligations. The funding objective for TRS is to meet long-term benefit promises through contributions that remain approximately level as a percent of member payroll. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the level of investment potential. The advantage of a well-funded plan is that the participants can look at assets that are committed to the payment of benefits. The actuarial accrued liability (the amount the System owes) and actuarial value of assets (the amount the System has) of TRS as of July 1, 2019, amounted to \$ 23.6 billion and \$17.12 billion, respectively.



The TRS funded status was 72.4% at June 30, 2019, compared to 72.9% at June 30, 2018. The key item responsible for the lower funded status was a return less than the assumed rate of 7.5%. Higher dedicated revenue receipts mitigated this somewhat. The Funded Ratio chart above shows the change in funded status over the past five fiscal years.

## GASB ACCOUNTING STANDARDS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)

TRS must follow accounting standards established by the Governmental Accounting Standards Board (GASB). In FY 2017 TRS implemented a new accounting standard called GASB 74 that applies to accounting for “other postemployment benefits” or OPEB. TRS provides a monthly health insurance subsidy to its retirees who keep their employer-based health insurance in retirement. This amount varies from \$100 to \$105 based on the credited service years of the retiree, and their benefit amount. It is paid directly to the insurer or the retiree’s former employer. GASB 74 requires TRS to treat this supplemental benefit like a separate benefit plan for accounting purposes. The liabilities to TRS from these OPEB payments must be separately stated, and an amount of assets must be identified that are available to pay the benefits. Above are condensed schedules of the TRS OPEB “net position” and the changes in net position. As indicated on page 2, these assets and liabilities are included in the main schedules for the total plan. In FY 2018 GASB 75 was also implemented statewide meaning that many TRS employers had to reflect their proportionate share of OPEB liabilities in their financial statements.

Assets	\$	528,486,778
Liabilities		56,359,281
Net Position for OPEB	\$	472,127,497

Additions	\$	23,776,337
Deductions		35,705,001
Net Increase (Decrease) in Net OPEB Position	\$	-11,928,664

## TRS AWARDED FOR EXCELLENCE IN FINANCIAL REPORTING AND POPULAR FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Annual Financial Reporting to the Teachers’ Retirement System of Oklahoma for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2018. The Award for Outstanding Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

To receive an Award for Outstanding Achievement in Annual Financial Reporting, a government unit must publish a Comprehensive Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal. An Award for Outstanding Achievement in Annual Financial Reporting is valid for a period of one year only. TRS has received the award for the last 26 consecutive years. We believe our current CAFR continues to conform to the award requirements, and it has been submitted to the GFOA.

In addition, TRS also received an award from the GFOA for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for its submission in FY 2018. This was the 4th consecutive year TRS received this award. We will continue to strive for excellence and we look forward to continuing our commitment to quality financial reporting of all kinds.