

THE ADVISOR

Newsletter of the Teachers' Retirement System of Oklahoma



TEACHERS' RETIREMENT
SYSTEM OF OKLAHOMA

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Teachers' Retirement Looks to the Future

In our Winter newsletter of 2018, we celebrated the 75 year history of the Teachers' Retirement System. There was a lot to celebrate. The financial and actuarial condition had improved dramatically because of reforms and fiscal assistance from the State. The total active and retired membership stood at more than 150,000. Investment performance remained strong. While it is important to learn about and remember our history, it is equally important to have a clear vision of what TRS can become. The Board and staff at TRS do not intend to stand still and look backwards.

The Board and senior staff recently had a planning retreat. We had great discussions and educational sessions for our new trustees. Every organization can do better, and we were all in agreement that we need to communicate with our membership better. Of particular concern is how we can better communicate the value of the TRS pension benefit to our active participating members who are not close to retirement. It is so important for educators to appreciate the lifetime benefit they can receive if they continue working in education. There are challenges of course. TRS has a large and far flung active membership at more than 600 employers spread out in every county in the state. There are precious few opportunities to give in-person presentations at all of these locations. But those are challenges; not roadblocks.

Continued on page 7

See Inside Special Report

"POPULAR" ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2019

Am I Eligible to Retire? How Are My Benefits Calculated?

By Sarah Green, General Counsel and Dixie Moody, Director of Client Services

Retirement Eligibility

One of the most common questions we receive at TRS from our members is when they will be eligible for retirement. A member's retirement eligibility depends on when they first joined the System.¹

Rule of 80

Those who joined TRS prior to July 1, 1992, and have at least 5 years of service, may retire at age 62 or when the member's age plus years of service equals 80 (i.e. age 60 + 20 years of service = 80 points). Those who joined in the 1991-92 school year were required to remit contributions on the full 1991-92 salary prior to the end of the school year to qualify for the Rule of 80. The member's highest three eligible salaries are used in the calculation of the benefit amount.

Rule of 90

Those who joined TRS on or after July 1, 1992 and before November 1, 2011, and have at least 5 years of service, may retire at age 62 or when the member's age plus years of service equals 90 (i.e. age 55 + 35 years of service = 90 points). The member's highest five consecutive salaries are used in the calculation of the benefit amount.

Rule of 90, Minimum Age 60

Those who joined TRS on or after November 1, 2011 and before November 1, 2017, and have at least 5 years of service, may retire at age 65 or when the member's age is at least 60 and their age plus years of service equals 90 (i.e. minimum age 60 + 30 years of service = 90 points). Members who joined TRS on or after November 1, 2017, also fall under the Rule of 90, Minimum age 60 - but must have at least 7 years of service to qualify for retirement. The member's highest five consecutive salaries are used in the calculation of the benefit amount.

Benefits Formula

Upon retirement, TRS members receive a monthly benefit payable for the lifetime of the member.² The monthly benefit is calculated by multiplying the member's final average salary by the member's total years of service by 2% divided by 12 months:

$$(FAS \times \text{Years of Service} \times 2\% / 12)$$

For example – a member who has 30 years of service credit and a final average salary of \$50,000 would receive a monthly retirement benefit of \$2,500 for the remainder of his or her life:

$$(\$50,000 \times 30 = 1,500,000 \times 2\% = 30,000 / 12 \text{ months} = \$2,500)$$

If you are interested in learning more about the status of your own retirement eligibility and benefits with TRS, please complete the Pre-Retirement Information Verification Form (Form 3) located on the TRS website at www.ok.gov/TRS/ and mail the form and accompanying documents to TRS to begin the review.

¹ For information on early retirement or disability retirement, see the Member Handbook located on our website at www.ok.gov/TRS/.

² TRS offers 5 retirement options that all provide a lifetime benefit to the TRS member. Some of the options also provide for a lifetime benefit to a joint annuitant upon the death of the member. For more information about the retirement options offered by TRS, please visit our website at www.ok.gov/TRS/.



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.

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

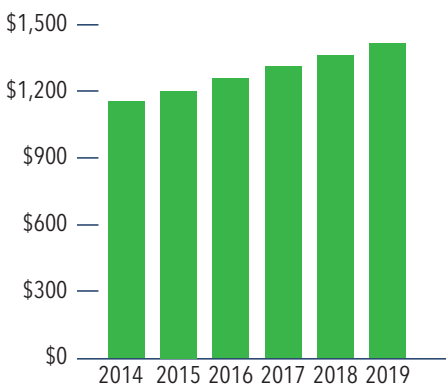
	JUNE 30,		
	2019	2018	2017
ASSETS:			
Cash	\$ 22,473,742	\$ 14,647,016	\$ 6,982,258
Receivables	309,141,320	336,640,442	234,896,886
Investments	17,537,310,521	16,785,027,025	15,623,835,941
Securities Lending Collateral	1,400,061,005	1,729,963,543	1,699,984,799
Capital Assets, Net	4,419,523	4,500,123	4,293,304
Total Assets	19,273,406,111	18,870,778,149	17,569,993,188
LIABILITIES:			
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
Total Liabilities	1,989,475,543	2,075,075,300	1,932,195,900
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

	JUNE 30,		
	2019	2018	2017
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
Total Additions	1,963,015,070	2,583,488,996	3,020,654,356
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
Total Deductions	1,474,787,351	1,425,583,435	1,376,887,385
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

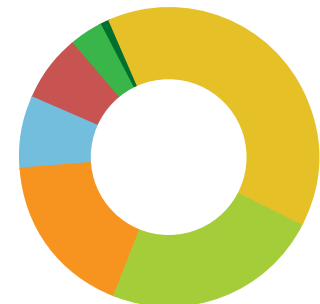
are diversified across asset classes. Domestic equity returns were up for the year. Domestic equity gained a net return of 5.3% compared to 9% for the benchmark Russell 3000. Total fixed income net returns were 8.5% due to interest rate easing compared to the Bloomberg Barclays U.S. of 8.1%. International 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.

RATE OF RETURN	
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.

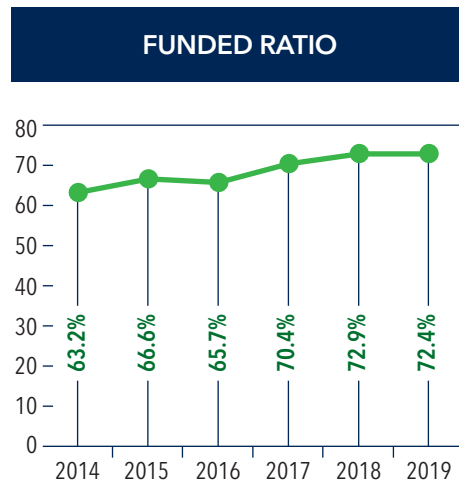
ASSET MIX
June 30, 2019



■ 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.

1099-R Tax Forms Mailed In January

Each year, TRS calculates the total benefits you have received and provides this and other information to you on a 1099-R tax form. This form is needed to prepare your federal and state tax returns. These tax forms are mailed to members by January 31 of each year. If you do not receive a 1099-R by mid-February, please contact our office.

If you have questions about your individual tax situation, you will need to consult with a qualified tax professional or the Internal Revenue Service. An explanation of your 1099-R can be found on the homepage of our website www.ok.gov/TRS, and click on the link called IRS Form 1099-R Frequently Asked Questions.

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA
PO BOX 53524 OKLAHOMA CITY, OKLAHOMA 73152
LOCAL: (405) 521-2387 TOLL FREE: (877) 738-6365

TAX WITHHOLDING FORM

Member Name _____ Member SSN or TRS Member ID _____
Home Address (Street number) _____ (City, State, ZIP code) _____
Email Address _____

Section 1. Federal withholding: Complete the following applicable lines.

1. Check here if you do not want any federal income tax withheld from your pension or annuity. (Do not complete lines 2 or 3.)

2. Total Number of allowances and marital status you are claiming for withholding from each periodic pension or annuity payment. (You may also designate an additional dollar amount on line 3.) _____
(Enter number of allowances)

Marital Status Single Married Married, but withheld at higher Single rate

3. Additional amount, if any, you want withheld from each pension or annuity payment. (Note: For periodic payments, you cannot enter an amount here without entering the number including any of allowances on line 2.) _____ \$ _____

If you do not select one of the above options, tax will be withheld as if the recipient were married and claiming three (3) withholding allowances.

Section 2. State withholding: The marital status and number of withholding allowances shall be the same as the Federal withholding unless you choose not to have state tax withheld.

1. Check here if you do not want any state income tax withheld from your pension or annuity. _____

2. Additional amount, if any, you want withheld from each pension or annuity payment. _____ \$ _____

Signature: _____ Date: _____

2/28/19 TRS FORM 4

You can change the amount of tax taken out of your monthly benefit payment anytime by completing a new Form 4 – Tax Withholding Form from the TRS website, www.ok.gov/TRS/Forms/index.html and sending it to TRS. A tax advisor can help you see whether you need to adjust your monthly withholding to better reflect the amount of taxes you will likely owe. You can also use the IRS' withholding estimator www.irs.gov. Go to the search box the top right of the IRS home page and type in "tax withholding estimator." That will take you to another page on which you can click on a link to the withholding

estimator. While this is a great resource to determine a reasonable amount for withholding, TRS retirees must use the TRS Form 4 mentioned above.

TWO COLA BILLS ALIVE FOR 2020 SESSION

Two bills introduced in the 2019 Legislative session can still be considered in the 2020 session. HB 2304 (Rep. Frix) would give retirees of all state pension systems a 2% COLA and HB 2485 (Rep. McCall) would give a 4% COLA to all systems. An "interim study" on both bills was heard in the House Banking, Finance and Pensions committee on November 15, 2019 before a packed audience of retired teachers and other public employees. The directors of each system gave an overview of the financial status of each system, including the cost of a 2% or 4% COLA. All of the systems have made much progress in the last 10 years. TRS had a 49.8 % funded ratio in 2009 and improved to a 72.4 % funded ratio in FY 2019. According to the TRS actuary the cost of a 4% COLA would be \$500 million and a 2% COLA would cost \$250 million. TRS Retirees have not received an actual COLA since 2008. In addition, TRS retirees only received 2% COLAs in 2006 and 2008 when other state system retirees received 4% COLAs.

Continued from page 1

Teachers' Retirement Looks to the Future

We will be exploring many ways to get our message out. It may include an attempt at more personal visits. But what will definitely be a high priority is our ability to improve our online contact. We have projects on the drawing board to produce online seminars aimed at working educators. Another project is to have our annual pre-retirement planning seminar materials available online in a video or narrated format. Other projects include improving our technology assets. We envision a paperless retirement process as much as possible through enhancements to our Member Portal.

The Board and staff at TRS are dedicated to improving our services to you. If you have your own ideas of what we can do, email us at mail@trs.ok.gov.



TEACHERS RETIREMENT SYSTEM OF OKLAHOMA

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Have Questions? Need Help?

Here's how you can get in touch with us:

In person: Oliver Hodge Building, 5th Floor, 2500 N. Lincoln Blvd., Oklahoma City

On the phone: 1-877-738-6365 or 405-521-2387

On the web: www.ok.gov/TRS or facebook.com/okTRS

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DIRECTOR'S CORNER

How Do We Keep Good Teachers?

Tom Spencer, Executive Director

I'm a believer in having a strong public education system. I believe a good public education system is literally the bedrock of our democracy. We can't have good public schools without good teachers. If some of our best and brightest don't want to be public school teachers, and a large percentage of those who begin a teaching career, leave after a year or two, we will not achieve our dream of a good public system. The State has made a significant investment in public education with teacher pay raises approved in the last two legislative sessions. It's a great start, but is it enough?

The State Department of Education released the 2018 version of the "Oklahoma Educator Supply and Demand Report" in early 2019. The report published some sobering statistics. The Washington Post published an article about the report and said, "A new report says that 30,000 teachers in the state have quit the profession over the past six years — and about half did it because of low pay, little respect and other reasons that made the job too hard or unattractive." Note that the report had stats over the previous six (6) years when

teacher salaries lagged. But many other reasons were also cited. An online article entitled "Why Teachers Quit"¹ listed many of the same factors as the state report. Based on survey results and other research, the article also cited reasons like a lack of support system for newer teachers; lack of respect from students, parents & even administrators; discipline issues; high-stakes testing; and others.

We have our work cut out for us. Funding is important but many of these problems, unfortunately, are societal and will require difficult decisions to resolve. Assessing student performance without "teaching to the test" is important in my view. We at TRS will do our part to communicate the benefit of longevity in the teaching profession, and the prospect of a happy and secure retirement after a long, productive career.

¹ *Why Teachers Quit*, "We Are Teachers" website: weareteachers.com (pub. 6/14/2019)