

OKLAHOMA STATE PENSION COMMISSION
Minutes
June 26, 2013

1. Call to Order

A meeting of the Oklahoma State Pension Commission convened on February 20, 2013, at 9:00 a.m. at the Teachers Retirement System, 5th floor, Oliver Hodge Building, Oklahoma City, OK. Written notice was sent to Commission members and interested parties, posted 24 hours prior to the meeting and filed with the Secretary of State in compliance with the Open Meeting Law. Chairman Miller called the meeting to order.

Members Present: Chairman Ken Miller – State Treasurer; Gary Jones – State Auditor; Senator Brinkley; Mr. John Estus – Designee for Preston L. Doerflinger, Office of Management and Enterprise Services; Vice-Chairman Doug Lawrence and Mr. Lou Trost – Governor Appointees.

Others: Ruth Ann Chicoine – Administrator; Don Stracke – NEPC; Tom Spencer and Brad Tillburg – Public Employees Retirement System; Tim Allen and Regina Birchum – Office of the State Treasurer; Ginger Poplin – Law Enforcement Retirement System; Steve Tinsley – Office of the Oklahoma State Auditor and Inspector; Melinda Streich – Oklahoma Department of Wildlife; Trish Frazier - ODEA Bob Jones and Gerald Garrett - Oklahoma Firefighters Retirement System; Norman Cooper – OREA; George Fina – Oklahoma City Retired Firefighters Association; Herb Bradshaw – Oklahoma State Firefighters Association; Phil Ostrander – Oklahoma Retired Firefighters Association; Troy Dycus – Oklahoma State Firefighters; Lela Odom – OEA; Bill Hallman, Tommy Chism Ron Davis, John Soos, and Terry Myers – Retired Oklahoma Firefighters; Brian Foughty and Thu Nyugen – Professional Firefighters Organization; Tony Key – Gregory W. Group; Cindy Shattuck – OKMRF; and Paul Pustmueller – Cavanal Hill.

2. Approval of Minutes dated February 20, 2013

A motion was made by Auditor Jones and a second by Commissioner Lawrence to approve the minutes – all in favor to approve as presented.

3. Nomination and Election of Chairman and Vice-Chairman

A motion was made by Commissioner Trost to nominate and elect Treasurer Miller to serve another two-year term as Chairman of the Pension Commission, with a second by Mr. Estus. Auditor Jones abstained, Ayes by the remaining, motion passed. Motion by Commissioner Trost to nominate and elect Doug Lawrence as Vice-Chair to the Pension Commission, Ayes by all; motion passed. A motion was made by Commissioner Trost to have the election of the chair/vice-chair to be held only until February 2015; ayes by all, motion passed.

4. Legislative Update – Senator Rick Brinkley

The meeting was turned over to Senator Brinkley.

Several House Bills were passed for the retirement systems, modifying average compensation notification of retirement, transfers to other retirement systems, modifying retirement date, employee/employer contributions, clarifying language, modifying provisions to the IRS code and deleting requirements for COLA assumptions in actuarial report. Others bills vetoed would have established a voluntary defined contribution plan for active members of the Oklahoma Public Employee Retirement System, and created a special account from which future cost-of-living benefits could be paid to teachers, although the measure did not include any funding for payment of such benefits.

Discussion by the Commission regarding legislation followed.

5. Sub-Committee report on how to improve the financial condition of the state pension plans – Commissioner Lou Trost

The meeting was turned over to Commissioner Lou Trost.

Commissioner Trost spoke on the actuarial required contribution history of the state. The cumulative history shows that the state owes the retirement systems for money not contributed as it is required to. If the contributions were put in as required, the systems would be fully funded.

Discussion by the Commission regarding contribution history followed. A motion was made to have a letter sent to the legislators regarding funding of the systems, that is required; a second by Mr. Trost, and ayes by all.

6. Investment Performance Analysis and Public Fund Analysis – Don Stracke - NEPC

The meeting was turned over to Don Stracke of NEPC.

The economic environment was revised up to 0.4%. Growth estimates are close to 3.0% nationwide, stronger in Oklahoma. Recovery is slower, but things are up, unemployment has decreased, housing prices are up. Stocks had a strong performance in the 1st quarter. S&P up 10.6% in the 1st quarter, the EAFE was up 5.1%. Barclays Aggregate had its first quarterly loss since 2006; financial issues outpaced industrial issues as investors moved toward the debt of banks and financial institutions because of immunity to leveraged buy-outs. Financial issues were tighter than those of industrial corporates, a first since 2007.

The private equity industry had a seasonal fundraising decline; investments in new private equity total \$54 billion during this period. Negative news headlines underscored the mixed performance posted by commodity and commodity-related equity markets. The energy sector saw gasoline prices surging nearly 30%; metals declined roughly 5%. The energy sector maintained its lead with integrated oil stocks, oil services, and natural gas stocks posting gains of 7.2% to 13.7%.

Asset allocation for the funds show most funds target range near the actual range, with Police out-of-range mainly in alternatives. Teachers and Firefighters are out-of-range in two areas, OPERS and Judges do not have any funds allocated in alternatives. The equity commitment of the plans has a greater commitment to equities than the average public plan.

The three-month return of all of the Oklahoma plans has the plans at a 6.6%, the 5th percentile of the universe, outdoing 95% of all plans. Teachers' is in the 1st percentile; all plans have done well for the quarter, Teachers exceptionally well.

Two sources are used in the Public Fund Analysis; the largest source is Greenwich Associates. Top four issues facing public plans are asset allocation, rate-of-return, funding status, and De-Risking/Managing volatility. Insufficient returns and declining interest rates have caused large funding gaps with less than 10% of pension plans fully funded. Low economic growth has led plans to reduce anticipated returns, making funding challenges even more transparent.

There are approximately 7,500,000 active members and retiree/beneficiaries represented by all of the funds in the U.S. The ratio is 1.7 actives per retiree. Income used to fund pension programs generally comes from investment earnings, member contributions, and employer contributions. The overall expense for respondents to administer investment manager fees is 73.1 basis points (100 basis points equals 1 percentage point). The average investment assumption was 7.7%.

Discussion by the Commission and NEPC regarding the Investment Performance and the Public Fund Analysis followed.

7. Renewal of Consultant Contract FY 2013-2014

The meeting continued to the renewal of the consultant contract for FY14. Auditor Jones made a motion to accept, with a second from Mr. Trost. All in favor, motion passed.

8. New Business

No other new business was brought forward at this time.

5. Adjournment

Treasurer Miller made a motion to adjourn; all in favor, meeting was adjourned. The next regular commission meeting will meet August 21, 2013, at 9:00 a.m. at the Oklahoma State Capitol, Room 511A, Oklahoma City, OK.

Respectfully Submitted: _____
Ruth Ann Chicoine, Administrator