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Message from the Director

Who are DRS customers?
They are people all around our state who help make Washington a better place through public service. They are the men and women who are working (or have worked) at the state and local levels to teach our children and to promote healthy, safe communities. They work to support a prosperous economy, and to provide sustainable energy and a clean environment. And they strive to deliver these services as efficiently and effectively as possible, mindful that they are accountable to the citizens they serve.

DRS is proud to support these public employees by ensuring they have the services, information and tools they need to receive the benefits they’ve earned in public service. To that end, everything we do is focused on five key goals:

Engaged Team Members — All DRS team members are fully engaged and supported in meeting (and exceeding) customer expectations. All DRS leaders are focused on providing the coaching, mentoring, resources and support that team members need to be successful in meeting customer needs. Team members are regularly interviewed to see how well the agency is measuring up to established satisfaction criteria, and to guide us to improvements when expectations are not being met.

Vigilant Resource Steward — DRS consistently seeks to improve the way it does business to make the best possible use of available resources in support of customer service and satisfaction. Innovation and empowerment are woven into a DRS culture that encourages team members to submit their ideas for improving processes, eliminating waste and strengthening services.

Best Practice Leader — Washington has been a national leader in designing and maintaining pension plans that are sustainable and provide reasonable retirement benefits to our valued public employees. DRS is proud to be part of this tradition, and places high value on innovative, visionary approaches. From its management system to the use of benchmarking data to this Comprehensive Annual Financial Report (and more), DRS continues to pursue and embrace best practices in all aspects of its operations.

Reliable Partner — DRS works with a number of organizations in the administration and governance of Washington’s public pension and savings plans, including the Office of the State Actuary, the Washington State Investment Board, more than 1,300 public employers and two record keepers. Recognizing the enormous importance of a positive reputation with these partners, DRS strives to be supportive, collaborative, and transparent as we work together to manage the state’s retirement systems.

Elated Customers — At DRS, we are “one team.” Regardless of what our specific duties may be, we are all dedicated to one purpose: to serve our customers. We strive to be Respectful, Responsive and Right (accurate) in pursuit of 100 percent customer satisfaction. From their first day in public service to retirement and beyond, we want all of our customers to be elated with their experience with DRS.

DRS’ fundamental mission is to help our customers – the men and women who serve our state and our communities – prepare for and enjoy a successful retirement. These five goals keep us continually focused on that mission, both now and in the years to come.

In the following pages, we offer our annual financial report for your review.

Sincerely,

Marcie Frost
Director
November 3, 2014
### Pension System Roles and Responsibilities

<table>
<thead>
<tr>
<th>Organization &amp; Contact Information</th>
<th>Responsibility</th>
<th>Membership</th>
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</thead>
<tbody>
<tr>
<td><strong>Department of Retirement Systems</strong></td>
<td>Collects and accounts for employer and employee contributions; maintains retirement records; pays benefits; communicates pension information; provides investment education; and administers the Deferred Compensation Program</td>
<td>The governor appoints the director of DRS.</td>
</tr>
<tr>
<td>PO Box 48380</td>
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<tr>
<td>Olympia, WA 98504-8380</td>
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</tr>
<tr>
<td>Phone: 360.664.7000</td>
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<tr>
<td>Toll free: 800.547.6657</td>
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<tr>
<td>Website: <a href="http://www.drs.wa.gov">www.drs.wa.gov</a></td>
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<tr>
<td><strong>Washington State Investment Board</strong></td>
<td>Invests and accounts for pension funds.</td>
<td>The Board consists of ten voting and five non-voting members.</td>
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<tr>
<td>PO Box 40916</td>
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<tr>
<td>Olympia, WA 98504-0916</td>
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</tr>
<tr>
<td>Phone: 360.956.4600</td>
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<tr>
<td>Website: <a href="http://www.sib.wa.gov">www.sib.wa.gov</a></td>
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<tr>
<td><strong>Office of Financial Management</strong></td>
<td>Advises the governor on pension and funding policies and issues.</td>
<td>The governor appoints the director of OFM.</td>
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<tr>
<td>PO Box 43113</td>
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<tr>
<td>Olympia, WA 98504-3113</td>
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<td></td>
</tr>
<tr>
<td>Phone: 360.902.0555</td>
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<tr>
<td>Website: <a href="http://www.ofm.wa.gov">www.ofm.wa.gov</a></td>
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<tr>
<td><strong>Office of the State Actuary</strong></td>
<td>Acts as an advisory agency to the Legislature and to the director of DRS. Performs actuarial studies and reports on retirement bills. Creates formulas used to compute benefit payment adjustments that are based on early retirement, cost-of-living or long-term survivor benefits.</td>
<td>The State Actuary Appointment Committee appoints the state actuary.</td>
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<tr>
<td>PO Box 40914</td>
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<tr>
<td>Olympia, WA 98504-0914</td>
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<tr>
<td>Phone: 360.786.6140</td>
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<tr>
<td>Website: <a href="http://osa.leg.wa.gov">osa.leg.wa.gov</a></td>
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**Washington State Investment Board**

**Voting Members:**
- James L. McIntire – (Chair) State Treasurer
- Representative Timm Ormsby
- Senator Sharon Nelson
- Marcie Frost (Vice Chair) – Director, Department of Retirement Systems
- Joel Sacks – Director, Department of Labor and Industries
- George Masten – Retired Members
- Kelly Fox – LEOFF
- Arlista Holman – SERS
- Judy Kuschel – PERS
- Stephen Miller – TRS

**Non-voting Members – Investment Professionals:**
- William A. Longbrake
- Richard Muhlebach
- Robert S. Nakahara
- David Nierenberg
- Jeffrey T. Seely

**Office of the State Actuary**

**State Actuary Appointment Committee** appoints the state actuary.
### Pension System Roles and Responsibilities – Page 2 of 3

<table>
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<th>Organization &amp; Contact Information</th>
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<tbody>
<tr>
<td><strong>Select Committee on Pension Policy</strong>&lt;br&gt;Can be contacted through the State Actuary's Office.</td>
<td>Studies pension issues and retirement finances. Develops pension policies and recommends pension legislation.</td>
<td><strong>Legislators:</strong>&lt;br&gt;Representative Tim Ormsby (Chair)&lt;br&gt;Representative Bruce Chandler&lt;br&gt;Representative Matt Manweller&lt;br&gt;Representative Pat Sullivan&lt;br&gt;Senator Barbara Bailey (Vice Chair)&lt;br&gt;Senator Steve Conway&lt;br&gt;Senator Steve Hobbs&lt;br&gt;Senator Mark Schoesler&lt;br&gt;<strong>Agency Directors:</strong>&lt;br&gt;David Schumacher – Office of Financial Management&lt;br&gt;Marcie Frost – Department of Retirement Systems&lt;br&gt;<strong>Retiree Representatives:</strong>&lt;br&gt;Eugene Forrester – TRS&lt;br&gt;Bob Thurston – WSPRS&lt;br&gt;<strong>Active Member Representatives:</strong>&lt;br&gt;Randy Davis – TRS&lt;br&gt;Bob Keller – PERS&lt;br&gt;J. Pat Thompson – PERS&lt;br&gt;David Westberg – SERS&lt;br&gt;<strong>Employer Representatives:</strong>&lt;br&gt;John Boesenberg – PERS/Higher Education&lt;br&gt;Glenn Olson – PERS&lt;br&gt;Corky Mattingly – PERS</td>
</tr>
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</table>

| **Law Enforcement Officers’ and Fire Fighters’ Plan 2 Retirement Board**<br>PO Box 40918<br>Olympia WA 98504-0918<br>Phone: 360.586.2320<br>Website: www.leoff.wa.gov | Policy-making board that studies pension issues, acts as fiduciary of LEOFF Plan 2, sets contribution rates and recommends pension policy to the Legislature for LEOFF Plan 2 members. | **Fire Fighter Representatives:**<br>Kelly Fox (Chair)<br>Pat Hepler<br>Mark Johnston<br>**Law Enforcement Representatives:**<br>Jeff Holy<br>Wally Loucks<br>Jack L. Simington (Vice Chair)<br>**Employer Representatives:**<br>David Cline<br>Paul Golnik<br>**Legislators:**<br>Representative Kevin Van De Wege<br>Senator Sharon Brown |

| **Pension Funding Council**<br>Can be contacted through DRS. | Adopts economic assumptions for pension funding and member and employer pension contribution rates for LEOFF Plan 1, PERS, PSERS, SERS, TRS and WSPRS. | **Legislators:**<br>Representative Bruce Chandler – Ranking minority member, House Appropriations Committee<br>Representative Ross Hunter – Chair, House Appropriations Committee<br>Senator Andy Hill – Chair, Senate Ways and Means Committee<br>Senator James Hargrove – Ranking minority member, Senate Ways and Means Committee<br>**Agency Directors:**<br>David Schumacher – Office of Financial Management<br>Marcie Frost – Department of Retirement Systems, Chairperson |
## Pension System Roles and Responsibilities – Page 3 of 3

<table>
<thead>
<tr>
<th>Organization &amp; Contact Information</th>
<th>Responsibility</th>
<th>Membership</th>
</tr>
</thead>
</table>
| **DRS Advisory Committee**<br>Can be contacted through DRS. | Serves in an advisory role to the Director of DRS. | **PERS:**<br>Bev Hermanson – Retired<br>John I. Payne – Active<br>Mary L. Sherman – Active  
**SERS:**<br>Jacques Meddles – Active<br>Cheri Ingersoll – Retired  
**LEOFF:**<br>Mark J. Mears – Active<br>Richard Warbrouck – Retired  
**TRS:**<br>Nancy Baldwin – Retired (Chair)<br>Darrell Heisler – Active  
**PSERS:**<br>William Copland – Active  
**WSPRS:**<br>Captain Jeff DeVere – Active<br>Rick Jensen – Retired  
**JRS:**<br>Judge Richard McDermott – Active  
**DCP:**<br>Kathy Whitlock – Participant  
**Defined Contribution Plan Administration:**<br>Deirdre Walker – Weyerhaeuser |

### Legislative Fiscal Committees
- **House Appropriations Committee**<br>PO Box 40600<br>Olympia, WA 98504-0600
- **Senate Ways and Means Committee**<br>PO Box 40482<br>Olympia, WA 98504-0482
- **Phone:** 360.786.7155  
**Toll free:** 800.562.6000  
**Website:** [www.leg.wa.gov](http://www.leg.wa.gov)

**Review and report on retirement bills to the full Legislature.**

**The legislative fiscal committees are the House Appropriations Committee and the Senate Ways and Means Committee.**
October 22, 2014

The Honorable Jay Inslee, Governor
Members of the Sixty-Third Legislature
Members of the Select Committee on Pension Policy
State of Washington
Olympia WA 98504

We are pleased to present to you the Department of Retirement Systems’ Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2014. This CAFR is designed to comply with the requirements of RCW 41.50.050(4) and RCW 41.50.780(9).

Responsibility for the accuracy of the data and the fairness and completeness of this presentation, including all disclosures, rests with the management of the Department of Retirement Systems (DRS). To the best of our knowledge, the enclosed data is accurate in all material respects and is reported in a manner designed to provide a fair representation of the financial position and results of the operations of the department.

CliftonLarsonAllen LLP, Certified Public Accountants, have issued an unqualified (“clean”) opinion on DRS’ financial statements for the year ended June 30, 2014. The independent auditor’s report is located at the front of the Financial Section of this report.

Management’s discussion and analysis (MD&A) immediately follows the independent auditor’s report and provides a narrative introduction, overview and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Agency Description and History
As of June 30, 2014, DRS administered eight statewide public employee retirement systems, which were comprised of 12 defined benefit pension plans and three defined benefit plans with a defined contribution component.

The purpose of DRS is to administer the pension plans for state employees, teachers and classified educational employees, law enforcement officers and fire fighters, and other employees of participating political subdivisions. As of June 30, 2014, there were 1,318 covered employers, 171 of which are component units of the state, participating in multiple plans administered by DRS. DRS also administers a deferred compensation program.

Additionally, DRS is responsible for accounting and reporting services and collection of contributions for the Judicial Retirement Account (JRA), a defined contribution pension plan administered by the State of Washington Administrative Office of the Courts.

Departmental Initiatives
The department’s activities are highlighted in the Message from the Director on page 3 of this Introductory Section.
Accounting System and Internal Control
This report has been prepared to conform to the principles of accounting and reporting established by the Governmental Accounting Standards Board (GASB). The basic financial statements are presented in accordance with guidelines established by GASB Statement No. 67, Financial Reporting for Pension Plans and other GASB statements, as appropriate. Specific accounting treatments are detailed in the Notes to the Financial Statements.

DRS’ management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the retirement plans are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Funding
The intent of public pension funding in Washington State is to provide a dependable and systematic process for financing the benefits provided by the retirement systems. Measurements of funding status indicate how well a retirement plan is accomplishing that goal. There are two standard indicators of funding status: the funding ratio and the existence of an unfunded liability. Both measure the benefit obligations, or liabilities, of a plan against its assets. If the funding level is adequate, the ratio of total accumulated assets to total liabilities will be larger and more funds will be available for investment purposes. Also, an adequate funding level gives the members assurance that their pension benefits are secure.

The accrued liability exceeds the net actuarial value of assets available for benefits by $8,699 million. The ratio of assets to liabilities is 88 percent, compared to 95 percent last year. Current contribution rates remain in keeping with the goal of attaining a funding ratio of 100 percent by the amortization dates applicable to each plan, as required by chapter 41.45 RCW. Valuations are performed for all DRS-administered retirement systems on a yearly (July 1 through June 30) basis. These calculations are prepared by the Office of the State Actuary. Additional actuarial information is included in the Actuarial Section of this report.

Investments
The Legislature has established a standard of care for the investment of pension trust funds.

In accordance with RCW 43.33A.110, the Washington State Investment Board (WSIB) manages the pension fund portfolio to achieve maximum return at a prudent level of risk. The WSIB establishes asset allocation targets that must be considered when making investment decisions. The asset mix may deviate from the target. Deviations greater than predetermined acceptable levels require rebalancing back to the target. When an asset class exceeds its range, the goal of rebalancing is to meet the target allocation within consideration of the other remaining asset classes.

Most pension trust funds are invested in the Commingled Trust Fund (CTF). The CTF is a diversified pool of investments. For Fiscal Year 2014, the CTF investments provided a 17.1 percent rate of return. The CTF annualized rate of return over the last three years was 10.1 percent and 12.8 percent over the last five years.

Further investment information, including investment professionals that provide service to WSIB, is included in the Investment Section of this report.
Professional Award
The Government Finance Officers’ Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to DRS for its comprehensive annual financial report for the fiscal year ended June 30, 2013. This was the nineteenth consecutive year that DRS has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program’s requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments
This report was made possible by the employees of DRS based in part on information provided by the Office of Financial Management, the Office of the State Actuary, the Office of the State Treasurer and the Washington State Investment Board. DRS appreciates their assistance.

This report is intended to provide complete and reliable information that can be used to make management decisions and evaluate responsible stewardship of DRS-administered retirement system funds.

Respectfully submitted,

Marcie Frost
Director

Significant Events in State Retirement History

1930s-1940s
The PERS, TRS, WSPRS, Judges and many local police and fire fighters’ retirement systems were created.

1970
Local police and fire fighters’ retirement systems were consolidated into LEOFF.

1976
The Department of Retirement Systems was created to administer state retirement systems.

The Office of the State Actuary was created to provide pension cost estimates.

1977
The LEOFF, PERS and TRS Plans 2 were created.

1981
The Washington State Investment Board was created to manage the investment of state trust funds.

1987
The Joint Committee on Pension Policy was established.

1995
The TRS Plan 3 was created. The Employee Retirement Benefit Board (ERBB) was created to provide recommendations regarding investment, payment, and contribution options regarding Plan 3.

1996
The state Deferred Compensation program was transferred to DRS.

DRS assumed accounting and reporting responsibility for JRA.

1998
The School Employees’ Retirement System (SERS) Plans 2 and 3 were created.

The Pension Funding Council was created.

1999
The PERS Plan 3 was created effective March 1, 2002, for state and higher education employees, and September 1, 2002, for local government employees.

2001
The WSPRS Plan 2 was created.

2003
The LEOFF 2 Board was established.

The Joint Committee on Pension Policy became the Select Committee on Pension Policy.

2004
The Public Safety Employees’ Retirement System (PSERS) was created.
Professional Award

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Washington State
Department of Retirement Systems

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2013

Jeffrey R. Born
Executive Director/CEO
2014 Washington State Legislative Actions

The 2014 Washington State Legislature passed four pension-related bills that were signed into law by Governor Inslee. These bills are described below:

Bills that apply to more than one system
Senate Bill 6321 removes annual rate flexibility in the Plans 3. A TRS Plan 3 member no longer has the option to change his or her contribution rate each year during the month of January. This bill amends RCW 41.34.040 to remove the annual change option, and is effective after January of 2015. While this statutory option applies to Plan 3 members of PERS and SERS as well, it has never been implemented in those plans. This modification is deemed necessary by the Internal Revenue Service in order to ensure the Plans 3 retain favorable tax qualification.

Law Enforcement Officers’ and Fire Fighters’ Retirement System
House Bill 2456 eliminates the expiration date on the statutory provision in the LEOFF definition of fire fighter that includes emergency medical technicians (EMTs). This correction allows EMTs continued eligibility for membership in LEOFF.

Senate Bill 6201 allows LEOFF Plan 2 members to use funds from certain tax-qualified plans to purchase a life annuity from the LEOFF Plan 2 trust fund at the time of retirement.

Other Pension Related Bills
Senate Bill 6328 adds the Option to Purchase Individual Securities in a Public Deferred Compensation Program. This bill allows the state or other local government authorizing entities the option of allowing employees participating in the employer sponsored deferred compensation plan to purchase individual securities within the plan investment options. It does not require plans to make this option available, it only allows it.