

POPULAR ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2023



Dear Members,

TRS is proud to present the TRS Popular Annual Financial Report (PAFR) for Fiscal Year 23.

FY 2023 was a year of **growth** at TRS. We saw growth in our membership, now exceeding 200,000 members. We grew our team as well, adding ten new employees to better serve our membership. We saw growth in our funding ratio – going from 73.5% in FY22 to 75.1% in FY23 – *the highest funding ratio achieved in the 80-year history of TRS*. We also grew our total fund size to \$20.85 billion, up from \$19.67 billion in FY22.

We are proud of the positive impact TRS continues to have on our membership as well as on Oklahoma's economy. In FY23, TRS paid out an impressive \$1.4 billion in benefit payments to in-state retirees and beneficiaries, who then spend that money in the communities in which they live as well as paying state income tax on those amounts.

Our ten-year annualized return remains strong at 7.8%, exceeding our actuarially assumed rate of return of 7%.

Our history: After passage of a Constitutional amendment allowing for a

pension plan for Oklahoma's public education employees, TRS was established in 1943 by the Oklahoma Legislature. As of June 30, 2023, the Plan consisted of 599 participating employers comprised of state institutions of higher education, state education entities, local school districts and career tech districts. The membership includes 100,959 active members, 29,993 inactive members, and 69,432 retirees and beneficiaries for a total of **200,384** members.

Our initiatives: In addition to fiscal growth, we have set and are executing strategic initiatives for further advancements through focused efforts on communications with our membership and community stakeholders, employee development, modernization of our pension administration system, and cybersecurity.

Our mission remains the same: We collect, protect, and grow assets to provide a secure retirement income for public education employees. We strive every year for excellence and will work to keep TRS fiscally strong for many years to come.

Sincerely,

Sarah Green
Executive Director

This publication is a summarized version of TRS' Annual Comprehensive Financial Report (ACFR), written in lay-person's terms. It is not presented in a manner which conforms with generally accepted accounting principles (GAAP). While shorter than the ACFR, this PAFR still contains the most important statistics of the TRS Plan. TRS' ACFR is prepared to conform to GAAP and is available at <https://oklahoma.gov/trs/publications/actuarial-reports.html>

FIDUCIARY NET POSITION

The “Fiduciary 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. A summary of net position restricted for benefits on June 30, 2023, 2022, and 2021, is shown below. As of June 30, 2023, TRS’ net position was approximately **\$20.85** billion, up from \$19.67 billion in FY2022.

For simplicity, the 401(a) and OPEB assets & liabilities on these schedules are combined. A separate schedule for the OPEB plan is on page 8 of the PAFR.

CONDENSED SCHEDULE OF FIDUCIARY NET POSITION			
	JUNE 30		
ASSETS:	2023	2022	2021
Cash	\$25,777,679	\$33,320,929	\$25,803,234
Receivables	748,999,072	544,790,611	211,491,831
Investments	20,880,364,644	19,686,474,977	22,025,570,560
Securities lending assets	642,265,795	1,421,896,735	1,349,706,322
Capital assets, net	3,386,951	3,525,536	3,943,725
Total assets	22,300,794,141	21,690,008,788	23,616,515,672
LIABILITIES:			
Other liabilities	804,893,250	598,704,151	214,740,249
Sec. lending collateral	642,265,795	1,421,896,735	1,349,706,322
Total liabilities	1,447,159,045	2,020,600,886	1,564,446,571
Ending net position restricted for pensions	\$20,853,635,096	\$19,669,407,902	\$22,052,069,101

CHANGES IN FIDUCIARY NET POSITION

TRS is funded through a combination of investment earnings, member contributions, employer contributions, and dedicated state revenue. For FY2023, the fiduciary net position increased by \$1,184,277,194 - primarily due to strong investment performance and increases in dedicated tax revenue, member contributions, and employer contributions. Deductions to fiduciary net position are generally incurred for the purpose for which TRS was created: namely the payment of benefits to retirees. In FY2023, payments for retirement, death, and survivor benefits increased \$39,627,216 or 2.5%. Refunds

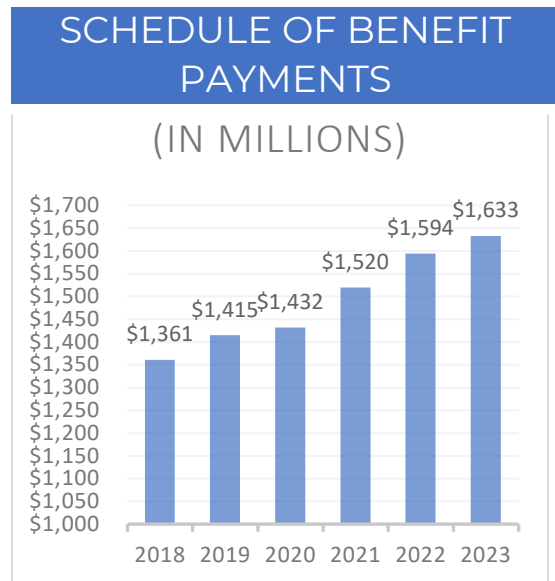
and withdrawals increased by \$12,153,216 or 31.6% as TRS formalized a process for issuing Required Minimum Distribution payments and more eligible participants withdrew their contributions. Administrative costs increased by \$980,629 or 16.8% resulting from the Plan undertaking its first full year of the pension administration system modernization project.

CONDENSED SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION			
	JUNE 30		
	2023	2022	2021
ADDITIONS:			
Member contributions	\$371,519,419	\$366,066,840	\$343,474,401
Employer contributions	512,972,678	495,861,085	464,336,615
Matching contributions	47,085,349	47,040,754	34,371,572
Dedicated tax revenue	466,646,840	424,507,378	276,918,852
Investment income (net)	1,471,242,681	(2,082,110,613)	5,556,807,673
Sec. lending income (net)	5,996,376	4,448,445	4,590,080
Total additions	2,875,463,343	(744,186,111)	6,680,499,193
DEDUCTIONS:			
Benefits payments	1,633,865,340	1,594,238,124	1,520,628,861
Refunds of member contributions	50,552,204	38,398,988	31,939,815
Administrative Expenses	6,818,605	5,837,976	5,475,953
Total deductions	1,691,236,149	1,638,475,088	1,558,044,629
Net increase (decrease) in net position	\$1,184,227,194	\$(2,382,661,199)	\$5,122,454,564

BENEFITS PAID TO MEMBERS

The Schedule of Benefit Payments below 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 \$1.361 billion in FY2018 to \$1.633 billion in FY2023 due to an increase in retirements and death events.

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 80 (Rule of 80), and for any person who became a member after June 30, 1992, when the member’s age and years of credited service equals 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.



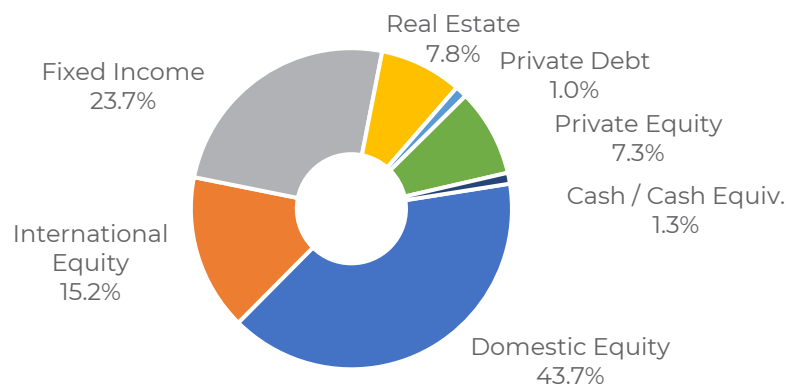
If a member is active in-service at the time of death, the beneficiary(ies) will receive an \$18,000 benefit, plus the contributions and interest in the member’s account. Upon the death of a retiree, the beneficiaries will receive a \$5,000 benefit plus the survivor benefits provided by retiree’s chosen retirement plan.

INVESTMENTS

The Board of Trustees follows the “Prudent Investor” standard 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. Funds are diversified to minimize the risk of large losses, unless under the circumstances, it is clearly prudent not to do so.

Asset Allocation

The following chart represents TRS’ actual Asset Allocation of \$20.85 billion as of June 30, 2023.



Performance

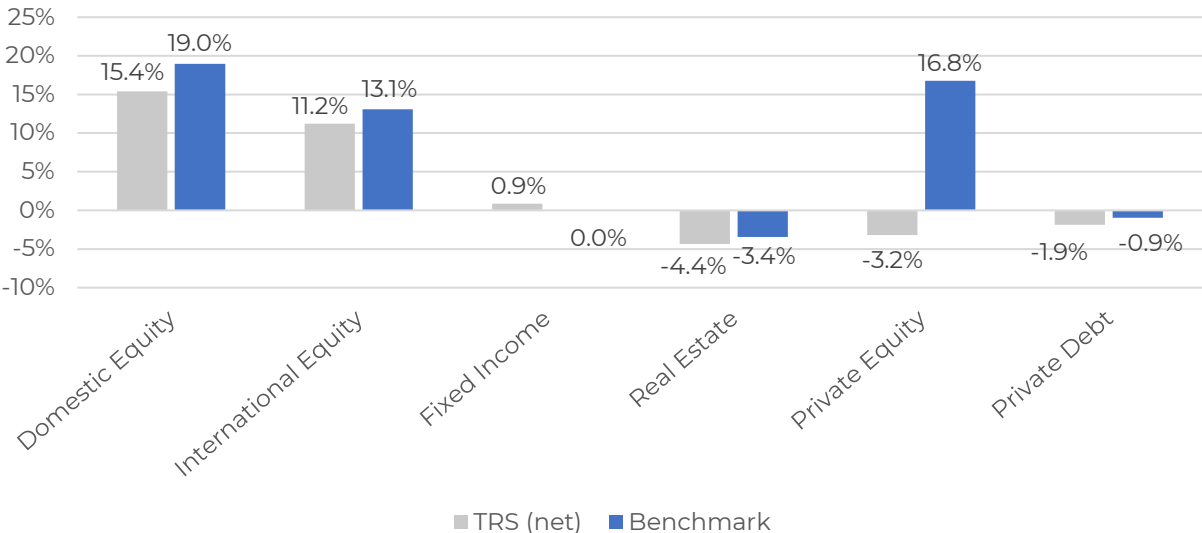
For fiscal year 2023, the Plan earned an 8% rate of return (net), underperforming the benchmark return of 12.14%, though still exceeding its assumed rate of return of 7%, and ended the year with a total market value of \$20.85 billion.

Relative to a peer group of U.S. Public Pension Plans with assets over \$1 billion, the Fund ranked in the 39th percentile in FY2023. Plan returns are primarily determined by how investments are diversified across asset classes. The Rate of Return chart to the right reflects net investment returns for the Plan over the past five fiscal years.

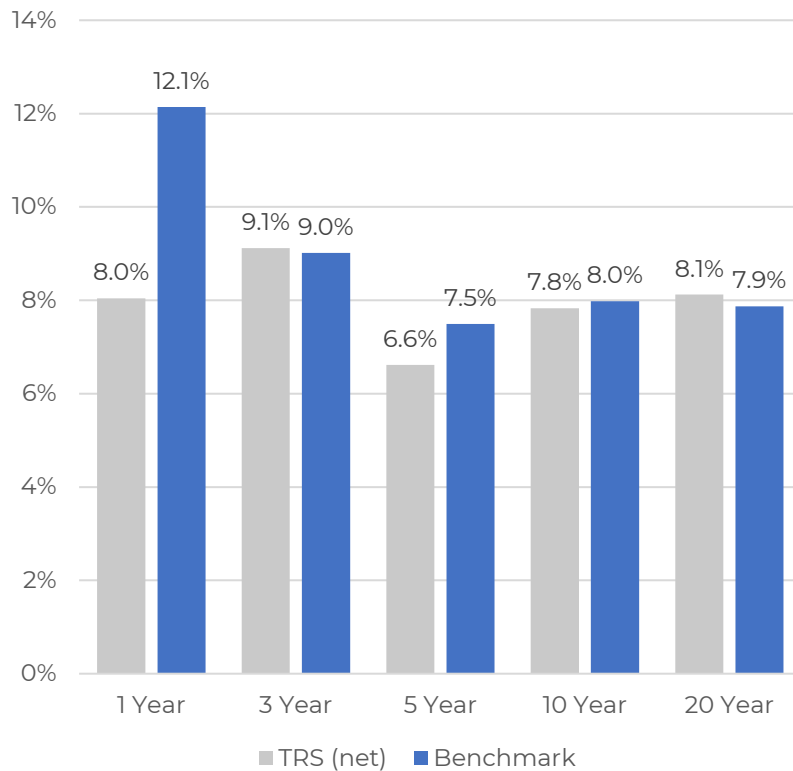
RATE OF RETURN	
YEAR ENDING JUNE 30	RETURN (NET)
2023	8.0%
2022	-9.6%
2021	33.0%
2020	0.8%
2019	52%

To achieve its investment goals set, TRS employs both indexed and active management. During FY2023, the Domestic Equity strategy was the best returning strategy with an annual time-weighted rate of return of 15.41%. The Domestic and International Equity portfolios have a greater weighting to smaller companies with value characteristics than the overall strategy benchmark. The smaller company bias and the value bias were relative net detractors in the Domestic Equity portfolio. Real Estate is benchmarked to the NCREIF ODCE Index plus a 0.5% risk premium. The Real Estate portfolio is relatively young, and the underperformance can be primarily attributed to the recent investments that have not yet been fully developed or realized. Private Equity is benchmarked to the Russell 2000 small capitalization public market index, plus a 2.5% risk premium to compensate for illiquidity. Private Debt is benchmarked to the Bloomberg Barclays US Universal Index. The net-of-fee time-weighted rates of return for fiscal year 2023 for each strategy are shown below.

Strategy Performance FY2023



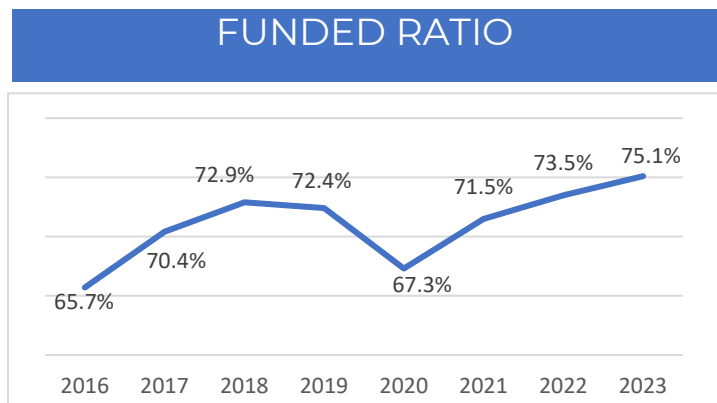
Historical Performance



The chart to the left shows historical performance of the TRS plan relative to its policy benchmark which has been designed to match the risk of the portfolio. The Plan continues to have strong long-term performance and has outperformed its policy benchmark on its twenty-year return. The ten-year return has been 7.8% exceeding the actuarially assumed rate of return of 7% and placing the Plan in the top quartile of performance versus our pension System peers with assets greater than \$1 billion.

FUNDING

A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. It requires revenue sources 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 June 30, 2023, amounted to \$28.509 billion and \$21.405 billion, respectively, for an unfunded actuarial accrued liability (UAAL) of \$7.104 billion in FY2023. This is a significant improvement in decreasing the UAAL of \$7.366 billion from FY2022.

TRS' funded status – actuarial value of assets divided by the actuarial accrued liability - was **75.1%** as of June 30, 2023, compared to 73.5% on June 30, 2022. The increase in funded ratio was primarily due to the level of contributions and dedicated revenue being higher than expected. The Plan is expected to eliminate the current UAAL in 12 years based upon current contribution and benefit provisions.

GASB ACCOUNTING STANDARDS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)

TRS provides a monthly health insurance subsidy to retirees who keep their employer-based health insurance in retirement. The amount varies from \$100-\$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.

TRS must follow accounting standards established by the Governmental Accounting Standards Board (GASB). In FY 2017 TRS implemented GASB 74 that applies to accounting for "other postemployment benefits" or OPEB which 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. The schedules to the right are the OPEB "net position" and the "changes in net position". 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.

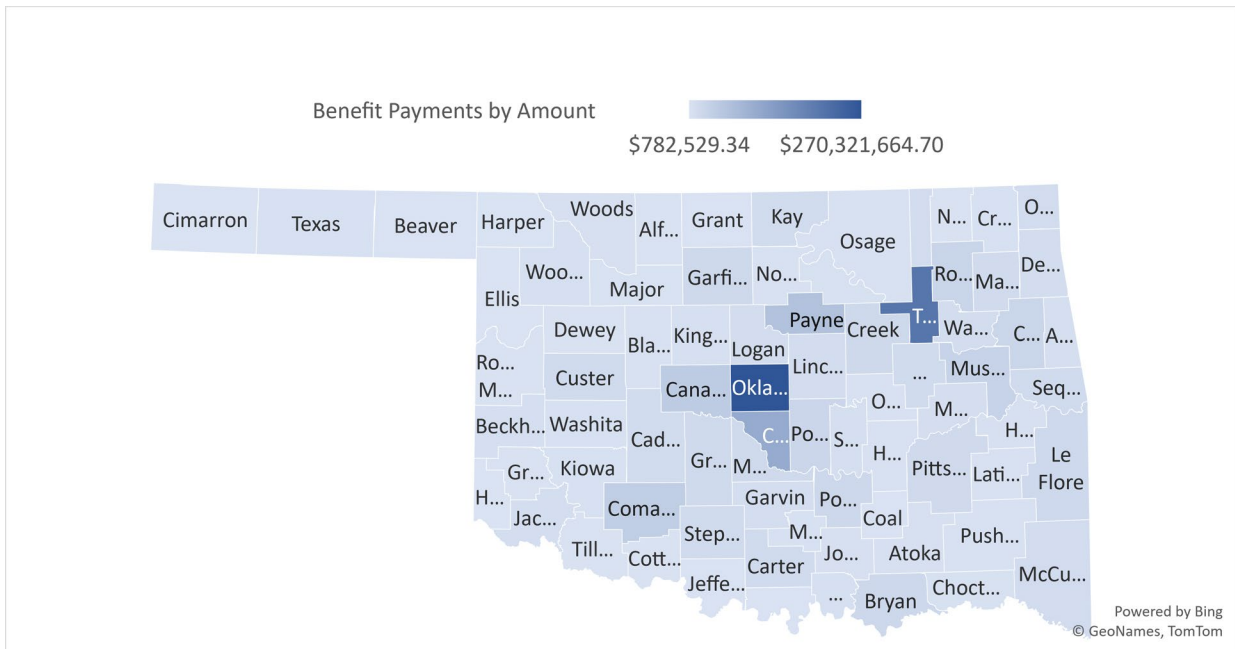
CONDENSED SCHEDULE OF OPEB NET POSITION	
JUNE 30, 2023	
Assets	\$503,339,324
Liabilities	\$33,487,944
Net Position for OPEB	\$469,851,380
CONDENSED SCHEDULE OF CHANGES IN OPEB NET POSITION	
JUNE 30, 2023	
Additions	\$36,915,589
Deductions	\$34,935,224
Net increase in Net Position	\$1,980,365

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ECONOMIC IMPACT

TRS contributes to Oklahoma's economy through the benefits it pays to its members and beneficiaries, who then spend that money in the communities in which they live. Of the \$1.68 billion in benefits payments made in FY2023, TRS paid out approximately \$1.41 billion in payments to in-state retirees and beneficiaries who are projected to return 87.7% of \$1.24 billion back into Oklahoma's economy through household spending.



TRS Awarded for Excellence in Financial Reporting

For the 8th consecutive year, TRS has received the GFOA award for Outstanding Achievement in Popular Annual Financial Reporting for its Popular Annual Financial Report for fiscal year ending June 30, 2022. This award is a prestigious national award recognizing conformance with the highest standards of creativity, presentation, understandability, and reader appeal for governmental presentation of popular reports. TRS has received this award for each year we have produced a Popular Annual Financial Report.