



DRS
WASHINGTON STATE
Department of
Retirement Systems

**Summary
Annual
Financial
Report**

Funds of the State of Washington for the
Year Ended June 30, 2014



Five key goals



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 the 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 summary annual financial report for your review.

Sincerely,

A handwritten signature in black ink, appearing to read "Marcie Frost".

Marcie Frost
Director

December 16, 2014

Membership by system and plan as of June 30, 2013*



The State of Washington provides secure retirement plans for public employees. The Department of Retirement Systems manages eight unique pension systems servicing more than 495,000 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 59 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 dated June 30, 2013, published June 30, 2014.

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 \$10.2 billion during Fiscal Year 2014 to \$78.1 billion. The CTF return was 17.1% 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	0.11%	0.14%	0.15%
Innovation	38.84%	17.83%	N/A
Private Equity	20.02%	12.79%	17.20%
Public Equity	24.20%	11.30%	15.44%
Real Estate	13.01%	13.08%	9.73%
Tangible	4.99%	1.75%	4.34%
Fixed Income	5.96%	4.06%	6.38%
Total Fund	17.06%	10.07%	12.83%

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%	25.05%
Tangible Assets	5.00%	1.63%
Real Estate	15.00%	12.36%
Public Equity	37.00%	37.97%
Private Equity	23.00%	22.30%
Innovation	0.00%	0.44%
Liquidity	0.00%	0.24%

Ten Largest Public Equity Holdings*	
Apple Inc.	1.12%
Exxon Mobil Corp.	0.82%
Johnson & Johnson	0.74%
Wells Fargo & Co.	0.73%
Microsoft Corp.	0.72%
Nestle SA	0.72%
Novartis AG	0.68%
Oracle Corp.	0.65%
Royal Dutch Shell PLC	0.63%
Sanofi	0.61%

* as of June 30, 2014



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.

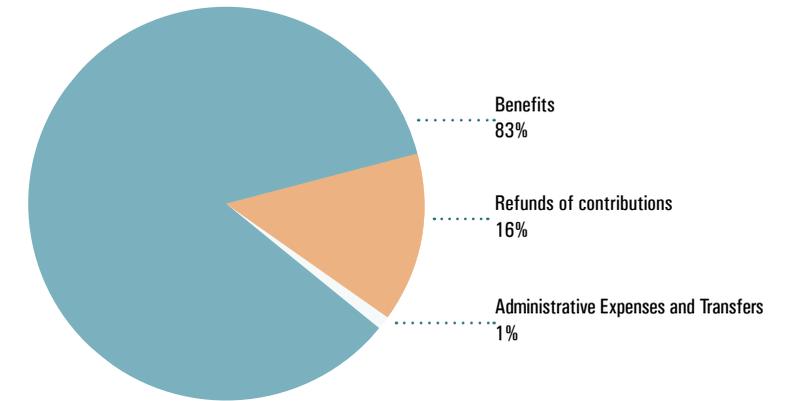
The totals are listed below (expressed in millions).

	Fiscal Year 2014	Fiscal Year 2013
Retirement Contributions	\$2,695.9	\$2,282.6
Deferred Compensation Participant Contributions	190.5	182.3
Net Investment Income	13,623.6	8,149.4
Charges for Services	32.3	28.0
Other Additions	5.2	6.2
Total	\$16,547.5	\$10,648.5

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 \$3,455.9 million for Fiscal Year 2014. Refunds totaled \$661.9 million. Administrative expenses, which include pension expenses incurred by DRS and the offices of the State Actuary and Attorney General, totaled \$30.8 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, 2014, expressed in thousands).*

Assets	PERS Plan 1	PERS Plan 2/3	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, 2014	June 30, 2013
Cash and Pooled Investments	\$2,825	\$8,903	\$366	\$7,163	\$1,188	\$468	\$2,897	\$12,329	\$5,347	\$1,704	\$1,997	\$702	\$5,062	\$958	\$13	\$7,410	\$59,332	\$39,053
Total Receivables	168,262	629,792	32,607	90,776	29,973	8,373	136,816	232,705	108,655	117,030	201,647	22,779	2	-	2	912	1,780,331	1,999,792
Capital Assets, net of depreciation	76	48	-	9	-	-	66	27	-	34	15	4	-	-	-	-	279	292
Total Investments, Noncurrent	8,071,385	28,497,191	2,341,071	3,900,523	1,667,812	305,654	6,601,526	9,908,479	7,011,293	5,811,601	9,387,284	1,115,608	146	27	13,019	3,575,912	88,208,531	75,593,175
Other Assets	387	244	-	44	-	2	336	135	-	172	74	19	-	-	-	-	1,413	1,586
Total Assets	8,242,935	29,136,178	2,374,044	3,998,515	1,698,973	314,497	6,741,641	10,153,675	7,125,295	5,930,541	9,591,017	1,139,112	5,210	985	13,034	3,584,234	90,049,886	77,633,898
Total Liabilities	299,020	1,035,877	53,923	142,162	48,703	11,113	245,356	362,362	162,344	210,685	339,761	40,571	177	29	3	4,994	2,957,080	2,935,192
Total Fiduciary Net Position	\$7,943,915	\$28,100,301	\$2,320,121	\$3,856,353	\$1,650,270	\$303,384	\$6,496,285	\$9,791,313	\$6,962,951	\$5,719,856	\$9,251,256	\$1,098,541	\$5,033	\$956	\$13,031	\$3,579,240	87,092,806	\$74,698,706

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
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 Appropriations 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
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
Washington State Investment Board	Invests and accounts for pension funds.	PO Box 40916 Olympia, WA 98504-0916 Phone: 360.956.4600
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
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