OKLAHOMA STATE PENSION COMMISSION
Minutes
June 16, 2020

1. **Call to Order**

A meeting of the Oklahoma State Pension Commission convened on June 16, 2020 at 9:00 a.m. through virtual meeting by Zoom. 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. The meeting was called to order once quorum was made.

Members Present: Commissioner Randy McDaniel – State Treasurer; Commissioner Cindy Byrd – State Auditor; Commissioner Doug Lawrence – Governor Appointee; and Commissioner Dow Hughes – Designee for Director, OMES.

Others: Ruth Ann Chicoine – Administrator; Don Stracke - NEPC; Thomas Schneider – Legal Counsel, Office of the Oklahoma Attorney General; Andrew Messer and Tim Allen – Oklahoma State Treasurer; Tom Spencer and Joseph Cappello – Oklahoma Teachers Retirement System; Joe Fox, Brad Tillberg and Deric Berousek – Oklahoma Public Employees Retirement System; Ginger Sigler and Sean Ruark – Oklahoma Police Pension and Retirement System; Chase Rankin and Tim Van Horn – Oklahoma Firefighters Pension and Retirement System; Charles Millard – Amundi Pioneer: Mark Higgins – RVK, Inc.; Sean Ashley – e-Captiol News; Paul Pustmueller, Michael Sweeney, Lauara Graurela, Robert Kindt, and Evan Walter – Bank of Oklahoma.

2. **Approval of Minutes dated March 12, 2020**

A motion was made by Commissioner Lawrence to accept the minutes of the March 12 meeting with a second from Commissioner Hughes; all approved.

3. **Investment Performance – Don Stracke - NEPC and U.S. Public Pension Underfunding – Charles Millard – Amundi Pioneer**

The meeting was turned over to Don Stracke of NEPC for the Investment Performance and Charles Millard of Amundi Pioneer for a special report on U.S. Public Pension Underfunding.

Real GDP (advance estimate) decreased at an annual rate of 4.8%; the unemployment rate ticked up to 4.4% ended March, up from 3.6% in the fourth quarter; U-6, a broader measure of unemployment, increased to 8.7% from 6.7%; CPI saw a down-tick to 1.52% from 2.29%; Capacity Utilization decreased to 72.7% from 77.1%; Fed Funds rate was cut 1.50% to a targeted range of 0.00%-to-0.25%. The 10-year Treasury Yield finished the quarter down to 0.9% from 1.9%; S&P valuations decreased to 24.9x and is lower than the 10-year average of 25.8x.

Economic environment through the first quarter, every index is significantly negative, with the exception of the Barclays Aggregate which was up a bit more than 3%, Barclays is a government bond driven index, any fixed income managers had credit exposure moved out of the index to invest in high-yield bonds or non-government U.S. bonds did worse than the 3%. The S&P was down 19%, Russell 2000 was down 30%. From a long-term basis there has not been the type of assumed return for the plans, possibly over ten years.

Families First Coronavirus Response Act, the bill was passed to provide sick leave, expand food assistance and unemployment benefits and provide additional protection for health care employees. Fiscal Stimulus Package, Congress is finalizing a $2 trillion economic stimulus package aimed at providing direct financial assistance, expanded benefits programs, and loans to individuals, small businesses, and industries impacted by COVID-19.

The State asset allocation for the funds shows every plan in the range. Six of the seven funds have positive excess returns, which is encouraging that the funds developed a long-term strategic asset allocation plan and have been doing better over the long term. The Pension Commission's results were down 14.3% or the 70th percentile, consistent with having more equity sensitivity; for ten years, the total of the plans was in the 14th percentile. Four out of seven of the plans for the quarter were ahead of the median and for the ten-year period five of the plans were ahead of the average public plan.

Pension funding, the real reason pensions are underfunded today is the failure of governments to make the necessary contributions to the pension plan, it is a funding problem more than an investment problem. The current economic environment, state and local governments will be tempted to cut back on pension contributions. With funded status as low as it is now, that could put enormous strain on already vulnerable systems.

In the years after to dot-com crash, states missed the ARCs by significant percentages and dollar amounts, the weighted average contribution was about 89% of the ARC in 2003, 87% in 2004, 84% in 2005, and 83% in 2006. The total value of those missing ARC payments was $27.7 billion. From 2011 to 2013, the shortfall was $68.5 billion.

When calculating the ARC, there are three amortization practices that should be avoided, yet, public plan sponsors use them to reduce the size of the ARC, time horizon to amortize; rolling amortization horizons; and negative amortization. These three problems can have terrible effects: they increase the amount you need to pay in the futures by lowering the amount that would be contributed in the earlier years, and when the amount contributed early is lower, there is less to invest and to compound over time to help meet the liabilities. The maneuvers can cause even larger shortfalls than failing to pay the full ARC.

The Boston College database ranks Oklahoma as third in the country of the top ten best funded pension systems. The retirement plans for Oklahoma have done very well, except for Police, they have had very conservative asset allocation. In general, Oklahoma is better off than most states when it comes to their retirement systems.

No further discussion by the Commission.

4. **Recent Market and Legislative Developments – Oklahoma State Pension Executive Directors**

HB2741 passed, the measure modifies the apportionment schedules of the sales, use, individual income and corporate income taxes for fiscal years 2021 and 2022 by reducing the percentage apportioned to the Oklahoma Teachers Retirement Dedicated Revenue Revolving Fund and directing a portion of each source to the Education Reform Revolving fund. A COLA bill was passed causing a $400 million dollar impact to OTRS, but much deserved by the retirees. The COLA bill affected OPERS and was not funded, $185 million was added to the unfunded liability to the OPERS plan and $6 million to the Justices/Judges plan.

5. **Adjournment**

Vice-chair Byrd made a motion to adjourn with a second from Commissioner Hughes; all in favor, meeting adjourned. The next regular commission meeting will meet August 18, 2020.

*Respectfully Submitted:*________________________________
Ruth Ann Chicoine, Administrator