



# POPULAR ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2022



Dear Members,

TRS presents the Popular Annual Financial Report (PAFR) for FY2022.

Fiscal year 2022 was certainly a difficult year from a financial standpoint. Global markets were rattled by unexpectedly high and persistent inflation that emerged during the year. Investments yielded negative returns. But despite facing difficult financial times in FY22, TRS continued to fulfill its promise to our members – to provide secure retirement income to Oklahoma's public education employees. We are proud of the positive impact TRS continues to have on our membership as well as on Oklahoma's economy. Having paid out more than \$1.38 billion in benefit payments to in-state retirees and beneficiaries in FY22, TRS is proud to support our members and play a significant role in the economic stability of the State of Oklahoma.

While the past year has been difficult from an investment standpoint, TRS remains a long-term investor with a focus on long-term returns. We are happy to report our ten-year annualized return remains strong at **8.7%**, exceeding our actuarially assumed rate of return of 7%.

**Our history:** TRS was established in 1943 by the Oklahoma Legislature as a pension plan for Oklahoma's public education employees. As of June 30, 2022, the Plan consisted of 599 participating employers comprised of state institutions of higher education, state education entities, local school districts and career tech districts. The membership includes 99,844 active members, 14,096 inactive vested members, 12,896 inactive non-vested members and 68,330 retirees and beneficiaries for a total of **195,166** members.

**Our initiatives:** In addition to fiscal growth, we have set strategic initiatives for further advancements at TRS through focused efforts on communications with our membership and community stakeholders, employee engagement with our staff, digital transformation of our pension administration system, and cybersecurity.

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

Sincerely,

Sarah Green,  
Executive Director

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

<https://oklahoma.gov/content/dam/ok/en/trs/documents/publications/FY2022-ACFR.pdf>

## FIDUCIARY NET POSITION

The “Fiduciary Net Position” is calculated by taking the amount of assets of TRS and subtracting liabilities restricted for payment of monthly retirement benefits and other qualified distributions. A summary of net position restricted for benefits on June 30, 2022, 2021, and 2020, is shown below. As of June 30, 2022, TRS’ net position was approximately \$19.67 billion. For simplicity, the 401(a) and OPEB assets & liabilities on these schedules are combined. A separate schedule for the OPEB plan is on page 7 of the PAFR.

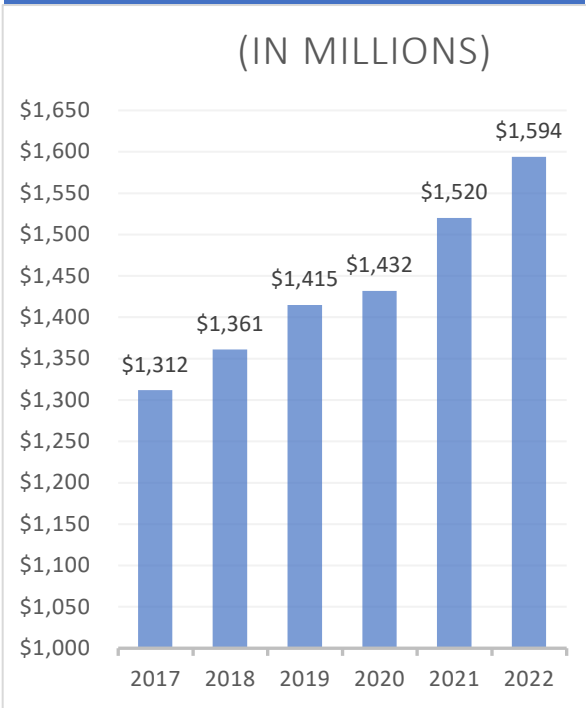
CONDENSED SCHEDULE OF FIDUCIARY NET POSITION			
	JUNE 30		
ASSETS:	2022	2021	2020
Cash	\$33,320,929	\$25,803,234	\$26,064,064
Receivables	544,790,611	211,491,831	247,307,733
Investments	19,686,474,977	22,025,570,560	16,950,754,948
Securities lending assets	1,421,896,735	1,349,706,322	1,032,139,775
Capital assets, net	3,525,536	3,943,725	4,201,234
Total assets	21,690,008,788	23,616,515,672	18,260,467,754
LIABILITIES:			
Other liabilities	598,704,151	214,740,249	298,713,441
Sec. lending collateral	1,421,896,735	1,349,706,322	1,032,139,776
Total liabilities	2,020,600,886	1,564,446,571	1,330,853,217
Ending net position restricted for pensions	<b>\$19,669,407,902</b>	<b>\$22,052,069,101</b>	<b>\$16,929,614,537</b>

## CHANGES IN FIDUCIARY NET POSITION

TRS is funded through a combination of investment earnings, member contributions, employer contributions, and dedicated state revenue. For FY2022, the fiduciary net position decreased by \$2,382,661,199 or 146.5% - primarily due to investment performance. Deductions to fiduciary net position are generally incurred for the purpose for which TRS was created: namely the payment of benefits to retirees. In FY2022, payments for retirement, death and survivor benefits increased \$73,609,263 or 4.8%. Refunds and withdrawals increased by \$6,459,173 or 20.2% as more participants withdrew their contributions. Administrative costs increased by \$362,023 or 6.6%.

CONDENSED SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION			
	JUNE 30		
	2022	2021	2020
ADDITIONS:			
Member contributions	\$366,066,840	\$343,474,401	\$340,057,646
Employer contributions	495,861,085	464,336,615	458,306,002
Matching contributions	47,040,754	34,371,572	28,745,259
Dedicated tax revenue	424,507,378	276,918,852	330,620,451
Investment income (net)	(2,082,110,613)	5,556,807,673	113,622,021
Sec. lending income (net)	4,448,445	4,590,080	6,612,523
Total additions	(744,186,111)	6,680,499,193	1,277,963,902
DEDUCTIONS:			
Benefits payments	1,594,238,124	1,520,628,861	1,431,930,928
Refunds of member contributions	38,398,988	31,939,815	35,183,705
Administrative Expenses	5,837,976	5,475,953	5,270,540
Total deductions	1,638,475,088	1,558,044,629	1,472,385,173
Net increase (decrease) in net position	<b>\$(2,382,661,199)</b>	<b>\$5,122,454,564</b>	<b>\$(194,421,271)</b>

## SCHEDULE OF BENEFIT PAYMENTS



## BENEFITS PAID TO MEMBERS

The Schedule of Benefit Payments to the left 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 \$1.31 billion in FY2017 to \$1.59 billion in FY2022. Members qualify for full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals 80 (Rule of 80), and for any person who became a member after June 30, 1992, when the member's age and years of credited service equals 90 (Rule of

90). Normal retirement age under the Plan is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule of 90 minimum age 60 if the participant became a member on or after November 1, 2011.

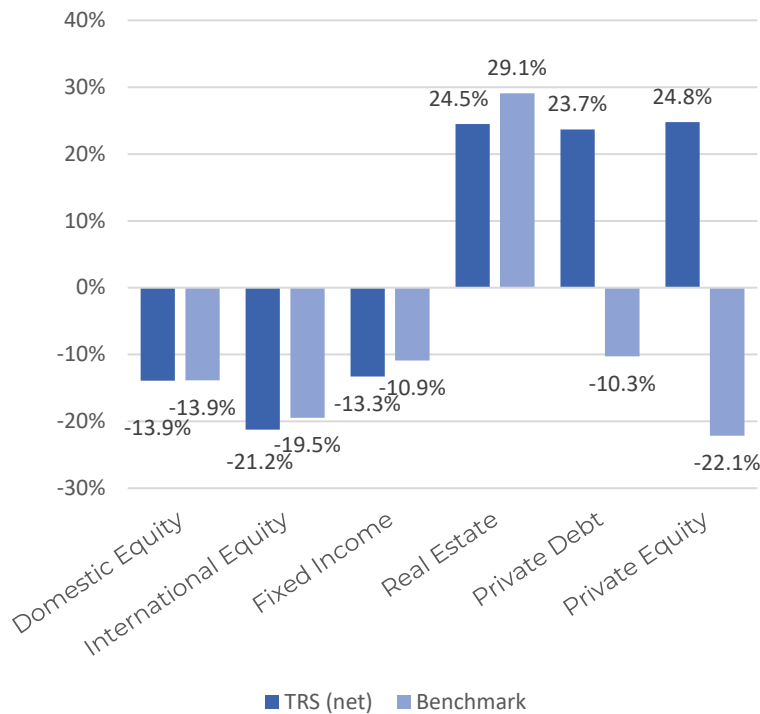
## INVESTMENTS

The Board of Trustees follows the "Prudent Investor" standard which is considered the highest standard in making investment decisions for the Plan. The Board and its advisors invest the Plan's assets for the sole interest of our members and their beneficiaries. Funds are diversified to minimize the risk of large losses, unless under the circumstances, it is clearly prudent not to do so. For fiscal year 2022, the System earned a -9.55% rate of return (net), outperforming the benchmark return of -12.03%, and ended the year with a total market value of \$19.6 billion.

RATE OF RETURN	
YEAR ENDING JUNE 30	RETURN (NET)
2022	-9.55%
2021	32.95%
2020	0.77%
2019	5.22%
2018	9.69%

Relative to a peer group of U.S. Public Pension Plans with assets over \$1 billion, the Fund ranked in the 66th percentile. Plan returns are primarily determined by how investments are diversified across asset classes.

## Relative Performance FY2021



International equities returned -21.2%, trailing the benchmark due to an overweight to small-cap securities. Total fixed income returned -13.3%, trailing the benchmark due to an overweight to high yield and long duration bonds.

The alternative asset classes include real estate, private equity, and private debt. Private equity led the alternative asset classes returning 24.8%, while real estate and private debt returned 24.5% and 21.7% respectively. Benchmarks for each asset class are listed in the chart to the right.

Benchmarks by Asset Class FY2022	
<b>Domestic Equity</b>	<b>-13.9%</b>
<i>Russell 3000</i>	-13.87%
<b>International Equity</b>	<b>-21.24%</b>
<i>MSCI All Country World ex-U.S. IMI</i>	-19.46%
<b>Fixed Income</b>	<b>-13.29%</b>
<i>Bloomberg U.S. Universal</i>	-10.89%
<b>Real Estate</b>	<b>24.48%</b>
<i>NCREFI ODCE +50bp</i>	29.10%
<b>Private Equity</b>	<b>24.77%</b>
<i>Russell 2000 +400bp</i>	-22.13%
<b>Private Debt</b>	<b>23.68%</b>
<i>Bloomberg U.S. Aggregate</i>	-10.29%

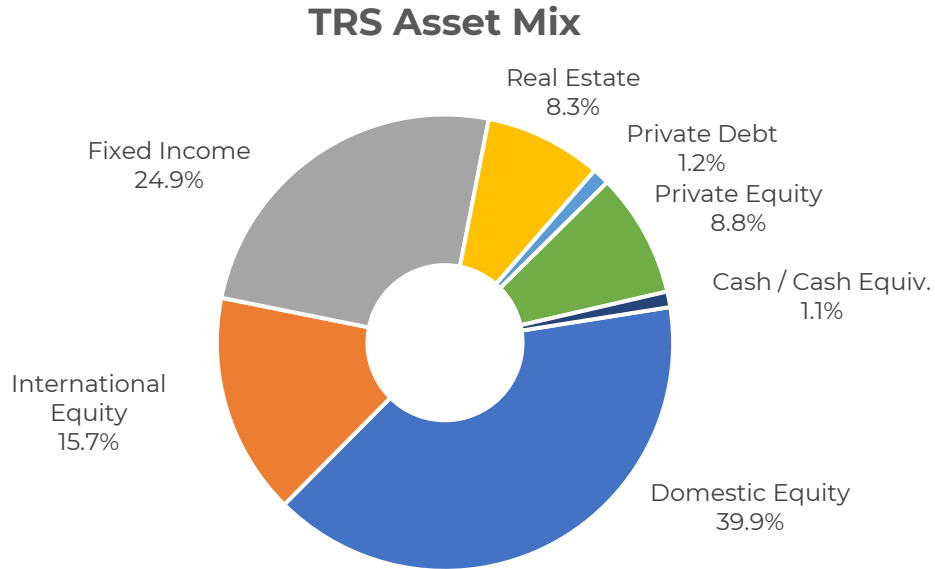
## Investments continued...

During a particularly challenging year, both public equity and fixed income delivered double-digit negative returns. The Rate of Return chart above reflects net investment returns for the Plan over the past five fiscal years.

It is also necessary to compare TRS returns with benchmark returns of various indices. Returns were mixed across asset classes. The System's domestic equity composite returned -13.9%, nearly matching the Russell 3000 domestic equity benchmark.

## Asset allocation

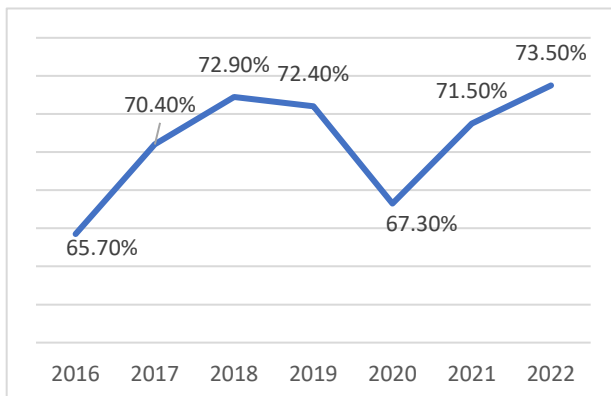
The chart below represents TRS' total investment portfolio of \$19.6 billion as of June 30, 2022.



## FUNDING

A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. It requires revenue sources sufficient to keep up with future obligations. The funding objective for TRS is to meet long-term benefit promises through contributions that remain approximately level as a percent of member payroll. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the level of investment potential.

The advantage of a well-funded plan is that the participants can look at assets that are committed to the payment of benefits. The actuarial accrued liability



(the amount the System owes) and actuarial value of assets (the amount the System has) of TRS as of June 30, 2022, amounted to \$27.835 billion and \$20.469 billion, respectively, for an unfunded actuarial accrued liability (UAAL) of \$7.366 billion in FY2022. This is a significant improvement in decreasing the UAAL of \$7.703 billion from FY2021.

TRS' funded status – actuarial value of assets divided by the actuarial accrued liability - was **73.5%** as of June 30, 2022, compared to 71.5% on June 30, 2021. The increase in funded ratio was primarily due to the level of expected contributions, the 7.5% smoothed return exceeding the assumed rate of return of 7.0%, and actual contributions higher than expected. The System is expected to eliminate the current UAAL in 14 years based upon current contribution and benefit provisions.

## **GASB ACCOUNTING STANDARDS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

TRS provides a monthly health insurance subsidy to its retirees who keep their employer-based health insurance in retirement. The amount varies from \$100-\$105 based on the credited service years of the retiree and their benefit amount. It is paid directly to the insurer or the retiree's former employer. TRS must follow accounting standards established by the Governmental Accounting Standards Board (GASB). 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. Below are condensed schedules of the TRS OPEB "net position" and the "changes in net position". In FY 2018, GASB 75 was implemented statewide meaning that many TRS employers had to reflect their proportionate share of OPEB liabilities in their financial statements.

CONDENSED SCHEDULE OF OPEB NET POSITION	
JUNE 30, 2022	
Assets	\$517,326,025
Liabilities	\$49,455,010
Net Position for OPEB	\$467,871,015

CONDENSED SCHEDULE OF CHANGES IN OPEB NET POSITION	
JUNE 30, 2022	
Additions (loss)	(\$50,851,607)
Deductions	\$34,556,094
Net increase (decrease) in Net Position	(\$85,407,701)

For the 7th consecutive year, TRS has received the GFOA award for **Outstanding Achievement in Popular Annual Financial Reporting** for its Popular Annual Financial Report (PAFR) for fiscal year ending June 30, 2021. This award is a prestigious national award recognizing conformance with the highest standards of creativity, presentation, understandability, and reader appeal for governmental presentation of popular reports. TRS has received this award for each year we have produced a PAFR.

