

**OKLAHOMA STATE PENSION COMMISSION**  
**Minutes**  
**November 13, 2013**

**1. Call to Order**

A meeting of the Oklahoma State Pension Commission convened on November 13, 2013, at 9:00 a.m. at the Oklahoma State Capitol, Room 511A, 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; Julie Ezell – AG Legal Counsel for Pension Commission; Joe Fox, Kristi Lee, and Brad Tillburg – Public Employees Retirement System; Joe Ezzell and James Dickson – Oklahoma Teachers Retirement System; Steve Snyder and Jimmy Keesee – Oklahoma Police Pension and Retirement System; Duane Michael – Oklahoma Firefighters Retirement System; Regina Birchum – Office of the State Treasurer; Norman Cooper – OREA; Dana Cramer – Oklahoma City Firefighters; Phil Ostrander – Oklahoma State Firefighters Association; Amanda Ewing – Oklahoma Education Association; Paul Pustmueller – BOK/Cavanal Hill; and Shawn Ashley – E Capitol.

**2. Approval of Minutes dated August 21, 2013**

A motion was made by Chairman Miller and a second by Vice-Chairman Lawrence to approve the minutes – all in favor to approve as presented.

**3. Fully Funding the Actuarially Required Contributions (ARC) on an Annual Basis – Commissioner Trost**

Chairman Miller turned the meeting over to Commissioner Trost.

Commissioner Trost reviewed the history of funding the Actuarially Required Contributions (ARC) to the state's public pension plans, reminding members of the Commission that a motion was made and approved at the June 26, 2013 meeting to "have a letter sent to the legislators regarding funding the systems, as required." Reading a suggested motion that would be sent to the Governor and leaders in the legislature, discussion and suggested amendments were made. Commissioner Trost accepted and made the following motion, with a second by Commissioner Lawrence; all in favor as presented.

"The Oklahoma Pension Commission recommends to the Governor and the Oklahoma State Legislature that, on an annual basis, the Actuarially Required Contributions (ARC) to each of the public pension plans must be made. This requirement could be achieved by either an amendment to the State's constitution, or by statute."

Commissioner Trost presented a suggested letter to be delivered to the Governor and legislative leaders which contained the motion, to be signed by each of the Commissioners. A motion was made by Commissioner Trost and seconded by Commissioner Lawrence to approve the letter; all in favor to approve as presented and signed. Commissioner Trost requested the letter be made part of the minutes; all approved.

Commissioner Trost thanked Mr. Trey Davis of the Auditor's office for his help in composing and preparing the letter.

#### **4. GASB Requirement of booking the Debt Obligation – Commissioner Lawrence**

The meeting was turned over to Commissioner Doug Lawrence.

Commissioner Lawrence stressed that the GASB requirement of booking the debt obligation may/ may not have any real implication on the funds. GASB is changing the way entities report pension obligations, and if nothing is done, individual employers will be required to book on financial statements their share of unfunded pension obligations of the plan they participate in. The state has the ultimate obligation to provide benefits; the question is whether to try and find a way to get out of the requirement of the obligation. The commission would like to take an active role in trying to figure out what to do for the retirement systems. Chairman Miller stated that there is a group looking into this and directed the item to Commissioner Jones.

Commissioner Jones stated that GASB has provided a mechanism by which, if you meet certain requirements, the obligation can go where it is required; he would like to have a recommendation from the Pension Commission sent to the legislature to say it is worthwhile, and should be done by the comptroller's office to encourage the legislature to create statutes that match up the obligation to the reporting, this could have an impact on bond ratings for schools and cities. He stated that this is not a matter of getting around the obligation; it is a matter of correcting it and making it right. All decisions made for the pension funds are made by the legislature, not the schools, teachers, cities, etc. Commissioner Lawrence stated that he hopes the group that Chairman Miller mentioned, is considering the type of statutes that will be required by GASB.

Senator Brinkley pointed out that the GASB requirement is not just an Oklahoma issue, it is nationwide. The Senate and House have had meetings regarding this issue, but Senator Brinkley would like to know if it has been addressed by other states to see what they recommend. Commissioner Jones stated that there has not been a national meeting of state auditors since the GASB requirement has gone into effect.

Chairman Miller stated that he would like to make a motion that a workgroup include the Treasurer's office, Comptroller, and Auditor's office, to work with the pension committees to help draft legislation that would put the obligation at rest, something that the state owes the cities and schools. Commissioner Lawrence seconded the motion, with all in agreement.

#### **5. Investment Performance Analysis and Emerging Markets Update 2013 – Don Stracke - NEPC**

The meeting was turned over to Don Stracke of NEPC.

Most third quarter numbers are up, 12.8% for the Russell 2000 Growth in domestic equity and down -3.0% for the Wilshire REIT index in Alternatives; the 1 year numbers are also up. Stock markets have recovered since the global financial crisis, with good numbers for one, three, and five-year returns.

The latest reports of components of GDP for the third quarter have been mixed. Unemployment fell to 7.2% in September, its lowest level since 2008. Consumer confidence fell slightly to 79.7% in September. 12-month CPI decreased to 1.5% at the end of August. Federal funds rate remains at 0.25% while the 10-year Treasury Yield finished September at 2.6% and their balance sheets

have increased in 2013, while European Central Bank balance sheets have decreased. S&P valuations are slightly above the 10-year average using current price/earnings ratios.

U.S. stocks continued upward in the third quarter. Growth stocks outpaced value; the third quarter was positive for international markets. Signs of stabilizing growth in China pushed up emerging markets.

The move by the Federal Reserve to leave unchanged its bond-purchase program fueled a selloff in U.S. Treasuries. The Barclays Aggregate Index lost 0.6% in the quarter; mortgage-backed securities benefitted from the Fed's inaction. High-yield bond yields fell to 6.2%; leveraged loans gained 1.2%. Emerging market bonds dominated in external currency gained 0.9% in the third quarter; local currency emerging markets debt lost 0.4%.

In the commodity markets, commodities posted quarterly returns of 2.1%, precious metals gained about 9%, and grains performance was off 5.1% with a record harvest in corn. Hedge funds were up 1.6%, the DJCS Long/Short Equity Index returned 3.5%. Private equity fundraising in the first nine months rose, with an expected increase for 2013. Europe raised \$57.2 billion of private equity through the first nine months of 2013. Asian private equity slowed to 9% of funds raised in 2013.

After a volatile second quarter, equity markets surged in the third quarter. Investors were pleased with the domestic equity rally, but a diversified portfolio has been challenging. Divergence in returns and policy has complicated the risk on, risk off environment driven by central banks. The case to stay the course remains strong and it is important to stay vigilant by balancing risks and keeping an eye on opportunities that arise amid periods of change.

The asset allocation of the funds, particularly OPERS and Teachers, has changed their long-term targets. Assets class is outside the target range of a few of the systems, but believe it's because of a result of targets being changed. Six of the seven plans were positive in their allocation impact. The plans on average have done a good job of selecting investment managers that have done better than the bench marks.

Discussion by the Commission and NEPC regarding the Investment Performance and Emerging Markets followed.

## **6. Approval of 2014 Meeting dates**

The meeting dates for 2014 were approved, motion by Commissioner Trost and a second by Vice-Chairman Lawrence, all approve, motion passed.

## **7. New Business**

Commissioner Trost has the letter in regard to agenda item three, ready for signature by the Commission, he and Ruthie Chicoine will work together to have it copied and delivered to the proper officials.

Commissioner Lawrence stated that he would like to see a comprehensive look at the State's retirement systems, topics that may/may not result in any changes. He would also like to see a group of individuals looking at the retirement systems to try and determine what to do to help get them funded; he feels that the groups looking at the systems are not looking at the sustainability of the funds. He would like for the Commission to recommend to whomever, to authorize a specific group to do a thorough review of the systems, to come up with a comprehensive process of where they need to go.

Chairman Miller said he understands the House and Senate have tried to put bills together to pass legislation to work on the retirement systems and would like to see something put together after this legislative session; he stated the Commission is only an oversight commission with no authority to do anything. Commissioner Lawrence would like to be able to lobby to have a committee to look at the systems and help develop legislation that the House and Senate would actually look at.

Commissioner Jones said he would like to see an analysis of possible changes that could be done that would have a positive impact on the systems, he would encourage the Governor to provide authorization to see what type of funding sources there are to help the systems. Chairman Miller said he would like to monitor what is going on in this Session to be able to have a plan on the table for the future.

Senator Brinkley said that the legislature has the same objective as everyone else's, that at the end of the day, the state needs the best pension system available by funding and limiting the unfunded liabilities. Senator Brinkley said his comments have been the same for the past two years; he hasn't any interest in checking a box that says they have done pension reform that screws up the system, everything needs to be done to make sure that those in the systems get everything that has been promised, including the retirees; get the pension situation to a point where COLA's are granted, and at the same time, provide a system reflective of what the future employees want. He said that if the people want what has been provided in the past, this won't be able to be done; it is critically important that it is understood that if a system is created that does not address the unfunded liabilities, the situation will be worse, the legislature does understand this and that is why nothing was passed last year.

Senator Brinkley said that the legislature is going to do everything in their power to get something done without having to have studies done for years to come to a conclusion on the retirement systems. The reality is to look at all of the perspectives and understand that unless you pay the ARC, there will always be a problem. Senator Brinkley mentioned that they are trying to get more information from an outside source on ways to pay the ARC; there is no intent on, at least the Senate side, to not get this done, it has to be done.

Both Chairman Miller and Commissioner Jones said that it is more important to get it right than to get it quick, Senator Brinkley agreed. Chairman Miller did mention the state tends to have too many studies to figure out what to do with the retirement systems; he said the state knows what to do, considering the situation we are in.

No other new business was brought forward.

## **8. Adjournment**

Treasurer Miller made a motion to adjourn; all in favor, meeting was adjourned. The next regular commission meeting will meet February 12, 2014, at 9:00 a.m. at the Oklahoma History Center, Fischer Board Room 800, Oklahoma City, OK.

*Respectfully Submitted:* \_\_\_\_\_  
Ruth Ann Chicoine, Administrator