

Washington State

Department of Retirement Systems

Summary Annual Financial Report

Funds of the State of Washington for the Year Ended June 30, 2013



Respectful, Responsive and Right



During the past year, team members at the Department of Retirement Systems posed a single question to more than 1,000 of our members, retirees and beneficiaries: “What would it take for you to be a 100 percent satisfied DRS customer?”

No polling, no surveying, no ratings. Just simple conversations about what customers expect from DRS.

From the ample feedback we received, themes began to emerge. So we asked team members throughout DRS to join in identifying and distilling those themes into a set of clear, concise customer expectations. The result?

Respectful, Responsive and Right.

These “Three R’s of Retirement” capture the essence of what customers expect, and what we are committed to deliver:

As a DRS customer, you can expect to be treated **Respectfully**.

- To be treated as a valued customer by a patient and caring person, who is happy to help you.
- To be carefully guided through the retirement process.
- To be informed of the issues that impact your retirement in a way that is easy to understand.

As a DRS customer, you can expect to receive **Responsive** service.

- To have quick access to people who can help you.
- To receive timely responses to your requests.
- To be kept informed of the status of your requests.
- To speak with people who anticipate your needs and offer you solutions.
- To be provided with easy-to-use forms and tools that can be found online.

As a DRS customer, you can expect information to be **Right**.

- To receive accurate information from a knowledgeable, professional person.
- To be paid correctly and on time.

These expectations are now regularly used to measure customer satisfaction. Each month, every DRS leader calls at least one person who recently retired from a DRS system to ask, “Do you feel you got everything you needed from your retirement process?” Through these conversations, we compare the customers’ experiences with the criteria of Respectful, Responsive and Right to determine whether expectations were met.

Since March of 2013, more than 500 interviews have been conducted. The results are examined and discussed each quarter to pinpoint and follow through on opportunities for improvement. While expectations are being met or exceeded in many ways, we also see areas where we can strengthen the retirement experience for our customers.

Measuring customer satisfaction is another example of how DRS Team Members are fully engaged in a culture of continuous process improvement, a culture that also encompasses ongoing Lean initiatives and problem-solving. It’s how we strive toward our key goals: Elated Customers, Best Practice Leader, Vigilant Resource Steward, Reliable Partner and Engaged Team Members.

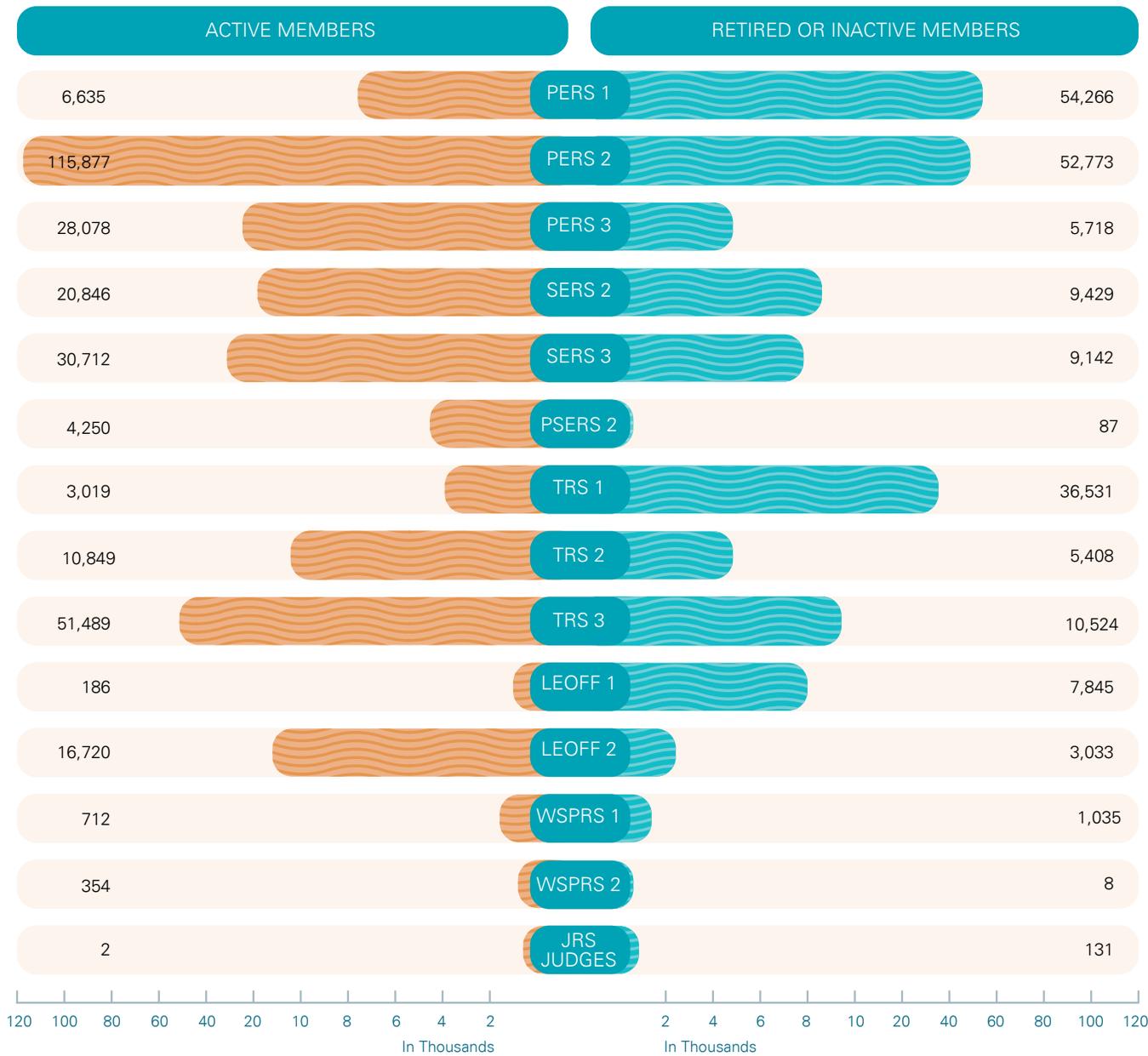
Our ultimate mission is to ensure we do everything possible to help our customers prepare for and enjoy a successful retirement. We look forward to continuing the conversations in the coming year to ensure we are fully meeting expectations of Respectful, Responsive and Right.

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

Sincerely,

Marcie Frost
Director
December 1, 2013

Membership by system and plan as of June 30, 2012*



The State of Washington provides secure retirement plans for public employees. The Department of Retirement Systems manages eight unique pension systems servicing more than 485,000 current, past and retired employees from state and local government, K-12 and higher education systems, fire, law enforcement and judicial agencies.

Active members, who are currently employed and paying contributions toward retirement, comprise 60 percent of the public pension participation. Remaining members are either retired or have separated from service.

*Source for membership by system and plan is the State Actuary's latest valuation report, published June 30, 2013.

The Washington State Investment Board (WSIB) manages retirement fund assets to maximize investment returns at a prudent level of risk. The retirement Commingled Trust Fund (CTF) increased in value by \$6.2 billion during Fiscal Year 2013 to \$67.9 billion. The CTF return was 12.4% for the fiscal year.

The table below shows the returns for the CTF on a total fund basis and by asset class:

CTF Performance *			
	1 Year	3 Year	5 Year
Liquidity	0.16%	0.16%	0.40%
Innovation	30.63%	-0.44%	n/a
Private Equity	13.56%	14.12%	4.94%
Public Equity	17.83%	13.30%	2.94%
Real Estate	17.86%	13.54%	0.89%
Tangible	-1.75%	2.27%	1.34%
Fixed Income	0.80%	4.56%	6.41%
Total Fund	12.36%	11.33%	3.81%

Investment performance is a result of two primary factors: individual asset selection and the allocation of the portfolio among asset classes (e.g. stocks, fixed income, real estate).

Accordingly, the WSIB sets a specific long-term target asset mix and adopts tight ranges around those targets to control the overall risk and return of the CTF. On a daily

basis, the board reviews the asset allocation in relation to the established ranges. The staff shifts assets whenever the allocation range for an asset exceeds the approved range or when cash is needed elsewhere. The board reviews changes to the overall asset mix every three to four years.

Current Asset Allocation and Long-term Target Allocations *		
Asset Type	Target Allocation	Actual Allocation
Fixed Income	20.00%	22.63%
Tangible Assets	5.00%	1.52%
Real Estate	13.00%	13.62%
Public Equity	37.00%	37.71%
Private Equity	25.00%	23.81%
Innovation	0.00%	0.53%
Liquidity	0.00%	0.18%

Ten Largest Public Equity Holdings *	
Exxon Mobil Corp.	0.97%
Apple, Inc.	0.81%
Johnson & Johnson	0.65%
Pfizer, Inc.	0.64%
Roche Holding AG	0.64%
Philip Morris International Inc.	0.64%
Wells Fargo & Co.	0.61%
Royal Dutch Shell PLC	0.61%
Novartis AG	0.61%
Microsoft Corp.	0.58%

* as of June 30, 2013



Additions to fiduciary net position

The primary sources of additions to the retirement trust fund include contributions from employers, active system members and the state, and from investment earnings. Additions to the deferred compensation trust fund include participant contributions and investment earnings.

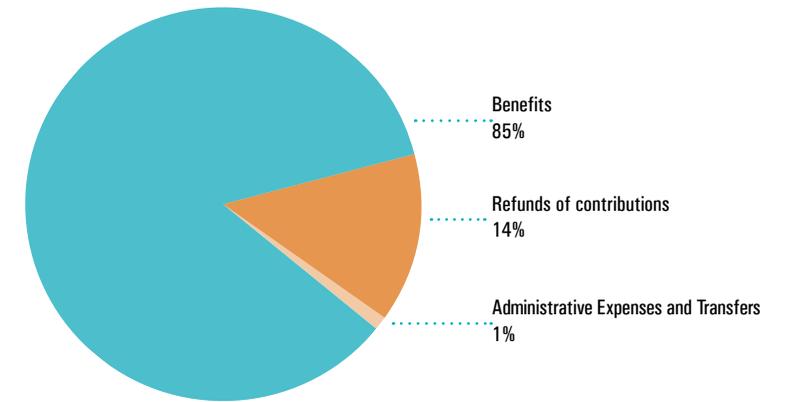
The totals are listed below (expressed in millions).

	Fiscal Year 2013	Fiscal Year 2012
Retirement Contributions	\$2,282.6	\$2,210.1
Deferred Compensation Participant Contributions	182.3	178.4
Net Investment Income	8,149.4	784.9
Charges for Services	28.0	27.7
Other Additions	6.2	4.0
Total	\$10,648.5	\$3,205.1

Deductions to fiduciary net position

The retirement systems' primary fund deductions (excluding transfers) include the payment of benefits to retirees and beneficiaries, the refund of contributions to former members and the cost of administering the retirement systems.

Benefit payments to members, including pension and annuity benefits, totaled \$3,249.1 million for Fiscal Year 2013. Refunds totaled \$547.4 million. Administrative expenses, which include pension expenses incurred by DRS and the offices of the State Actuary and Attorney General, totaled \$31.1 million. Expenses for the management of trust funds are incurred by the Washington State Investment Board and funded from earnings on investments.



Statement of Fiduciary Net Position: Pension trust and other employee benefit trust funds by plan (as of June 30, 2013, expressed in thousands).*

Assets	PERS Plan 1	PERS Plan 2	PERS Plan 3 Defined Contribution	SERS Plan 2/3	SERS Plan 3 Defined Contribution	PSERS Plan 2	TRS Plan 1	TRS Plan 2/3	TRS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	JRS	JUDGES	JRA Defined Contribution	Deferred Compensation	Totals	
																	June 30, 2013	June 30, 2012
Cash and Pooled Investments	\$2,784	\$4,108	\$389	\$3,373	\$1,118	\$285	\$2,452	\$5,503	\$4,729	\$1,023	\$1,012	\$773	\$3,918	\$1,394	\$211	\$5,981	\$39,053	\$39,475
Total Receivables	205,875	689,552	36,190	97,779	33,599	7,951	170,659	247,620	118,499	141,806	222,367	26,697	1	1	2	1,194	1,999,792	1,397,311
Capital Assets, net of depreciation	127	-	-	-	-	-	112	-	-	49	-	4	-	-	-	-	292	388
Total Investments, Noncurrent	7,461,865	23,768,704	1,973,139	3,247,884	1,432,659	227,405	6,224,959	8,202,129	5,914,884	5,218,182	7,739,818	969,164	174	60	12,278	3,199,871	75,593,175	67,866,133
Other Assets	689	-	-	-	-	-	607	-	-	269	-	21	-	-	-	-	1,586	1,556
Total Assets	7,671,340	24,462,364	2,009,718	3,349,036	1,467,376	235,641	6,398,789	8,455,252	6,038,112	5,361,329	7,963,197	996,659	4,093	1,455	12,491	3,207,046	77,633,898	69,304,863
Total Liabilities	322,611	1,003,306	51,634	137,136	48,908	9,532	269,599	346,028	154,532	220,788	325,810	41,086	206	63	212	3,741	2,935,192	1,417,131
Total Fiduciary Net Position	\$7,348,729	\$23,459,058	\$1,958,084	\$3,211,900	\$1,418,468	\$226,109	\$6,129,190	\$8,109,224	\$5,883,580	\$5,140,541	\$7,637,387	\$955,573	\$3,887	\$1,392	\$12,279	\$3,203,305	\$74,698,706	\$67,887,732

Pension Assets Totals

Totals

*This is a summary of the Comprehensive Annual Financial Report (CAFR), which is presented consistent with generally accepted accounting principles (GAAP). The CAFR is available on the DRS website. As with the CAFR, the pension trust funds in this summary are presented using the flow of economic resources measurement focus and the accrual basis of accounting. However, this presentation differs from GAAP in the following respects: only selected financial data rather than financial statements are included, and this report only contains abbreviated note disclosures.

The Summary Annual Financial Report represents an accounting of the annual liabilities and required contributions, using methods set by the Governmental Accounting Standards Board. The Valuation (or Funding) Report issued by the State Actuary uses actuarial assumptions and methods prescribed by the Legislature to calculate the contributions that will be required, under existing funding policy, over the life of the plans.

Plan	Membership Eligibility	Vesting	Retirement Eligibility	Benefit	
PERS	Plan 1	State employees, elected officials, employees of local governments, legislative committees, community/technical colleges, classified employees of school districts, district/municipal court judges, and some employees of the Supreme, Appeals and Superior Courts. (By 9/30/77)	After five years of eligible service	After 30 years of service, or at age 60 with five years of service, or at age 55 with 25 years of service	2% of average final compensation (AFC) per year of service, capped at 60% of AFC JBM Participants: 3.5% of AFC per year of service, capped at 75% of AFC
	Plan 2	Same as PERS Plan 1, except classified school district employees. (On or after 10/1/77 and new employees on or after 3/1/02 at state agencies and higher education, or on or after 9/1/02 at all other employers; who chose Plan 2)	After five years of eligible service	At age 65 with five years of service, or an actuarially reduced benefit at age 55 with 20 years of service	2% of AFC per year of service JBM Participants: 3.5% of AFC per year of service, capped at 75% of AFC
	Plan 3	Same as PERS Plan 2. (On or after 10/1/77 and new employees on or after 3/1/02 at state agencies and higher education, or on or after 9/1/02 at all other employers; who chose Plan 3)	Varies	At age 65 if vested, or an actuarially reduced benefit at age 55 with 10 years of service (defined benefit portion)	1% of AFC per year of service (defined benefit portion) JBM Participants: 1.6% of AFC per year of service, capped at 37.5% of AFC The defined contribution portion depends on the member's contribution level and on investment performance.
SERS	Plan 2	All classified employees of school districts or educational service districts. (By 8/31/00 and employees on or after 7/1/07 with no past PERS Plan 2 service who chose Plan 2)	After five years of eligible service	At age 65 with five years of service, or an actuarially reduced benefit at age 55 with 20 years of service	2% of AFC per year of service.
	Plan 3	All classified employees of school districts or educational service districts. (On or after 9/1/00 and employees on or after 7/1/07 with no past PERS Plan 2 service who chose Plan 3)	Varies	At age 65 if vested, or an actuarially reduced benefit at age 55 with 10 years of service (defined benefit portion)	1% of AFC per year of service (defined benefit portion) The defined contribution portion depends on the member's contribution level and on investment performance.
PSERS	Plan 2	All full-time public safety officers at select state agencies, counties and cities except Seattle, Spokane and Tacoma. (On or after 7/1/06)	After five years of eligible service	At age 65 with five years of service, at age 60 with 10 years of PSERS service, or at age 53 with 20 years of service reduced three percent for each year under age 60	2% of AFC per year of service
TRS	Plan 1	All certificated public school employees who work in an instructional, administrative or supervisory capacity. (By 9/30/77)	After five years of eligible service	Any age with 30 years of service, or at age 60 with five years of service, or at age 55 with 25 years of service	2% of monthly AFC per year of service, capped at 60% of monthly AFC. JBM Participants: 3.5% of monthly AFC per year of service, capped at 75% of monthly AFC.
	Plan 2	Same as TRS Plan 1. (On or after 10/1/77 and by 6/30/96, and employees on or after 7/1/07 who chose Plan 2)	After five years of eligible service	At age 65 with five years of service, or an actuarially reduced benefit at age 55 with 20 years of service	2% of AFC per year of service.
	Plan 3	Same as TRS Plan 1. (On or after 7/1/96, and employees on or after 7/1/07 who chose Plan 3)	Varies	At age 65 if vested, or an actuarially reduced benefit at age 55 with 10 years of service (defined benefit portion)	1% of AFC per year of service (defined benefit portion) The defined contribution portion depends on the member's contribution level and on investment performance.
LEOFF	Plan 1	All full-time, fully compensated law enforcement officers and fire fighters. (By 9/30/77)	After five years of eligible service	At age 50 with five years of service	20+ years of service: 2% of final average salary (FAS) per year of service. 10-19 years of service: 1.5% of FAS per year of service. 5-9 years of service: 1% of FAS per year of service.
	Plan 2	All full-time, fully compensated law enforcement officers, fire fighters and emergency medical technicians. (On or after 10/1/77)	After five years of eligible service	At age 53 with five years of service, or a benefit at age 50 with 20 years of service reduced 3% for each year under age 53	2% of FAS per year of service
WSPRS	Plan 1	Commissioned employees of the Washington State Patrol. (On or after 8/1/47 and by 12/31/02)	No requirement for active members; after five years of eligible service for inactive members	At age 55 or after 25 years of service	2% of average final salary (AFS) per year of service, capped at 75% of AFS.
	Plan 2	Same as WSPRS Plan 1. (On or after 1/1/03)	No requirement for active members; after five years of eligible service for inactive members	At age 55 or after 25 years of service	2% of AFS per year of service, capped at 75% of AFS.
JRS	Judges elected or appointed to the Supreme Court, the Court of Appeals and Superior Courts. (On or after 8/9/71 and by 6/30/88 – New judges on or after 7/1/88 join PERS)	After 15 years of service	At age 60	15 years of service: 3.5% of FAS per year of service, capped at 75% of FAS. 10-14 years of service: 3% of FAS per year of service, capped at 75% of FAS.	
Judges	Judges elected or appointed to the Supreme Court, the Court of Appeals and Superior Courts. (By 8/8/71)	After 12 years of service	At age 70 with 10 years of service or any age with 18 years of service	1/2 of the monthly salary	

* PERS, SERS and TRS Plan 3 are defined benefit plans with a defined contribution component. Employers contribute to the defined benefit portion of the plan. Employees determine their own contributions. The defined contribution portion of the benefit depends on the member's contribution level and on investment performance. DRS publishes handbooks describing the rights and benefits for each system and plan, including disability and survivor benefits. These handbooks are provided to members by their employers. They are also available on the DRS website.



Organization	Responsibility	Contact Information
Department of Retirement Systems	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.	PO Box 48380 Olympia, WA 98504-8380 Phone: 360.664.7000 Toll free: 800.547.6657 Website: www.drs.wa.gov
Pension Funding Council	Adopts economic assumptions for pension funding and member and employer pension contribution rates for LEOFF Plan 1, PERS, PSERS, SERS, TRS and WSPRS.	Can be contacted through DRS.
DRS Advisory Committee	Serves in an advisory role to the director of DRS.	Can be contacted through DRS.
Legislative Fiscal Committees	Review and report on retirement bills to the full Legislature.	House Ways and Means Committee PO Box 40600 Olympia, WA 98504-0600 Senate Ways and Means Committee PO Box 40482 Olympia, WA 98504-0482 Phone: 360.786.7155 Toll free: 800.562.6000 Website: www.leg.wa.gov
Office of Financial Management	Advises the governor on pension and funding policies and issues.	PO Box 43113 Olympia, WA 98504-3113 Phone: 360.902.0555 Website: www.ofm.wa.gov
Washington State Investment Board	Invests and accounts for pension funds.	PO Box 40916 Olympia, WA 98504-0916 Phone: 360.956.4600 Website: www.sib.wa.gov
Office of the State Actuary	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.	PO Box 40914 Olympia, WA 98504-0914 Phone: 360.786.6140 Website: www.osa.leg.wa.gov
Select Committee on Pension Policy	Studies pension issues and retirement finances. Develops pension policies and recommends pension legislation.	Can be contacted through the State Actuary's Office.
Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board	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.	PO Box 40918 Olympia WA 98504-0918 Phone: 360.586.2320 Website: www.leoff.wa.gov

