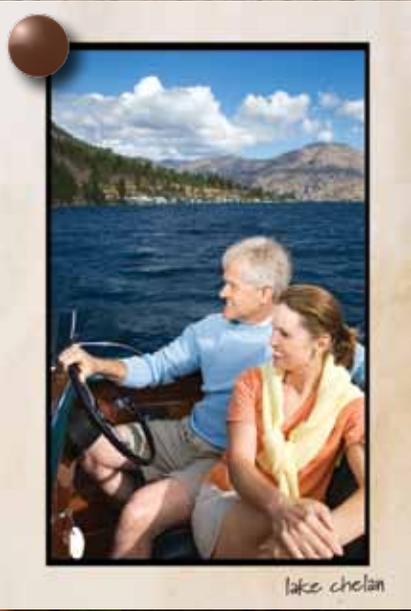


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**Summary Annual
Financial Report**



Message from the Director



This year has been one of significant economic challenges, for our state and for the nation as a whole. In every challenge, however, there is opportunity.

At the Washington State Department of Retirement Systems, we've long made a habit of fiscally lean operations – while maintaining a high level of accuracy

and customer care. CEM Benchmarking, Inc., an international firm that benchmarks the performance of public pension plans, found once again this year that our administrative cost per member is significantly lower than would be expected, given the complexity of Washington's 15 different plans within eight retirement systems.

We are proud of this accomplishment, yet we can strive to do even better. When resources are tight, innovation becomes a core part of daily business.

Over this last year, we implemented cost savings by reducing printed copies of member materials while simplifying our online services. We streamlined our retirement application and began a project to develop an electronic version of the application that will both save money and save our customers time. And we launched the first of what we anticipate will be many online informational videos.

Even as we continue to enhance online options, however, our team makes certain we maintain the personal connection our customers value. Retirement Services Analysts answer more than 90 percent of telephone calls in less than 30 seconds and walk-in customers are met by a trained, knowledgeable team member within an average of two minutes.

This quick, responsive service consistently garners praise, but we want to know more. Over this last year we piloted a project internally that will lay the groundwork for reaching out to our more than 400,000 customers to ask, "What can we do to ensure you are not only well-served, but also 100 percent satisfied with the service you receive from DRS?"

In 2010 we also reenergized our efforts to heighten awareness of the State's Deferred Compensation Program (administered by DRS). A pension benefit is only one part of what a public servant will need in retirement and we're pleased to report that enrollment in this retirement savings program continues to rise.

*When resources are tight,
innovation becomes a core
part of daily business.*

It is a privilege to work with you throughout your career and retirement. We are mindful of the responsibility that entails and will continue to work hard to meet your needs.

We offer our 2010 annual financial report for your review.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven Hill". The signature is fluid and cursive, written over a white background.

Steven R. Hill
Director

Membership by system and plan as of June 30, 2009*



Membership

The State of Washington provides retirement plans for public employees. The Department of Retirement Systems manages eight unique pension systems serving more than 478,000 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 63 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, 2009.

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) increased by \$5.2 billion during Fiscal Year 2010 to \$52.6 billion. The CTF return was 13.22 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 June 30, 2010)

| Asset Class | Liquidity | Innovation | Private Equity | Int'l Equity | U.S. Equity | Global Equity | Real Estate | Fixed Income | Tangible | Total Fund |
|-------------|-----------|------------|----------------|--------------|-------------|---------------|-------------|--------------|----------|------------|
| 1 Year | 0.17% | 11.89% | 23.95% | 11.44% | 51.80% | 13.52% | -3.82% | 12.47% | 10.10% | 13.22% |
| 3 Year | 1.92 | n/a | -4.10 | -10.86 | -5.04 | -10.69 | -7.68 | 8.92 | 0.1 | -4.80 |
| 5 Year | 3.01 | n/a | 9.67 | 3.33 | -1.79 | 0.91 | 4.13 | 6.68 | n/a | 4.08 |

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 regular 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 & Target Allocations (as of June 30, 2010)

| | Fixed Income | Tangible Assets | Real Estate | Global Equity | Private Equity | Innovation | Liquidity |
|--------|--------------|-----------------|-------------|---------------|----------------|------------|-----------|
| Actual | 21.89% | 1.16% | 14.21% | 34.71% | 25.76% | 0.83% | 1.44% |
| Target | 20.00% | 5.00% | 13.00% | 37.00% | 25.00% | 0.00% | 0.00% |

Investment Summary

The return on the retirement trust fund was 13.22 percent for the fiscal year.

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.

Largest Global Equity Holdings (as of June 30, 2010)

| Holding | % of Global Equity Index |
|----------------------|--------------------------|
| Exxon Mobil Corp | 1.10% |
| Apple Inc. | 0.86% |
| Royal Dutch Shell | 0.76% |
| Microsoft Corp | 0.67% |
| Procter & Gamble Co. | 0.65% |
| GlaxoSmithKline PLC | 0.62% |
| Johnson and Johnson | 0.61% |
| IBM Corp | 0.59% |
| Novartis AG | 0.58% |
| General Electric Co. | 0.58% |



Financial Statement

Statement of Plan Net Assets: Pension & other employee benefit assets by plan (as of June 30, 2010, expressed in thousands)*

| Assets | Pension Assets Totals | | | | | | | | | | | | | | | TOTALS | | |
|--|-----------------------|---------------------|--------------------|--------------------|----------------------------------|------------------|--------------------|--------------------|---------------------------------|--------------------|--------------------|------------------|----------------|----------------|--------------------------|-----------------------|---------------------|---------------------|
| | PERS Plan 1 | PERS Plan 2/3 | PERS Plan 3 | 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, 2010 | June30, 2009 |
| Cash and Pooled Investments | \$3,256 | \$3,264 | \$192 | \$2,177 | \$1,124 | \$321 | \$3,405 | \$4,281 | \$4,686 | \$1,668 | \$1,544 | \$861 | \$296 | \$2,811 | \$8 | \$2,865 | \$32,759 | \$33,699 |
| Total Receivables | \$290,452 | \$644,814 | \$33,776 | \$89,961 | \$33,785 | \$4,825 | \$243,670 | \$223,247 | \$111,930 | \$171,647 | \$203,225 | \$28,947 | \$7 | \$6 | – | \$1,164 | \$2,081,456 | \$739,611 |
| Total Investments, Noncurrent | \$8,172,337 | \$17,505,942 | \$1,427,810 | \$2,388,880 | \$1,104,504 | \$97,183 | \$6,862,584 | \$5,923,905 | \$4,174,364 | \$4,914,364 | \$5,428,979 | \$817,890 | \$3,568 | \$12 | \$11,433 | \$2,446,430 | \$61,280,185 | \$54,592,402 |
| Other Assets | \$553 | \$348 | – | \$8 | – | – | \$481 | \$118 | – | \$258 | \$52 | \$30 | – | – | – | – | \$1,848 | \$1,787 |
| Total Assets | \$8,466,598 | \$18,154,368 | \$1,461,778 | \$2,481,026 | \$1,139,413 | \$102,329 | \$7,110,140 | \$6,151,551 | \$4,290,980 | \$5,087,937 | \$5,633,800 | \$847,728 | \$3,871 | \$2,829 | \$11,441 | \$2,450,459 | \$63,396,248 | \$55,367,499 |
| Total Liabilities | \$840,112 | \$1,785,705 | \$87,406 | \$243,641 | \$86,131 | \$9,683 | \$706,079 | \$604,270 | \$265,673 | \$501,579 | \$552,143 | \$83,537 | \$32 | \$6 | – | \$113 | \$5,766,110 | \$3,443,851 |
| Net Assets Held in Trust for Pension and Other Benefits | \$7,626,486 | \$16,368,663 | \$1,374,372 | \$2,237,385 | \$1,053,282 | \$92,646 | \$6,404,061 | \$5,547,281 | \$4,025,307 | \$4,586,358 | \$5,081,657 | \$764,191 | \$3,839 | \$2,823 | \$11,441 | \$2,450,346 | \$57,630,138 | \$51,923,648 |

*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 website 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. 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.

Additions to pension plan net assets

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

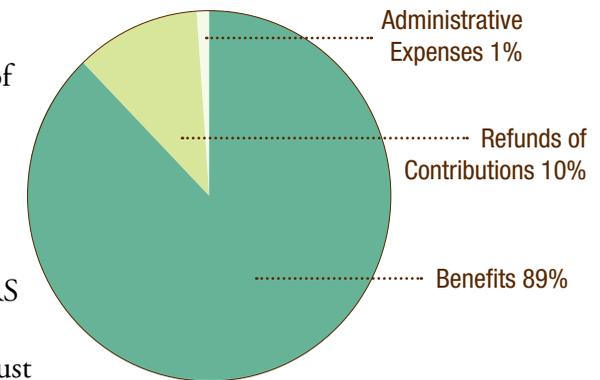
The totals are listed to the right (expressed in millions).

| Additions | Fiscal Year 2010 | Fiscal Year 2009 |
|---|------------------|---------------------|
| Retirement Contributions | \$1,923.5 | \$2,374.5 |
| Deferred Compensation Participant Contributions | \$185.1 | \$184.5 |
| Net Investment Income | \$6,639.5 | (\$14,911.9) |
| Charges for Services | \$28.1 | \$27.7 |
| Other Additions | \$35.5 | \$51.3 |
| Total | \$8,811.7 | (\$12,273.9) |

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 \$2,744.1 million for Fiscal Year 2010. Refunds totaled \$310.8 million. Administrative expenses, which include pension expenses incurred by DRS and the offices of the State Actuary and Attorney General, totaled \$29.5 million. Expenses for the management of trust funds are incurred by the Washington State Investment Board and funded from earnings on investments.



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 districts. 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 and by 6/30/96) | 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 and by 6/30/07) | 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 and 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 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 per year of service |
| Judges | 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 |

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

** New employees hired on or after 7/1/07 choose TRS Plan 2 or TRS Plan 3.

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 Tel: 360-664-7000 or toll-free 800-547-6657 • www.drs.wa.gov |
| 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 Tel: 360-786-7155 or toll-free 800-562-6000 (Legislative Hotline) • www.leg.wa.gov Senate Ways and Means Committee PO Box 40482, Olympia, WA 98504-0482 Tel: 360-786-7715 or toll-free 800-562-6000 (Legislative Hotline) • www.leg.wa.gov |
| 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 the Department of Retirement Systems and the Office of Financial Management. Contact through the State Actuary's office: PO Box 40914, Olympia, WA 98504-0914 Tel: 360-786-6140 • www.leg.wa.gov/scpp |
| Pension Funding Council (PFC) | Adopts economic assumptions for pension funding and member and employer pension contribution rates for PERS, SERS, TRS, PSERS, LEOFF Plan 1 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 the House Ways and Means Committee. Contact 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 Tel: 360-902-0555 • www.ofm.wa.gov |
| Washington State Investment Board (WSIB) | Invests and accounts for pension funds. | 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 PERS, SERS, LEOFF, and TRS; and a retired member of one of the seven retirement systems. PO Box 40916, Olympia, WA 98504-0916 Tel: 360-956-4600 • www.sib.wa.gov |
| 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 Select Committee on Pension Policy. PO Box 40914, Olympia, WA 98504-0914 Tel: 360-786-6140 • www.osa.leg.wa.gov |
| 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. | Membership consists of representatives from the Legislature, law enforcement, fire fighters and employers. PO Box 40918, Olympia, WA 98504-0918 Tel: 360-586-2320 • www.leoff.wa.gov |



It is a privilege to work with you throughout your career and retirement.