

Summary Annual Financial Report 2009



Message From The Director



In early 2009, Governor Chris Gregoire asked me to take on a dual role – as both Director of the Washington State Department of Retirement Systems (DRS) and Administrator of the Health Care Authority (HCA). Since we serve many of the same customers, a shared leadership and focus brings greater opportunity to coordinate services the two agencies offer.

We immediately began to identify areas where we could work together for the benefit of our mutual customers. Within the first 90 days of our new working relationship, employee teams had put initial service enhancements in place, including processes to share information when, for instance, a customer's address changes. We also made it easier for customers visiting either agency in person to request information

from the other at the same time, installing speed dial buttons in the interview rooms.

The next phase of that ongoing project, led by employee *Innovation Teams*, is underway. Their task is to find the opportunities not yet explored for cost-effective service enhancements. Some will be as simple as coordinating processes. Others will be more complex, such as offering an online retirement application or on-demand informational videos.

We also have initiatives in progress that will simplify use of our online services. And we're planning to take our service to the next level by asking customers, "What can we do to ensure you are not only well-served, but also 100 percent satisfied with the service you receive from DRS?" We understand our purpose and will work hard to make sure your needs are being met.

**DRS has a
longstanding record
of responsive
customer service**

DRS has a longstanding record of responsive customer service, which gives us a solid foundation to build on going into the future. Our team consistently answers more than 90 percent of telephone calls in less than 30 seconds and walk-in customers are met by trained, knowledgeable employees within an average of two minutes. Yet our administrative cost per member remains lower than many other pension systems. This is no small accomplishment, particularly given the fact that, with 15 plans within eight different retirement systems, Washington's public plans are recognized as among the most complex in the nation to administer.

The financial markets also underwent change in recent months. It is not the first time this has happened, nor will it be the last. Financial markets are by nature cyclical. Because of prudent investment practices, however, Washington's plans went into the recession in a better funding position than those in most other states. Even when weathering rough economic times, Washington emerges as a state that can justifiably take pride in its strength.

We are pleased to serve you, in this year and the next, and offer our annual financial report for your review.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Hill". The signature is fluid and cursive.

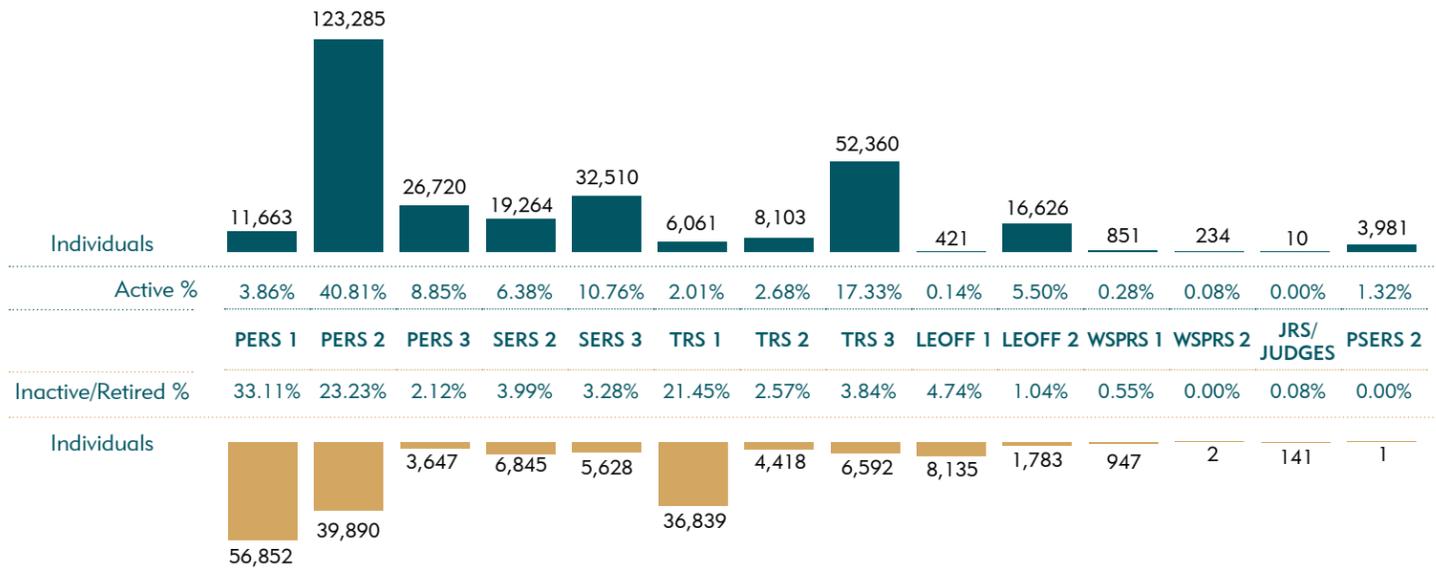
Steven R. Hill
Director

Membership

The State of Washington provides secure retirement plans for public employees. The Department of Retirement Systems manages eight unique pension systems serving more than 473,000 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 64 percent of the public pension participation. Remaining members are either retired or have separated from service.

Membership by System and Plan (as of 6/30/08)*



*Source for membership by system and plan is the State Actuary's latest valuation report, published June 30, 2008.

Investment Summary

The Washington State Investment Board (WSIB) manages retirement fund assets with the statutory requirement to maximize investment returns at a prudent level of risk. The retirement Commingled Trust Fund (CTF) decreased by \$14.8 billion during Fiscal Year 2009 to \$47.4 billion. The CTF return was (22.8) percent for the fiscal year.

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

CTF Investment Returns (as of 6/30/09)

Asset Class	1 Year	3 Year	5 Year
Liquidity	1.34%	3.59%	3.31%
Innovation	-32.44%	n/a	n/a
Private Equity	-30.92%	-2.82%	9.46%
Int'l Equity	-31.28%	-5.99%	4.50%
U.S. Equity	-28.10%	-9.34%	-2.38%
Global Equity	-29.91%	-7.66%	0.54%
Real Estate	-25.74%	0.80%	9.84%
Fixed Income	6.10%	6.99%	5.63%
Tangible	-9.26%	n/a	n/a
Total Fund	-22.84%	-2.58%	4.05%

Investment performance is a result of two primary factors: 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 Target Allocations (as of 6/30/09)

	Actual	Target
Fixed Income	23.15%	20.00%
Tangible Assets	1.11%	5.00%
Real Estate	17.53%	13.00%
Global Equity	36.01%	37.00%
Private Equity	21.23%	25.00%
Innovation	0.80%	0.00%
Liquidity	0.16%	0.00%

Largest Global Equity Holdings (as of 6/30/09)

In September 2007, the WSIB revised its investment policy to consider all global, publicly-traded equity as one asset class. The table below shows the CTF's ten largest global equity holdings.

	% Of Global Equity Index Fund
Exxon Mobil Corp.	1.46%
Microsoft Corp.	0.78%
BP PLC	0.74%
GlaxoSmithKline PLC	0.66%
Johnson & Johnson	0.64%
Total S.A.	0.63%
Procter & Gamble Co.	0.63%
Telefonica S.A.	0.62%
AT&T Inc.	0.61%
HSBC Holdings PLC (UK Reg.)	0.61%



Financial Statement

Statement of Plan Net Assets: Pension & other employee benefit assets by plan (as of June 30, 2009, expressed in thousands)*

Assets	Pension Assets Totals															TOTALS		
	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	June 30, 2009	June 30, 2008
Cash and Pooled Investments	\$3,202	\$3,369	\$245	\$2,887	\$908	\$422	\$3,203	\$5,746	\$3,792	\$1,643	\$1,237	\$889	\$385	\$3,271	\$8	\$2,492	\$33,699	\$44,784**
Total Receivables	\$100,941	\$227,052	\$16,231	\$33,807	\$13,408	\$2,458	\$82,996	\$83,777	\$47,080	\$54,155	\$67,074	\$9,097	\$10	\$7	–	\$1,518	\$739,611	\$538,368
Total Investments, Noncurrent	\$8,015,111	\$14,972,504	\$1,221,625	\$2,046,612	\$953,796	\$56,641	\$6,685,208	\$5,044,325	\$3,515,933	\$4,614,468	\$4,549,020	\$739,125	\$1,490	\$186	\$10,750	\$2,165,608	\$54,592,402	\$71,094,127
Other Assets	\$559	\$317	–	–	–	–	\$486	\$98	–	\$258	\$40	\$29	–	–	–	–	\$1,787	\$1,944
Total Assets	\$8,119,813	\$15,203,242	\$1,238,101	\$2,083,306	\$968,112	\$59,521	\$6,771,893	\$5,133,946	\$3,566,805	\$4,670,524	\$4,617,371	\$749,140	\$1,885	\$3,464	\$10,758	\$2,169,618	\$55,367,499	\$71,679,223
Total Liabilities	\$552,072	\$1,024,544	\$49,617	\$139,494	\$49,660	\$3,764	\$457,832	\$344,598	\$148,098	\$314,611	\$308,491	\$50,516	\$62	\$189	\$1	\$302	\$3,443,851	\$4,511,695**
Net Assets Held in Trust for Pension and Other Benefits	\$7,567,741	\$14,178,698	\$1,188,484	\$1,943,812	\$918,452	\$55,757	\$6,314,061	\$4,789,348	\$3,418,707	\$4,355,913	\$4,308,880	\$698,624	\$1,823	\$3,275	\$10,757	\$2,169,316	\$51,923,648	\$67,167,528

Additions to Pension Plan Net Assets

The primary sources of additions to the retirement trust funds include member and employer contributions and investment earnings. The main sources of additions to the deferred compensation plan include participant contributions and investment earnings. The overall decrease from Fiscal Year 2008 is primarily due to lower net investment income, largely resulting from turbulence in the public equity markets during the year. The totals are listed to the right (expressed in millions).



Pension Plan Additions

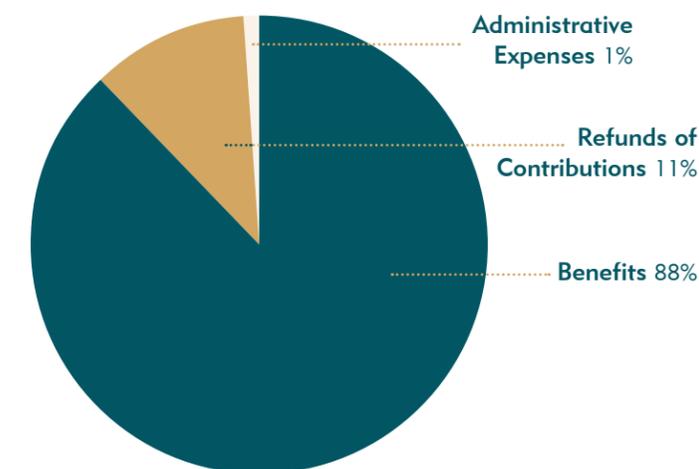
Additions	Fiscal Year 2009	Fiscal Year 2008
Retirement Contributions	\$2,374.5	\$1,869.2
Deferred Compensation Participant Contributions	\$184.5	\$188.7
Net Investment Income	(\$14,913.0)	(\$1,146.4)
Charges for Services	\$27.7	\$26.3
Other Additions	\$51.6	\$368.9
Total	(\$12,274.7)	\$1,306.7

Deductions to Pension Plan Net Assets

The retirement systems' primary fund deductions 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 \$2,610.6 million for Fiscal Year 2009. Refunds totaled \$310.2 million. Administrative expenses, which include expenses incurred by DRS and the offices of the State Actuary and Attorney General, totaled \$28.6 million. Expenses for the management of trust funds are incurred by the Washington State Investment Board and funded from earnings on investments.

Pension Plan Deductions



*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 our Web site at www.drs.wa.gov or can be obtained by calling us toll free at 800-547-6657. 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.

**June 30, 2008 figures have been adjusted by \$(922) to exclude assets and liabilities of the Dependent Care Agency Fund, a fund which was transferred to the Health Care Authority in Fiscal Year 2009 and is no longer administered by DRS.

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.

Summary of Plan Provisions

Plan	Membership Eligibility	Vesting	Retirement Eligibility	Benefit
PERS Plan 1 (By 9/30/77)	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.	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 Judicial Benefit Multiplier (JBM) participants: 3.5% of AFC per year of service
PERS Plan 2 (On or after 10/1/77)	Same as PERS Plan 1, except classified school district employees; new employees hired on or after 3/1/02 at state agencies and higher education, or on or after 9/1/02 at all other employers, must choose Plan 2 or Plan 3.	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
PERS Plan 3 (Varies by employer)	Same as PERS Plan 2; new employees hired on or after 3/1/02 at state agencies and higher education, or on or after 9/1/02 at all other employers, must choose Plan 2 or 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
SERS Plan 2 (By 8/31/00)	All classified employees of school or educational service districts. Also includes individuals first hired on or after July 1, 2007 with no past PERS Plan 2 service who chose Plan 2 within the 90 day window.	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
SERS Plan 3 (On or after 9/1/00)	All classified employees of school or educational service district. Also includes individuals first hired on or after July 1, 2007 with no past PERS Plan 2 service who chose Plan 3 within the 90 day window.	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)*
PSERS Plan 2 (On or after 7/1/06)	All full-time public safety officers at select state agencies, counties and cities, except Seattle, Spokane and Tacoma.	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 3% for each year under age 60)	2% of AFC per year of service
TRS Plan 1 (By 9/30/77)	All certificated public school employees who work in an instructional, administrative or supervisory capacity.	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 AFC per year of service JBM participants: 3.5% of AFC per year of service
TRS Plan 2 (On or after 10/1/77)	All certificated public school employees who work in an instructional, administrative or supervisory capacity.	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
TRS Plan 3 (On or after 7/1/96)	All certificated public school employees who work in an instructional, administrative or supervisory capacity.	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)*
LEOFF Plan 1 (By 9/30/77)	All full-time, fully compensated law enforcement officers and fire fighters.	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
LEOFF Plan 2 (On or after 10/1/77)	All full-time, fully compensated law enforcement officers, fire fighters and (as of 7/24/05) emergency medical technicians..	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 (On or after 8/1/47 and by 12/31/02)	Commissioned employees of the Washington State Patrol.	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
WSPRS Plan 2 (On or after 1/1/03)	Commissioned employees of the Washington State Patrol.	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
JRS (On or after 8/9/71 and by 6/30/88 – New judges on or after 7/1/88 join PERS Plan 2 or 3)	Judges elected or appointed to the Supreme Court, the Court of Appeals and Superior Courts.	After 15 years of service	At age 60	15 years of service = 3.5% of AFC per year of service 10-14 years of service = 3% of AFC
Judges (By 8/8/71)	Judges elected or appointed to the Supreme Court, the Court of Appeals and Superior Courts.	After 12 years of service	At age 70 with 10 years of service or any age with 18 years of service	1/2 of monthly salary

Pension System Roles and Responsibilities

Organization	Responsibility	Membership and Contact Information
Department of Retirement Systems (DRS)	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.	The Governor appoints the director of DRS. PO Box 48380, Olympia, WA 98504-8380 360-664-7000 or toll free at 800-547-6657
Legislative Fiscal Committees	Review and report on retirement bills to the full Legislature.	The legislative fiscal committees are the House Ways and Means Committee and the Senate Ways and Means Committee. House Ways and Means Committee PO Box 40600, Olympia, WA 98504-0600 360-786-7155 or toll free 800-562-6000 (legislative hotline) Senate Ways and Means Committee PO Box 40482, Olympia, WA 98504-0482 360-786-7715 or toll free 800-562-6000 (legislative hotline)
Select Committee on Pension Policy (SCPP)	Studies pension issues and retirement finances. Develops pension policies and recommends pension legislation.	Composed of four active retirement system member representatives, two retiree representatives, four employer representatives, eight state legislators and the directors of DRS and the Office of Financial Management. Contact SCPP through the Office of the State Actuary: PO Box 40914, Olympia, WA 98504-0914 360-786-6140
Pension Funding Council (PFC)	Adopts economic assumptions for pension funding and member and employer pension contribution rates for LEOFF Plan 1, PERS, PSERS, SERS, TRS and WSPRS.	Membership consists of the directors of DRS and Office of Financial Management, and the Chairs and Ranking Minority Members of the Senate Ways and Means Committee and House Ways and Means. Contact PFC through DRS.
Office of Financial Management (OFM)	Advises the Governor on pension and funding policies and issues.	The Governor appoints the director of OFM. PO Box 43113, Olympia, WA 98504-3113 360-902-0555
Washington State Investment Board (WSIB)	Invests and accounts for pension funds.	WSIB membership consists of the director of DRS; the state treasurer; the director of the Department of Labor and Industries; a state senator; a state representative; an active member of LEOFF, PERS, SERS and TRS; and a retired member of one of the retirement systems. PO Box 40916, Olympia, WA 98504-0916 360-956-4600
Office of the State Actuary (OSA)	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.	The State Actuary is appointed by the SCPP. PO Box 40914, Olympia, WA 98504-0914 360-786-6140
Employee Retirement Benefits Board (ERBB)	Provides recommendations to the WSIB on self-directed investment options for defined contribution plans; determines the payment options available for Plan 3 members; ratifies administrative charges assessed to members who participate in self-directed investment options. Provides recommendations on investment options for the Deferred Compensation Program.	Nine active and retired representatives of TRS, PERS and SERS; a Deferred Compensation Program participant; and two members with experience in defined contribution plan administration. All members of the ERBB are appointed by the Governor. The DRS director chairs the board. Contact the ERBB through DRS.
DRS Advisory Committee	Serves in an advisory role to the director of DRS on retirement administrative issues.	Members represent active and retired members of the retirement systems administered by DRS.
LEOFF 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.	LEOFF Plan 2 Retirement Board membership consists of representatives from the Legislature, law enforcement, fire fighters and employers. PO Box 40918, Olympia, WA 98504-0918 360-586-2320

*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 from DRS. For more information, contact DRS at 800-547-6657. To receive this publication in an alternate format, call 360-664-7097.

Have a minute to take a brief survey on this report?