

**OKLAHOMA POLICE PENSION
AND RETIREMENT SYSTEM**

ACTUARIAL VALUATION REPORT

AS OF JULY 1, 2006

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This report has been prepared by Buck Consultants for the Oklahoma Police Pension and Retirement System to:

- Present the results of a valuation of the Oklahoma Police Pension and Retirement System as of July 1, 2006;
- Review experience under the System for the year ended June 30, 2006; and
- Provide reporting and disclosure information for auditors' reports, governmental agencies and other interested parties.

The main financial highlights are:

- The funded status of the System decreased since the prior valuation as indicated by the table below.

GASB No. 25 Funded Status (\$000,000)	July 1, 2006	July 1, 2005
Accrued Liability	\$ 1,910.1	\$ 1,811.6
Actuarial Value of Assets	\$ 1,490.2	\$ 1,423.8
Unfunded Accrued Liability	\$ 419.9	\$ 387.8
Funded Ratio	78.0%	78.6%

- The funded ratio on a SFAS No. 35 basis, measuring the market value of System assets versus the present value of benefits accrued as of the valuation date, increased from 108.3% to 111.7%.
- The required state contribution for the System increased from \$59.7 million to \$67.7 million.

Contribution Summary (\$000,000)	July 1, 2006	July 1, 2005
Total Required Contribution	\$ 111.4	\$ 100.5
Expected Employee Contributions	16.3	15.1
Expected Municipality Contributions	27.4	25.7
Required State Contribution	\$ 67.7	\$ 59.7
--As a Percentage of Payroll	33.1%	31.6%

A summary of principal valuation results from the current valuation and the prior valuation follows. Any changes in actuarial assumptions, methods or system provisions between the two valuations are described in the section titled “Effects of Changes.”

	Actuarial Valuation as of	
	July 1, 2006	July 1, 2005
Summary of Costs		
Required State Contribution for Current Year	\$ 67,668,746	\$ 59,692,145
Actual State Contribution Received in Prior Year ⁽¹⁾	\$ 23,584,000	\$ 23,730,000

GASB No. 25 Funded Status		
Actuarial Accrued Liability	\$ 1,910,059,072	\$ 1,811,572,114
Actuarial Value of Assets	\$ 1,490,208,000	\$ 1,423,834,000
Unfunded Actuarial Accrued Liability	\$ 419,851,072	\$ 387,738,114

Market Value of Assets and Additional Liabilities		
Market Value of Assets	\$ 1,549,723,000	\$ 1,414,945,000
Actuarial Present Value of Accumulated System Benefits (SFAS No. 35)	\$ 1,387,148,910	\$ 1,306,718,260
Present Value of Projected System Benefits	\$ 2,394,004,171	\$ 2,265,711,104

Summary of Data		
Number of Members in Valuation		
Active Paid Members	4,141	4,016
Members with Deferred Benefits	80	79
Retired Members	1,951	1,866
Beneficiaries	453	433
Disabled Members	144	148
Deferred Option Plan Members	187	247
Total	6,956	6,789

Active Member Statistics		
Total Annual Compensation ⁽²⁾	\$ 204,189,807	\$ 188,848,451
Average Compensation ⁽²⁾	\$ 49,309	\$ 47,024
Average Age	37.9	37.6
Average Service	10.2	10.0

⁽¹⁾ For the fiscal years beginning July 1, 2004 and ending with June 30, 2009, the system will receive 17% of such taxes. For the fiscal year beginning July 1, 2009 and each fiscal year thereafter, the system will receive 14% of such taxes.

⁽²⁾ Compensation is projected one year based on the salary increase assumptions.

Changes in Plan Provisions

There were no changes in plan provisions with an actuarial impact as of July 1, 2006.

Changes in System Benefits

The following Legislation affecting the Oklahoma Police Pension and Retirement System became effective July 1, 2006.

HB 1179 Provides a 4% cost-of-living adjustment for retired members.

Actuarial Experience During the Plan Year

The System experienced the following gains/(losses) during the year ending June 30, 2006. These amounts are developed in Section 1.4 of this report:

	Millions
Liability Gain	\$ 7.0
Asset Loss	\$ (20.5)
Total Loss	\$ (13.5)

The Oklahoma Police Deferred Option Plan (DOP) allows employees eligible for a normal retirement benefit to defer the receipt of retirement benefits while continuing employment. Participation in the Deferred Option Plan is limited to five years. During this time, the members' contributions stop, but the employer contributes half of the regular contribution on base salary to the Police Pension and Retirement System and the other half to the members' account in the Deferred Option Plan. In addition, the monthly retirement benefits are paid into the employees' account in the Deferred Option Plan. The DOP was also modified to allow members to retroactively elect to enter DOP as of a back-drop-date upon termination. The monthly retirement benefits and member contributions that would have been payable had the member elected to enter DOP are credited to the employee's account in the DOP.

The Deferred Option Plan accounts are credited with interest at a rate of 2% less than the total fund net earnings, with a guaranteed minimum interest rate equal to the valuation interest rate of 7.5%. The accrual rate credited for the fiscal year ended June 30, 2006, was 10.1%. The assets and liabilities reflected in these results as of July 1, 2006, include the account balances for the Deferred Option Plan, as in prior valuations.

Statistics regarding the number of Deferred Option Plan members and total account balances are shown in the table below:

DOP Statistics	July 1, 2006	July 1, 2005
Number of DOP Members	187	247
DOP Account Balances	\$ 24.7M	\$ 28.8M
Annual Retirement Benefits of DOP Members	\$ 6.2M	\$ 7.8M

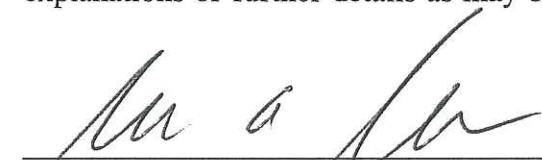
We have prepared an actuarial valuation of the Oklahoma Police Pension and Retirement System as of July 1, 2006, for the plan year ending June 30, 2006. The results of the valuation are set forth in this report, which reflects the provisions of the System as amended and effective on July 1, 2006.

The valuation is based on employee and financial data which were provided by the Oklahoma Police Pension and Retirement System and the independent auditor, respectively, and which are summarized in this report.

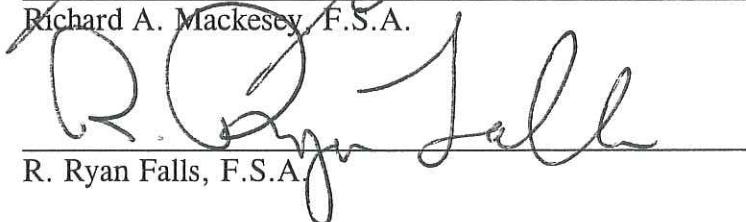
All costs, liabilities and other factors under the System were determined in accordance with generally accepted actuarial principles and procedures, in accordance with the provisions of current State Statutes and regulations issued thereunder, using an actuarial cost method which we believe is appropriate. In our opinion, the actuarial assumptions are reasonable and represent our best estimate of the anticipated experience under the System. This report fully and fairly discloses the actuarial position of the System on an ongoing basis.

There have been no changes in actuarial methods or assumptions. The changes in benefit provisions since the last valuation of the System as of July 1, 2005 are summarized on page 3 and the financial impact, if any, are incorporated in this report.

We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate.



Richard A. Mackesey, F.S.A.



R. Ryan Falls, F.S.A.

September 15, 2006

September 15, 2006

Section 1.1 Summary of Contribution Requirement

Section 1.2 Liability Detail

Section 1.3 Unfunded Actuarial Accrued Liability

Section 1.4 Actuarial Gain/(Loss)

Section 1.5 Contributions

Section 1.6 Ten-Year Projected Cash Flow

SUMMARY OF CONTRIBUTION REQUIREMENT

	Actuarial Valuation as of			
	July 1, 2006		July 1, 2005	
	Amount	% of Active Covered Comp.	Amount	% of Active Covered Comp.
1. Annual Covered Compensation for Members Included in Valuation				
a. Active Members	\$204,189,807		\$188,848,451	
b. Deferred Option Plan Members	13,368,248		17,676,923	
c. Total	\$217,558,055		\$206,525,374	
2. Total Normal Cost Mid-year	\$ 56,022,376	27.4%	\$ 51,967,880	27.5%
3. Unfunded Actuarial Accrued Liability	\$419,851,072		\$387,738,114	
4. Amortization of Unfunded Actuarial Accrued Liability over 30 years From July 1, 1988 at mid-year	\$ 52,384,037	25.7%	\$ 46,052,144	24.4%
5. Budgeted Expenses	\$ 3,011,129	1.5%	\$ 2,479,296	1.3%
6. Total Required Contribution (2 + 4 + 5)	\$111,417,542	54.6%	\$100,499,320	53.2%
7. Estimated Employee Contribution (8% x 1a)	\$ 16,335,185	8.0%	\$ 15,107,876	8.0%
8. Estimated Municipality Contributions				
a. Active Members	\$ 26,544,675	13.0%	\$ 24,550,299	13.0%
b. Deferred Option Plan Members	868,936	6.5% ⁽¹⁾	1,149,000	6.5% ⁽¹⁾
c. Total	\$ 27,413,611	12.6% ⁽²⁾	\$ 25,699,299	12.4% ⁽²⁾
9. Required State Contribution to amortize Unfunded Actuarial Accrued Liability over 30 years from July 1, 1988 at mid-year. (6 - 7 - 8c)	\$ 67,668,746	33.1%	\$ 59,692,145	31.6%
10. Previous year's actual State Contribution ⁽⁴⁾	\$ 23,584,000	12.5% ⁽³⁾	\$ 23,730,000	13.5% ⁽³⁾
11. Approximate period over which previous year's State Contribution will amortize Current Unfunded Actuarial Accrued Liability (UAAL) from July 1, 1988.	Not sufficient to amortize UAAL ⁽⁴⁾		Not sufficient to amortize UAAL ⁽⁴⁾	

⁽¹⁾ Percentage of Deferred Option Plan Members' compensation.

⁽²⁾ Percent of total compensation.

⁽³⁾ Percent of previous years' annual compensation for active members.

⁽⁴⁾ For the fiscal years beginning July 1, 2004 and ending with June 30, 2009, the system will receive 17% of such taxes. For the fiscal year beginning July 1, 2009 and each fiscal year thereafter, the system will receive 14% of such taxes.

LIABILITY DETAIL

Total	Without 2% COLA	With 2% Auto COLA
Present Value of Benefits	\$ 1,953,570,440	\$ 2,394,004,171
Present Value of Future Normal Costs	\$ 381,171,396	\$ 483,945,099
Accrued Liability	\$ 1,572,399,044	\$ 1,910,059,072
Normal Cost Mid-Year	\$ 44,019,977	\$ 56,022,376

Active		
a. Retirement	\$ 673,571,928	\$ 855,596,120
b. Disability	594,186	704,664
c. Withdrawal	10,355,695	12,975,018
d. Death	2,982,124	3,802,011
e. Refunds	(6,830,845)	(6,830,845)
f. Total	\$ 680,673,088	\$ 866,246,968
Inactive		
1. Members Eligible for Automatic COLA		
a. Retired Members	\$ 116,947,592	\$ 116,947,592
b. Disabled Members	19,020,867	19,020,867
c. Terminated Vested Members	0	0
d. Deferred Option Plan Members	0	0
e. Beneficiaries	64,665,691	64,665,691
f. Total	\$ 200,634,150	\$ 200,634,150
2. Members Not Eligible for Automatic COLA		
a. Retired Members	\$ 527,655,795	\$ 646,479,820
b. Disabled Members	10,830,502	13,453,523
c. Terminated Vested Members	9,378,090	11,764,488
d. Deferred Option Plan Members - Annuities	77,965,679	97,822,345
e. Deferred Option Plan Members - Account Balances	24,680,000	24,680,000
f. Beneficiaries	40,581,740	48,977,778
g. Reserve for COLA's in Future ⁽¹⁾	N/A	0
h. Total	\$ 691,091,806	\$ 843,177,954
3. Total Inactive (If + 2h)	\$ 891,725,956	\$ 1,043,812,104
Accrued Liability (Active + Inactive)	\$ 1,572,399,044	\$ 1,910,059,072

⁽¹⁾ Ad Hoc cost of living adjustments (COLAs) are prefunded to the 2% per year level in this valuation. These COLAs are granted periodically, but generally not each year. Therefore, in years in which a COLA is not granted, this reserve is increased to fund future COLA's.

UNFUNDED ACTUARIAL ACCRUED LIABILITY

The actuarial accrued liability is the present value of projected system benefits allocated to past service by the actuarial funding method being used.

	Total System	
	July 1, 2006	July 1, 2005
1. Actuarial Present Value of Benefits		
a. Active Members	\$ 1,350,192,067	\$ 1,241,204,230
b. Members with Deferred Benefits	11,764,488	11,864,854
c. Members Receiving Benefits who are not eligible for Automatic COLA	708,911,121	640,538,774
d. Members Receiving Benefits who are eligible for Automatic COLA	200,634,150	203,987,939
e. Deferred Option Plan Members	122,502,345	152,505,960
f. COLA Reserve	0	15,609,347
g. Total	2,394,004,171	2,265,711,104
2. Actuarial Present Value of Future Normal Costs	483,945,099	454,138,990
3. Total Actuarial Accrued Liability (1g - 2)	1,910,059,072	1,811,572,114
4. Actuarial Value of Assets	1,490,208,000	1,423,834,000
5. Unfunded Actuarial Accrued Liability (3 - 4, not less than \$0)	419,851,072	387,738,114

ACTUARIAL GAIN/(LOSS)

The actuarial gain/(loss) is comprised of both the liability gain/(loss) and the actuarial asset gain/(loss). Each of these represents the difference between the expected and actual values as of July 1, 2006.

	Regular	Deferred Option	Total
1. Expected Actuarial Accrued Liability			
a. Actuarial Accrued Liability at July 1, 2005	\$1,782,740,114	\$ 28,832,000	\$1,811,572,114
b. Normal Cost at July 1, 2005 or DOP contributions	50,122,275	1,141,000	51,263,275
c. Benefit Payments for Plan Year Ending June 30, 2006	75,170,000	7,808,000	82,978,000
d. Interest on a + b - c to End of Year (or actual interest)	134,645,804	2,515,000	137,160,804
e. Expected Increase in COLA Reserve after Interest Increase	0	0	0
f. Expected Actuarial Accrued Liability Before Changes (a + b - c + d)	\$1,892,338,193	\$ 24,680,000	\$1,917,018,193
g. Changes in actuarial Accrued Liability at July 1, 2006 due to changes in Actuarial Assumptions	0	0	0
h. Change in Actuarial Accrued Liability at July 1, 2006 due to changes in System Provisions	0	0	0
j. Expected Actuarial Accrued Liability at July 1, 2006 (e + f + g)	\$1,892,338,193	\$ 24,680,000	\$1,917,018,193
2. Actuarial Accrued Liability at July 1, 2006	\$1,885,379,072	\$ 24,680,000	\$1,910,059,072
3. Actuarial Liability Gain/(Loss) (1h - 2)	\$ 6,959,121	\$ 0	\$ 6,959,121
4. Expected Actuarial Value of Assets			
a. Actuarial Value of Assets at July 1, 2005	\$1,395,002,000	\$ 28,832,000	\$1,423,834,000
b. Contributions Made for Plan Year Ending June 30, 2006	64,259,000	1,141,000	65,400,000
c. Benefit Payments and Expenses for Plan Year Ending June 30, 2006	77,405,000	7,808,000	85,213,000
d. Interest on a + b - c to End of Year (or actual interest)	104,132,175	2,515,000	106,647,175
e. Expected Actuarial Value of Assets at July 1, 2006 (a + b - c + d)	\$1,485,988,175	\$ 24,680,000	\$1,510,668,175
5. Actuarial Value of Assets as of July 1, 2006	\$1,465,528,000	\$ 24,680,000	\$1,490,208,000
6. Actuarial Asset Gain/(Loss) (5 - 4e)	\$ (20,460,175)	\$ 0	\$ (20,460,175)
7. Actuarial Gain/(Loss) (3 + 6)	\$ (13,501,054)	\$ 0	\$ (13,501,054)

ACTUARIAL GAIN/(LOSS) (CONTINUED)

COLA Reserve	
1. Reserve as of July 1, 2005	\$ 15,609,347
2. Liability for Inactive Members Not Eligible for COLA (See Section 1.2, Item 2 in prior report)	764,212,734
3. Reserve Increment (2% x 2.)	15,284,255
4. Interest at 7.5% on 1. and 3.	2,317,020
5. Expected Reserve as of July 1, 2006 (1. + 3. + 4.)	33,210,622
6. Ad Hoc cost of living increase	33,210,622
7. Actual Reserve (5. Less 6., not less than \$0) as of July 1, 2006	0

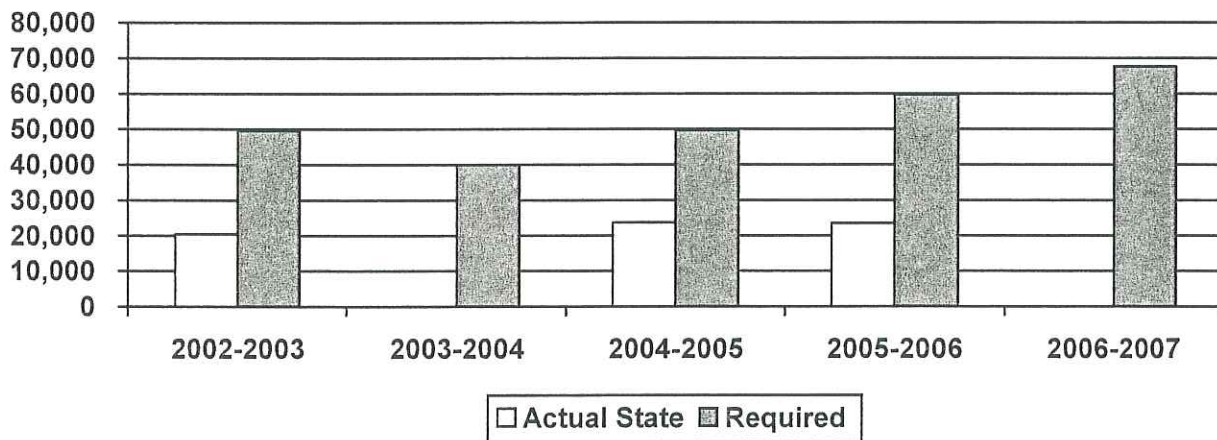
CONTRIBUTIONS

Contributions to the Retirement System are made by the Members, municipalities, and the State of Oklahoma. Member contributions equal 8% of base salary. Municipalities contribute 13% of base salary per year for plan years after June 30, 1996.

The Deferred Option Plan Members do not make employee contributions to the plan. However, municipalities continue contributing for them, with 50% of the contribution going into the Retirement System fund and 50% going into the Deferred Option account. Contributions for members who retroactively elect to enter the Deferred Option Plan as of a back drop date are also deposited into the Deferred Option Account.

Prior to fiscal year beginning July 1, 2003, the fund received 14% of the insurance premium tax as illustrated in the chart below. However, SB 206 in 2003 reapportioned the insurance premium taxes. For the fiscal year ending June 30, 2004, the fund did not receive any taxes. Beginning in fiscal years July 1, 2004 and ending June 30, 2009, the fund shall receive 17% of the insurance premium tax. For years after that, the fund will receive 14% of the taxes. Beginning in fiscal year July 1, 2006, the system shall receive 26% of a special allocation established to refund the System for reduced allocations of insurance premium taxes resulting in increases in insurance premium tax credits.

**State Contributions Received versus
Contributions Required by Funding Policy
(000's)**



As of July 1, 2003, the amortization period was changed to 30 years from 1988. Prior years used an amortization period of 20 years from 1988.

**TEN-YEAR PROJECTED CASH FLOW
(RETIREMENT BENEFIT PAYMENTS)**

Plan Year Ending	Actives	Retirees ⁽¹⁾	Total
6/30/2007	\$ 7,222,308	\$ 74,860,683	\$ 82,082,991
6/30/2008	\$ 15,546,813	\$ 76,003,187	\$ 91,550,000
6/30/2009	\$ 21,588,737	\$ 77,043,158	\$ 98,631,895
6/30/2010	\$ 27,503,956	\$ 78,007,536	\$ 105,511,492
6/30/2011	\$ 34,041,748	\$ 78,994,391	\$ 113,036,139
6/30/2012	\$ 40,893,567	\$ 79,897,991	\$ 120,791,558
6/30/2013	\$ 47,690,198	\$ 80,741,917	\$ 128,432,115
6/30/2014	\$ 54,298,315	\$ 81,603,779	\$ 135,902,094
6/30/2015	\$ 60,885,248	\$ 82,325,417	\$ 143,210,665
6/30/2016	\$ 68,428,889	\$ 82,923,917	\$ 151,352,806

⁽¹⁾ Includes Deferred Option Plan Members, Disabled Members, Beneficiaries and Terminated Vested Members.

Section 2.1 SFAS No. 35 Information

Section 2.2 GASB No. 25 Information

SFAS No. 35 INFORMATION

A. Actuarial Present Value of Accumulated System Benefits

The actuarial present value of vested and nonvested accumulated system benefits was computed on an ongoing system basis in order to provide required information under Financial Accounting Standards Board Statement No. 35. In this calculation, a determination is made of all benefits earned by current Members as of the valuation date; the actuarial present value is then computed using demographic assumptions and an assumed interest rate. Assumptions regarding future salary and accrual of future benefit service are not necessary for this purpose.

Accumulated System Benefits	July 1, 2006	July 1, 2005
Vested Benefits		
a. Active Members	\$ 419,590,622	\$ 372,432,463
b. Deferred Option Plan Members	102,645,679	127,319,782
c. Members with Deferred Benefits	9,378,090	9,437,144
d. Members Receiving Benefits	779,702,187	726,408,450
e. Total Vested Benefits	\$ 1,311,316,578	\$ 1,235,597,839
Nonvested Benefits	75,832,332	71,120,421
Total Accumulated System Benefits ⁽¹⁾	\$ 1,387,148,910	\$ 1,306,718,260
Assumed Rate of Interest	7.5%	7.5%
Market Value of Assets Available for Benefits	\$ 1,549,723,000	\$ 1,414,945,000
Funded Ratio	111.7%	108.3%

Number of Members	July 1, 2006	July 1, 2005
Vested Members		
a. Active Members	2,012	1,914
b. Deferred Option Plan Members	187	247
c. Members with Deferred Benefits	80	79
d. Members Receiving Benefits	2,548	2,447
e. Total Vested Members	4,827	4,687
Nonvested Members	2,129	2,102
Total Members	6,956	6,789

⁽¹⁾ Assumption of 2% future ad hoc cost-of-living increases is not reflected in this liability. Only System liabilities accrued (and in statute) as of the valuation date are included.

SFAS NO. 35 INFORMATION (CONTINUED)

B. Statement of Changes in Accumulated System Benefits

A statement of changes in the actuarial present value of accumulated system benefits follows. This statement shows the effect of certain events on the actuarial present value shown on the previous page.

Actuarial Present Value of Accumulated System Benefits as of July 1, 2005	\$ 1,306,718,260
Increase/(Decrease) During Year Attributable to:	
a. Normal Cost	\$ 46,998,063
b. Increase for Interest Due to Decrease in Discount Period	98,417,049
c. Benefits Paid, Including Refund of Contributions	(82,978,000)
d. System Amendment	25,590,213
e. Assumption Changes	0
f. (Gains)/Losses	(7,596,675)
Net Increase/(Decrease)	\$ 80,430,650
Actuarial Present Value of Accumulated System Benefits as of July 1, 2006	\$ 1,387,148,910

The benefits valued include all benefits – retirement, preretirement death and vested termination – payable from the System for employee service prior to the valuation date. Benefits are assumed to accrue/(accumulate) in accordance with the system provisions.

GASB NO. 25 INFORMATION

Supplementary Schedules

The GASB has issued a new statement; Financial Reporting for Defined Benefit and Note Disclosures for Defined Contribution Plans (GASB Statement No. 25). This standard became effective for periods beginning after June 15, 1996, and requires funding status to be measured based upon the actuarial funding method adopted by the Board, i.e., for the Oklahoma Police Retirement System, the Entry Age Normal Cost Method. The target value of assets is equal to the Actuarial Accrued Liability (AAL). The actual value of assets is the Actuarial Value developed later in this report. The new GASB standard supersedes GASB Statement No. 5 in its entirety.

A. Schedules of Funding Progress

The GASB Statement No. 25 liabilities and assets resulting from the last ten actuarial valuations are as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/1997	\$ 827,787,000	\$ 876,603,889	\$ 48,816,889	94.4%	\$ 122,715,886	39.8%
07/01/1998	\$ 966,907,000	\$ 1,092,443,208	\$ 125,536,208	88.5%	\$ 128,521,087	97.7%
07/01/1999	\$ 1,094,400,000	\$ 1,160,023,416	\$ 65,623,416	94.3%	\$ 139,242,527	47.1%
07/01/2000	\$ 1,222,123,000	\$ 1,354,500,875	\$ 132,377,875	90.2%	\$ 148,543,158	89.1%
07/01/2001	\$ 1,319,041,000	\$ 1,443,404,052	\$ 124,363,052	91.4%	\$ 153,350,395	81.1%
07/01/2002	\$ 1,370,024,000	\$ 1,554,288,324	\$ 184,264,324	88.1%	\$ 160,419,776	114.9%
07/01/2003	\$ 1,392,043,000	\$ 1,646,979,675	\$ 254,936,675	84.5%	\$ 170,507,025	149.5%
07/01/2004	\$ 1,399,975,000	\$ 1,727,162,602	\$ 327,187,602	81.0%	\$ 175,559,285	186.4%
07/01/2005	\$ 1,423,834,000	\$ 1,811,572,114	\$ 387,738,114	78.6%	\$ 188,848,451	205.3%
07/01/2006	\$ 1,490,208,000	\$ 1,910,059,072	\$ 419,851,072	78.0%	\$ 204,189,807	205.6%

GASB No. 25 INFORMATION**B. Schedule of Employer Contributions**

The GASB Statement No. 25 required and actual contributions for the last ten fiscal years are as follows:

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1997	\$ 26,459,627	124.7%
1998	\$ 22,425,929	158.0%
1999	\$ 39,826,511	90.9%
2000	\$ 34,682,993	108.7%
2001	\$ 53,043,666	75.5%
2002	\$ 54,918,091	76.9%
2003	\$ 71,704,935	61.6%
2004	\$ 63,511,155	37.7%
2005	\$ 73,756,197	66.1%
2006	\$ 85,391,444	58.6%

This section presents information regarding System assets as reported by the auditor. The System assets represent the portion of total System liabilities, which has been funded as of the valuation date.

Section 3.1 Summary of Assets

Section 3.2 Reconciliation of Assets

Section 3.3 Actuarial Value of Assets

Section 3.4 Average Annual Rates of Investment Return

SUMMARY OF ASSETS

Asset Category	Market Value as of June 30, 2006	Market Value as of June 30, 2005
1. Cash and Short-term Investments		
a. Cash	\$ 2,054,000	\$ 120,000
b. Short-term Investments	33,332,000	34,680,000
c. Total	\$ 35,386,000	\$ 34,800,000
2. Receivables		
a. Interest and Dividends	\$ 3,823,000	\$ 3,033,000
b. Member, Employer, and State Contributions	7,115,000	1,693,000
c. Investments Sold	0	0
d. Other Receivables	0	0
e. Total	\$ 10,938,000	\$ 4,726,000
3. Investments at fair value		
a. Government Bonds	\$ 7,748,000	\$ 31,665,000
b. International Government Bonds	34,756,000	24,919,000
c. Corporate Bonds ⁽¹⁾	222,332,000	220,940,000
d. Common Stock	730,096,000	614,341,000
e. International Stock	75,784,000	80,222,000
f. Other	437,817,000	406,562,000
g. Securities Lending Short-term Pool	53,657,000	62,984,000
h. Total	\$ 1,562,190,000	\$ 1,441,633,000
4. Assets used in system operations		
a. Furniture, Fixtures and Equipment	\$ 0	\$ 0
5. Total Assets	\$ 1,608,514,000	\$ 1,481,159,000
6. Liabilities		
a. Payable for Investments Purchased	\$ 4,223,000	\$ 2,270,000
b. Accounts Payable and Accrued Expenses	911,000	960,000
c. Securities Lending Collateral Payable	53,657,000	62,984,000
d. Total Liabilities	\$ 58,791,000	\$ 66,214,000
7. Net Assets for Pension Benefits	\$ 1,549,723,000	\$ 1,414,945,000

⁽¹⁾ Includes Domestic and International Bonds

RECONCILIATION OF ASSETS

Transactions	June 30, 2006	June 30, 2005
Additions		
1. Contributions		
a. Contributions from Employers	\$ 26,490,000	\$ 25,001,000
b. Contributions from System Members	15,326,000	14,234,000
c. Insurance Premium Tax	23,584,000	23,730,000
d. Total	\$ 65,400,000	\$ 62,965,000
2. Net Investment Income		
a. Interest	\$ 10,862,000	\$ 10,246,000
b. Dividends	9,942,000	3,621,000
c. Realized Gain and Unrealized Appreciation	76,049,000	110,903,000
d. Income from Securities Lending	269,000	218,000
e. Other	66,197,000	(1,702,000)
f. Total	\$ 163,319,000	\$ 123,286,000
g. Investment Expense	(8,728,000)	(9,322,000)
h. Net Investment Income	\$ 154,591,000	\$ 113,964,000
3. Total Additions	\$ 219,991,000	\$ 176,929,000
Deductions		
4. Retirement Benefits	\$ (81,555,000)	\$ (77,533,000)
5. Deferred Option Benefits	\$ 0	\$ 0
6. Refund of Contributions	\$ (1,423,000)	\$ (1,708,000)
7. Administrative Expenses	\$ (2,235,000)	\$ (2,072,000)
8. Total Deductions	\$ (85,213,000)	\$ (81,313,000)
9. Net Increase	\$ 134,778,000	\$ 95,616,000
10. Net Assets Held in Trust for Pension Benefits		
a. Beginning of Year	\$ 1,414,945,000	\$ 1,319,329,000
b. End of Year	\$ 1,549,723,000	\$ 1,414,945,000
Reconciliation of Actuarial Asset Value and Market Value		
Actuarial Asset Value	\$ 1,490,208,000	\$ 1,423,834,000
Deferred Gain/(Loss)	\$ 59,515,000	\$ (8,889,000)
Market Value	\$ 1,549,723,000	\$ 1,414,945,000

RECONCILIATION OF ASSETS ⁽¹⁾ (CONTINUED)

Transactions	Non-Deferred Option Plan Assets	Deferred Option Plan Assets	Total
Additions			
1. Contributions			
a. Contributions from Employers	\$ 25,499,000	\$ 991,000	\$ 26,490,000
b. Contributions from System Members	15,176,000	150,000	15,326,000
c. Insurance Premium Tax	23,584,000	0	23,584,000
d. Total	\$ 64,259,000	\$ 1,141,000	\$ 65,400,000
2. Net Investment Income			
a. Interest	\$ 8,347,000	\$ 2,515,000	\$ 10,862,000
b. Dividends	9,942,000	0	9,942,000
c. Realized Gain and Unrealized Appreciation	76,049,000	0	76,049,000
d. Income from Security Lending	269,000	0	269,000
e. Other	66,197,000	0	66,197,000
f. Total	\$ 160,804,000	\$ 2,515,000	\$ 163,319,000
g. Investment Expense	(8,728,000)	0	(8,728,000)
h. Net Investment Income	\$ 152,076,000	\$ 2,515,000	\$ 154,591,000
3. Total Additions	\$ 216,335,000	\$ 3,656,000	\$ 219,991,000
Deductions			
4. Retirement Benefits	\$ (62,853,000)	\$ (15,702,000)	\$ (81,555,000)
5. Deferred Option Benefits Credited to Account	(7,894,000)	7,894,000	0
6. Refund of Contributions	(1,423,000)	0	(1,423,000)
7. Administrative Expenses	(2,235,000)	0	(2,235,000)
8. Total Deductions	\$ (77,405,000)	\$ (7,808,000)	\$ (85,213,000)
9. Net Increase	\$ 138,930,000	\$ (4,152,000)	\$ 134,778,000
10. Net Assets Held in Trust for Pension Benefits			
a. Beginning of Year	\$ 1,386,113,000	\$ 28,832,000	\$ 1,414,945,000
b. End of Year	\$ 1,525,043,000	\$ 24,680,000	\$ 1,549,723,000

⁽¹⁾ This allocation of assets is maintained for accounting purposes only. It is our understanding that all assets of the System are available to pay all benefits provided under the System.

ACTUARIAL VALUE OF ASSETS

Schedule of Assets Gains/(Losses)				
Year	Original Amount	Recognized in Prior Years	Recognized This Year	Recognized in Future Years
2001/2002	(167,298,717)	(133,838,973)	(33,459,744)	0
2002/2003	(62,256,106)	(37,353,663)	(12,451,221)	(12,451,222)
2003/2004	69,870,858	27,948,344	13,974,172	27,948,342
2004/2005	9,438,398	1,887,680	1,887,680	5,663,038
2005/2006	47,943,780	0	9,588,756	38,355,024
Total	\$ (102,301,787)	\$ (141,356,612)	\$ (20,460,357)	\$ 59,515,182

Development of Actuarial Value of Assets	
1. Actuarial Value as of July 1, 2005 (Excluding DOP)	\$ 1,395,002,000
2. Contributions	
a. Member	\$ 15,176,000
b. Employer (Excluding DOP)	25,499,000
c. Insurance tax	23,584,000
d. Total	\$ 64,259,000
3. Decreases During the Year	
a. Benefit Payments (Excluding payments from DOP, including payments to DOP)	\$ 73,747,000
b. Return of Member Contributions	1,423,000
c. Noninvestment Expenses	2,235,000
d. Total	\$ 77,405,000
4. Expected Return at 7.5% on:	
a. Item 1	\$ 104,625,150
b. Item 2 (one-half year)	2,409,713
c. Item 3 (one-half year)	2,902,688
d. Total (a + b - c)	\$ 104,132,175
5. Expected Actuarial Value of Assets (Excluding DOP) June 30, 2006 (1 + 2 - 3 + 4)	\$ 1,485,988,175
6. Unrecognized Asset Gain/(Loss) as of June 30, 2005	\$ (8,888,955)
7. DOP Assets	\$ 24,680,000
8. Expected Actuarial Value June 30, 2006 plus previous year's Unrecognized Asset Gain (5 + 6 + 7)	\$ 1,501,779,220
9. Market Value as of June 30, 2006	\$ 1,549,723,000
10. 2005/2006 Asset Gain/(Loss) (9 - 8)	\$ 47,943,780
11. Asset Gain/(Loss) to be Recognized as of June 30, 2006	\$ (20,460,357)
12. Initial Actuarial Value July 1, 2006 (5 + 7 + 11) (Rounded to \$1,000's)	\$ 1,490,208,000
13. Constraining Values:	
a. 80% of Market Value (9 x 0.8)	\$ 1,239,778,000
b. 120% of Market Value (9 x 1.2)	\$ 1,859,668,000
14. Actuarial Value July 1, 2006 (12), but no less than (13a), nor greater than (13b)	\$ 1,490,208,000

AVERAGE ANNUAL RATES OF INVESTMENT RETURN

Year Ending June 30	Actuarial Value		Market Value	
	Annual	Cumulative	Annual	Cumulative
1990	8.6%	8.6%	9.2%	9.2%
1991	7.9%	8.2%	8.1%	8.6%
1992	8.7%	8.4%	13.8%	10.3%
1993	10.3%	8.9%	15.1%	11.5%
1994	9.3%	9.0%	0.0%	9.1%
1995	11.0%	9.3%	17.7%	10.5%
1996	11.9%	9.7%	13.5%	10.9%
1997	12.8%	10.1%	17.3%	11.7%
1998	13.5%	10.4%	16.9%	12.3%
1999	14.3%	10.8%	9.7%	12.0%
2000	12.8%	11.0%	8.7%	11.7%
2001	8.8%	10.8%	(5.3%)	10.2%
2002	4.9%	10.3%	(5.6%)	8.9%
2003	2.7%	9.8%	3.5%	8.5%
2004	3.3%	9.3%	15.0%	8.9%
2005	3.0%	8.9%	8.7%	8.9%
2006	6.1%	8.8%	11.0%	9.0%

Annual Returns before 1998 exclude DOP assets.

This section presents and describes the basis of the valuation. The census of Members, actuarial basis and benefit provisions of the System are the foundation of the valuation, since these are the present facts on which the projection of benefit payments will depend. The valuation is based on the premise that the System will continue in existence.

Section 4.1 System Members

Section 4.2 Actuarial Basis

Section 4.3 Summary of System Provisions

SYSTEM MEMBERS

A. Member Data Reconciliation

	Active Members		Inactive Members				Total
	Regular	Deferred Option Plan	Deferred Vested Members	Retired Members	Disabled Members	Bene-ficiaries	
As of July 1, 2005	4,016	247	79	1,866	148	433	6,789
Deferred Option Plan Retirees	(15)	15	0	0	0	0	0
Age Retirements	(32)	(75)	(10)	117	0	0	0
Disability Retirements	(1)	0	0	0	1	0	0
Deaths Without Beneficiaries	0	0	(2)	(4)	0	(9)	(15)
Deaths With Beneficiaries	(1)	0	0	(23)	(5)	29	0
Nonvested Terminations	(190)	0	0	0	0	0	(190)
Vested Terminations	(16)	0	16	0	0	0	0
Rehires	3	0	(3)	0	0	0	0
Expiration of Benefits	0	0	0	(5)	0	0	(5)
Vested Terminations Electing a Cash-Out	(16)	0	0	0	0	0	(16)
Data Corrections	2	0	0	0	0	0	2
Transfers Out	0	0	0	0	0	0	0
Transfers In	0	0	0	0	0	0	0
Net Change	(266)	(60)	1	85	(4)	20	(224)
New Entrants During the Year	391	0	0	0	0	0	391
As of July 1, 2006	4,141	187	80	1,951	144	453	6,956

SYSTEM MEMBERS (CONTINUED)

B. Count of Active Members

Age	Years of Service									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	
Under 20										0
20-24	180									180
25-29	471	132								603
30-34	292	447	101							840
35-39	145	235	327	157						864
40-44	63	100	155	366	139					823
45-49	20	38	70	125	164	86				503
50-54		7	31	54	49	76	31			248
55-59		1	9	16	17	10	16	1		70
60-64			1	5	1	1	1	1		10
65-69										0
70-74										0
75+										0
Total	1,171	960	694	723	370	173	48	2	0	4,141

C. Average Compensation

Age	Years of Service									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	
Under 20										0
20-24	33,074									33,074
25-29	36,534	44,872								38,359
30-34	35,908	46,905	50,819							43,553
35-39	34,083	44,357	54,095	62,092						49,541
40-44	34,426	42,212	53,644	60,533	64,920					55,752
45-49	29,714	42,754	49,956	56,451	66,837	69,047				58,989
50-54		39,505	47,323	54,976	57,173	70,950	75,860			61,523
55-59		52,845	39,560	52,136	54,586	68,893	82,712	70,851		60,774
60-64			50,379	57,519	78,224	70,919	71,961	69,368		62,845
65-69										0
70-74										0
75+										0
Total	35,270	45,301	52,604	59,544	64,305	69,885	78,063	70,110		49,309

SYSTEM MEMBERS (CONTINUED)

D. Members in Pay Status - Annual Benefits

Attained Age	Retired Members		Beneficiaries		Disabled Members		Current Payment Total	
	No.	Benefit	No.	Benefit	No.	Benefit	No.	Benefit
Under 51	173	\$ 4,565,908	40	\$ 866,270	37	\$ 386,664	250	\$ 5,818,842
51	33	890,983	3	91,668	2	26,967	38	1,009,618
52	59	1,521,109	11	261,631	3	38,178	73	1,820,918
53	77	1,866,018	7	208,676	6	43,940	90	2,118,634
54	76	1,973,056	5	116,181	5	46,423	86	2,135,660
55	76	2,045,250	9	208,272	2	34,569	87	2,288,091
56	73	2,074,524	5	124,709	7	84,935	85	2,284,168
57	101	2,831,473	8	209,079	4	76,699	113	3,117,251
58	128	3,842,829	7	115,022	8	120,692	143	4,078,543
59	106	3,042,552	8	236,523	3	67,802	117	3,346,877
60	107	3,221,702	10	245,250	1	8,769	118	3,475,721
61	85	2,508,686	10	265,417	4	57,634	99	2,831,737
62	87	2,445,151	15	383,832	3	70,304	105	2,899,287
63	76	2,074,197	8	224,217	2	22,023	86	2,320,437
64	68	1,989,710	16	412,193	3	35,024	87	2,436,927
65	63	1,772,401	6	181,827	4	85,957	73	2,040,185
66	63	1,778,960	10	272,085	5	115,244	78	2,166,289
67	58	1,681,858	10	213,024	3	68,115	71	1,962,997
68	52	1,428,672	14	426,805	4	76,693	70	1,932,170
69	42	1,207,491	10	260,651	3	72,272	55	1,540,414
70	43	1,164,904	20	562,854	3	77,663	66	1,805,421
71	44	1,218,255	7	239,044	3	62,224	54	1,519,523
72	36	1,039,700	13	375,478	3	78,672	52	1,493,850
73	19	520,630	9	250,524	1	21,550	29	792,704
74	28	830,308	14	388,836	2	50,044	44	1,269,188
75	25	790,281	14	430,370	2	38,171	41	1,258,822
76	15	457,381	22	561,463	4	102,554	41	1,121,398
77	22	580,835	16	417,908	1	33,274	39	1,032,017
78	23	724,395	7	147,197	2	67,979	32	939,571
79	19	550,405	10	274,740	3	82,986	32	908,131
80	11	339,368	18	521,499	3	86,884	32	947,751
81	11	317,405	9	226,825	2	54,222	22	598,452
82	12	348,787	11	260,339	0	0	23	609,126
83	12	327,569	13	305,510	0	0	25	633,079
84	7	172,178	6	143,458	2	42,169	15	357,805
85	7	178,138	8	211,900	0	0	15	390,038
86	5	127,879	3	58,123	1	20,017	9	206,019
87	2	26,612	11	227,572	0	0	13	254,184
88	2	57,668	5	95,037	0	0	7	152,705
89	3	69,547	1	19,876	0	0	4	89,423
90	0	0	7	134,093	0	0	7	134,093
Over 90	2	43,645	17	415,638	3	57,206	22	516,489
Total	1,951	\$ 54,648,420	453	\$ 11,591,616	144	\$ 2,414,519	2,548	\$ 68,654,555

SYSTEM MEMBERS (CONTINUED)

E. Terminated Vested and Deferred Option Plan Members - Annual Benefits

Attained Age	Terminated Vested Members		Deferred Option Plan Members	
	No.	Benefit	No.	Benefit
Under 40	3	\$ 37,940	0	\$ 0
40	6	77,475	0	0
41	2	22,939	0	0
42	5	83,471	0	0
43	5	85,648	6	184,868
44	7	77,012	7	191,187
45	4	41,561	5	123,434
46	8	87,479	17	476,767
47	4	41,434	10	314,960
48	6	75,536	8	207,571
49	7	101,510	8	267,140
50	5	76,885	16	490,279
51	4	43,503	20	584,559
52	3	36,234	10	342,626
53	5	78,618	12	456,791
54	1	9,324	18	710,423
55	0	0	8	278,977
56	4	59,323	13	540,270
57	1	9,425	6	175,204
58	0	0	10	389,662
59	0	0	4	143,554
60	0	0	5	174,991
61	0	0	1	29,088
62	0	0	0	0
63	0	0	2	66,887
64	0	0	1	38,267
65 and over	0	0	0	0
Total	80	\$ 1,045,317	187	\$ 6,187,505

SYSTEM MEMBERS (CONTINUED)

F. Member Statistics

Inactive Members as of July 1, 2006	Number	Amount of Annual Benefit
Members Receiving Benefits		
a. Retired	1,951	\$ 54,648,420
b. Beneficiaries	453	11,591,616
c. Disabled	144	2,414,519
Total	2,548	\$ 68,654,555
Members with Deferred Benefits		
a. Terminated Vested	80	\$ 1,045,317
b. Beneficiaries	N/A	N/A
c. Disabled	N/A	N/A
Total	80	\$ 1,045,317
Deferred Option Plan Members	187	\$ 6,187,505

Statistics for Active Members	Number	Average		
		Age	Service	Earnings
As of July 1, 2005				
a. Continuing	3,614	38.5	11.0	\$ 48,943
b. New	402	29.2	0.6	29,770
Total	4,016	37.6	10.0	\$ 47,024
As of July 1, 2006				
a. Continuing	3,745	38.7	11.2	51,066
b. New	396	30.1	0.6	32,697
Total	4,141	37.9	10.2	49,309

SYSTEM MEMBERS (CONTINUED)

G. Data Tape Reconciliation

	July 1, 2006	July 1, 2005
Tape Records Submitted		
Records submitted	7,639	7,444
Not Eligible to Participate	0	0
Terminations/ No Benefits Payable	(683)	(665)
Denied Benefit	0	0
Data Corrections	0	0
Number Added	0	0
Total Valued	6,956	6,789

ACTUARIAL BASIS

A. Entry Age Actuarial Cost Method

The actuarial cost method is selected by the Board with the recommendation of the actuary. Liabilities and contributions shown in this report are computed using the Individual Entry Age method of funding. The System has used this cost method since at least 1990.

Sometimes called “funding method”, this is a particular technique used by actuaries for establishing the amount and incidence of the annual actuarial cost of pension plan benefits, or normal cost, and the related unfunded actuarial accrued liability. Ordinarily the annual contribution to the system is comprised of (1) the normal cost and (2) an amortization payment on the unfunded actuarial accrued liability.

Under the Entry Age Actuarial Cost Method, the **Normal Cost** is computed as the level percentage of pay which, if paid from the earliest time each Member would have been eligible to join the system if it then existed (thus, entry age) until his retirement or termination, would accumulate with interest at the rate assumed in the valuation to a fund sufficient to pay all benefits under the system.

The **Actuarial Accrued Liability** under this method at any point in time is the theoretical amount of the fund that would have accumulated had annual contributions equal to the normal cost been made in prior years (it does not represent the liability for benefits accrued to the valuation date.) The **Unfunded Actuarial Accrued Liability** is the excess of the actuarial accrued liability over the actuarial value of system assets actually on hand on the valuation date.

Under this method experience gains or losses, i.e. decreases or increases in accrued liabilities attributable to deviations in experience from the actuarial assumptions, adjust the unfunded actuarial accrued liability.

B. Asset Valuation Method

The asset valuation method is selected by the Board with the recommendation of the actuary. The actuarial value of assets is based on a five-year moving average of expected and market values determined as follows:

- at the beginning of each plan year, a preliminary expected actuarial asset value is calculated as the sum of the previous year’s actuarial value increased with a year’s interest at the System valuation rate plus net cash flow adjusted for interest (at the same rate) to the end of the previous plan year;

ACTUARIAL BASIS (CONTINUED)**B. Asset Valuation Method (continued)**

- the expected actuarial asset value is set equal to the preliminary expected actuarial value plus the unrecognized investment gains and losses as of the beginning of the previous plan year;
- the difference between the expected actuarial asset value and the market value is the investment gain or loss for the previous plan year;
- the (final) actuarial asset value is the preliminary value plus 20% of the investment gains and losses for each of the five previous plan years, but in no case more than 120% of the market value or less than 80% of the market value.
- Deferred Option Plan assets are included in the actuarial value. However, they are included at market value and are not subject to the smoothing described above.

The System has used this method since at least 1998.

C. Valuation Procedures

No actuarial accrued liability is held for nonvested, inactive Members who have a break in service, or for nonvested Members who have quit or been terminated, even if a break in service had not occurred as of the valuation date.

The wages used in the projection of benefits and liabilities are July 1, 2006 rates of pay based upon the prior year's earnings increased by the salary scale.

In computing accrued benefits, average earnings were determined using actual pay history.

No benefits are projected to be greater than the dollar limitation and compensation limitation required by the Internal Revenue Code Section 401 and 415 for governmental plans.

No additional liability is being carried for the guaranteed minimum interest rate for the Deferred Option Plan account balances. Stochastic studies of similar Systems have been used to quantify the cost of this benefit. Further review and analysis of this liability is recommended. Please note that this is a volatile benefit and the impact in any one-year may be large.

ACTUARIAL BASIS (CONTINUED)**C. Valuation Procedures (continued)**

The calculations for the required state contribution are determined as of mid-year. This is a reasonable assumption since the employer contributions, employee contributions and State insurance premium tax allocations are made on a monthly basis throughout the year, and mid-year represents an average weighting of the contributions.

The contribution requirements are based on total annual compensation rather than total covered compensation of employees under assumed retirement age. This is a better reflection of the overall expectations for the System.

The Entry Age Normal Funding Method has been adjusted for those members granted prior service. The prior service is treated as occurring immediately before the membership date. Level pay is assumed during this period before actual membership. Entry Age costs are determined as if the member entered the System on the date the prior service is assumed to have begun. This treatment reflects the extra cost of prior service immediately in the accrued liability and preserves the relationship of normal cost to a year of service accrual.

ACTUARIAL BASIS (CONTINUED)**D. Actuarial Assumptions**

The actuarial assumptions are selected by the Board with the recommendation of the actuary.

Economic Assumptions

1. Investment Return 7.5%, net of investment expenses, per annum, compound annually. The System has used this assumption since at least 1984.
2. Earnings Progression Sample rates below:

Years of Service	Current Assumption		
	Inflation %	Merit %	Increase %
1	3.0	16.00	19.00
2	3.0	12.00	15.00
3	3.0	6.75	9.75
4	3.0	6.25	9.25
5	3.0	5.75	8.75
6	3.0	5.50	8.50
7	3.0	5.00	8.00
8	3.0	4.25	7.25
9	3.0	4.10	7.10
10	3.0	3.90	6.90
15	3.0	2.90	5.90
20	3.0	2.00	5.00

ACTUARIAL BASIS (CONTINUED)

D. Actuarial Assumptions (continued)

Demographic Assumptions

1. Retirement Rates

Sample rates below:

Attained Service	Annual Rates of Retirement Per 100 Eligible Members
20	39
21	21
22	17
23	17
24	19
25	22
26	80
27	80
28	80
29	80
30	100

2. Mortality Rates

- | | |
|---|--|
| (a) Active employees
(pre-retirement) | RP-2000 No Collar Healthy
Employees (Generational) |
| (b) Active employees
(post-retirement and
nondisabled pensioners) | RP-2000 Blue Collar Healthy
Annuitant (Generational) |
| (c) Disabled pensioners | RP-2000 Blue Collar Healthy Annuitant
(Set forward 7 years) |

ACTUARIAL BASIS (CONTINUED)

D. Actuarial Assumptions (continued)

Demographic Assumptions (continued)

3. Disability Rates

Graduated rates. See table below:

Age Range	Annual Rate
20-24	.0002
25-29	.0004
30-34	.0006
35-39	.0011
40-44	.0020
45-49	.0020
50-54	.0020
55-59	.0010

4. Withdrawal Rates

Graduated rates by years of service.

Service Range	Annual Rate
0-1	.100
2	.085
3	.070
4	.060
5-10	.040
11-15	.020
16-20	.005
Over 20	.000

5. Marital Status

(a) Percentage married:

85% of participants are assumed to be married.

(b) Age difference:

Males are assumed to be three (3) years older than females.

ACTUARIAL BASIS (CONTINUED)

D. Actuarial Assumptions (continued)

Other Assumptions

1. Assumed Age of Commencement for Deferred Benefits: Age 50, or the date at which the participant would have achieved twenty years of service, if later.
2. Provision for Expenses: Administrative Expenses, as budgeted by the Oklahoma Police Pension and Retirement System.
3. Percentage of Disability: Based upon information provided by the Executive Director, we assume that employees becoming disabled have a 25%-49% impairment.
4. Duty-Related Death: Assuming all active pre-retirement deaths are duty-related.
5. Cost-of-Living Allowance: Police officers eligible to receive increased benefits according to repealed Section 50-120 of Title 11 of the Oklahoma Statutes pursuant to a court order receive an adjustment of 1/3 to 1/2 of the increase or decrease of any adjustment to the base salary of a regular police officer, based on an increase in base salary of 3.6%, with a 2% minimum benefit increase assumed.

Members, not eligible for this increase are assumed to receive a 2% annual ad hoc increase in benefits during each year of retirement. This assumption was adopted in 2000.
6. Deferred Option Plan: Deferred Option Plan members are assumed to remain in the Deferred Option Plan for the maximum of five years prior to electing a lump sum.

SUMMARY OF SYSTEM PROVISIONS

- Effective Date and Plan Year:** The System became effective January 1, 1981 and has been amended each year since then. The plan year is July 1 to June 30.
- Administration:** The system is administered by the Oklahoma Police Pension and Retirement Board consisting of thirteen Members. The Board shall be responsible for the policies and rules for the general administration of the System.
- Type of Plan:** A defined benefit plan.
- Employers Included:** An eligible employer may join the System on the first day of any month. An application of affiliation must be filed in the form of a resolution before the eligible municipality can become a participating municipality.
- Eligibility:** All persons employed full-time as officers working more than 25 hours per week or any person undergoing police training to become a permanent police officer with a police department of a participating municipality, with ages not less than twenty-one (21) nor more than forty-five (45) when accepted for membership.
- Service Considered:** Credited service consists of the period during which the Member participated in the System or predecessor municipal plan as an active employee, plus any service prior to the establishment of the municipal plan which was credited under the predecessor municipal systems or credited service granted by the State Board.
- Salary Considered:** Base salary used in the determination of benefits does not include payment for accumulated sick and annual leave upon termination of employment or any uniform allowances.
- Final average salary means the average paid base salary for normally scheduled hours of an officer over the highest 30 consecutive months of the last 60 months of credited service.

SUMMARY OF SYSTEM PROVISIONS (CONTINUED)

State Contributions:	Insurance premium tax allocation. Historically, the fund has received 14% of these collected taxes. For the fiscal years beginning July 1, 2004 and ending June 30, 2009, the fund shall receive 17% of these collected taxes. For the fiscal year beginning July 1, 2009 and each fiscal year thereafter, the fund will receive 14% of these collected taxes. Beginning in fiscal year July 1, 2006, the system shall receive 26% of a special allocation established to refund the System for reduced allocations of insurance premium taxes resulting in increases in insurance premium tax credits.
Municipality Contributions:	Contribution is thirteen (13%) percent as of July 1, 1996.
Member Contributions:	Eight (8%) percent of base salary. These contributions shall be "picked up" after December 31, 1988 pursuant to Section 414(h)(2) of the Internal Revenue Code.
Normal Retirement Benefit:	
Eligibility:	20 years of credited service.
Benefit:	2 1/2% of the final average salary multiplied by the years of credited service, with a maximum of 30 years of credited service considered.
Form of Benefit:	Lifetime benefit.
Cost-of-Living Adjustments:	Police officers eligible to receive increased benefits according to repealed Section 50-120 of Title 11 of the Oklahoma Statutes pursuant to a court order shall receive an adjustment of 1/3 to 1/2 of the increase or decrease of any adjustment to the base salary of a regular police officer.
Termination:	
Less Than 10 Years of Service:	A refund of contributions without interest.

SUMMARY OF SYSTEM PROVISIONS (CONTINUED)

More than 10 Years of Service: If greater than 10 years of service, but not eligible for the normal retirement benefit, the benefit is payable at the later of the date the Member would have had 20 years of service or attained age 50 in an amount equal to 2 1/2% of the final average salary multiplied by the years of credited service. The Member may elect a refund of contributions instead of the retirement benefit.

Disability Benefit (Duty): Total Disability

Upon determination of total disability incurred as a result of the performance of duty, the normal disability benefit is 50% of final average salary.

Partial Disability

Upon determination of partial disability incurred as a result of the performance of duty, the normal disability is reduced according to the percentage of impairment, as outlined in the "American Medical Association's Guide to the Evaluation of Permanent Impairment." The following shows the percent of normal disability benefit payable as related to the percent of impairment.

<u>% Impairment</u>	<u>% of Benefit</u>
1% to 49%	50%
50% to 74%	75%
75% to 100%	100%

Disability Benefit (Non-Duty): Upon determination of disability after 10 years of service due to causes other than duty, the benefit equals the accrued benefit of 2 1/2% of final average salary times years of credited service (maximum of 30 years) times:

SUMMARY OF SYSTEM PROVISIONS (CONTINUED)

- 100%, if permanent and total, or
- the following percentages, if partial disability.

1% to 24%	25%
25% to 49%	50%
50% to 74%	75%
75% to 99%	90%

Death Benefits Payable to Beneficiaries:

Prior to Retirement (Duty):

The greater of:

- 1) 2 1/2% of final average salary times years of credited service (maximum of 30 years), or
- 2) 50% of final average salary.

Prior to Retirement (Non-Duty):

After 10 years of service, a benefit equal to 2 1/2% of final average salary times years of credited service (maximum of 30 years).

After Retirement:

100% of the Member's retirement or deferred vested benefit, payable when the Member would have been eligible to receive it, payable to the beneficiary.

Death Benefit:

The beneficiary shall receive a death benefit amount of \$5,000.

If an active Member dies prior to retirement without leaving a beneficiary, a refund of the accumulated contributions made by the Member will be paid to the estate.

Beneficiary:

Surviving spouses must be married to the member for 30 continuous months prior to the date of death (waived in the case of duty related death).

SUMMARY OF SYSTEM PROVISIONS (CONTINUED)

If the beneficiary is a child, the benefits are payable to age 18, or 22 if a full-time student.

Deferred Option Plan:

A Member who has 20 or more years of service and continues employment may elect to participate in the Deferred Option Plan (DOP). Participation in the DOP shall not exceed five years. The employees' contributions cease upon entering the Plan, but the employer contributions are divided equally between the Retirement System and DOP. The monthly retirement benefits that the employee is eligible to receive are paid into the DOP account.

A member is also allowed to retroactively elect to join the DOP as of a back-drop-date which is no earlier than the member's normal retirement date or five years before his termination date. The monthly retirement benefits and employee contributions that would have been payable had the member elected to join the DOP are credited to the member's DOP account with interest.

The retirement benefits are not recalculated for service and salary past the election date to join the DOP. However, the benefits may be increased by any applicable cost-of-living increases.

When the Member actually terminates employment, the DOP account balance may be paid in a lump sum or to an annuity provider. Monthly retirement benefits are then paid directly to the retired Member.

This Plan became effective during the July 1, 1990 to June 30, 1991 Plan Year. The DOP account is guaranteed a minimum of the valuation interest rate for investment return, or 2% less than the fund rate of return, if greater.