Financial Section

INDEPENDENT AUDITORS' REPORT

Ms. Marcie Frost, Director
Washington State Department of Retirement Systems
Olympia, Washington

Report on the Financial Statements

We have audited the accompanying financial statements (including the individual fund financial statements) of the Washington State Department of Retirement Systems (DRS), which comprise the combining statement of fiduciary net position as of June 30, 2014, and the related statement of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, DRS' fiduciary net position as of June 30, 2014, and the changes in its fiduciary net position for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statements present fairly in all material respects, the fiduciary net position of each of the individual funds of DRS as of June 30, 2014, and the changes in fiduciary net position of such funds for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Independent Auditors' Report (continued)

Report on Summarized Comparative Information

We have previously audited the DRS' 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 15, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Required Supplementary Schedules of Changes in Net Pension Liability, Net Pension Liability, Employer Contributions and Investment Returns and the related Notes to Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the DRS' basic financial statements. Supporting Schedules, as listed in the table of contents, are presented for the purpose of additional analysis and are not a required part of the financial statements.

The Schedules of Administrative Expenses, Investment Expenses – Pension Trust Funds and Payments to Consultants (Supporting Schedules) are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The Introductory, Investment, Actuarial and Statistical Sections, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
October 22, 2014

Management's Discussion and Analysis

This discussion and analysis provides an overview of financial activities of the Washington State Department of Retirement Systems (DRS) for the Fiscal Year ended June 30, 2014. Please read it in conjunction with the *Letter of Transmittal* beginning on page 8 and DRS' financial statements, which begin on page 22 of this report.

Financial Highlights

- The overall financial position of DRS improved during the year ended June 30, 2014; the fiduciary net position of all the pension funds increased $12,394.1 million.
- The covered payroll requiring both employee and employer pension contributions reported during the year totaled $17,160.6 million, representing a 4 percent increase over the previous year.
- Employer contributions totaled $1,527.4 million and member contributions (including restorations) totaled $1,102.4 million, representing increases of 29 percent and 7 percent, respectively, over the previous fiscal year.
- Net investment earnings (net appreciation/ depreciation in the fair value of investments, plus interest and dividend income, less investment expenses) increased $5,474.2 million to $13,623.6 million in Fiscal Year 2014.
- Pension benefits paid to retirees and beneficiaries increased $206.8 million bringing the total benefit payments to $3,455.9 million. Refunds of contributions paid to former retirement system members increased 21 percent to $661.9 million.
- Administrative expenses totaled $30.8 million and represented a 1 percent decrease from last fiscal year.

Overview of the Financial Statements

DRS' financial statements consists of the following components: basic financial statements, notes to the financial statements, required supplementary information, and other supporting schedules.

Basic Financial Statements The basic financial statements are fund financial statements, and include a *Statement of Fiduciary Net Position* and a *Statement of Changes in Fiduciary Net Position*.

The fiduciary funds include defined benefit and defined contribution pension trust funds and the deferred compensation program trust fund. The *Statement of Fiduciary Net Position* presented on pages 22-25 reports the assets, liabilities and resulting net position available for pension and other benefits as of June 30, 2014. The *Statement of Changes in Fiduciary Net Position* presented on pages 26-29 reports the additions to, deductions from and resulting change in net fiduciary position for the Fiscal Year ended June 30, 2014.

Notes to the Financial Statements The notes to the financial statements, presented on pages 30-83 of this report, are an integral part of the financial statements and include additional information not readily evident in the statements themselves. Note 1 provides a summary of significant accounting policies and plan asset matters. Note 2 provides a general description of the retirement plans, membership, employer net pension liability and actuarial assumptions.

Required Supplementary Information

Due to the long-term nature of a defined benefit pension plan, financial statements alone cannot provide sufficient information to properly reflect an ongoing plan perspective. The required supplementary information consists of four schedules with the current fiscal year's financial data that will be built prospectively to present ten year historical trend schedules.

The *Schedules of Net Pension Liability* presents each pension plan's Net Pension Liability. The *Schedules of Changes in Net Pension Liability* include current fiscal year and prior fiscal year information about the changes in the net pension liability of each pension plan. The *Schedule of Investment Returns* presents the annual money-weighted rate of return, net of investment expense, for each pension plan.

The *Schedule of Contributions* presents information about the annual required contributions of employers and the resulting contributions made by employers in relation to this requirement, covered employee payroll and the contributions as a percentage of covered payroll. The *Required Supplementary Information Schedules* are presented on pages 84-101.

Supporting Schedules and Other Financial Information

The supporting schedules on pages 102-104 provide additional detailed information useful in evaluating the condition of the plans administered by DRS. These schedules include information on administrative expenses, investment expenses and payments to consultants.

Financial Analysis of DRS Funds

Analysis of Fiduciary Net Position Dollars in Millions

Fiduciary Net Position	Fiscal Year 2014	Fiscal Year 2013	Increase (Decrease) Amount	Increase (Decrease) Percentage
Assets				
Cash and Pooled Investments	$ 59.3	$ 39.0	$ 20.3	52%
Receivables	1,780.3	1,999.8	(219.5)	(11)%
Capital Assets, Net of Depreciation	0.3	0.3	–	0%
Investments, Noncurrent	88,208.6	75,593.2	12,615.4	17%
Other Assets	1.4	1.6	(0.2)	(13)%
Total Assets	90,049.9	77,633.9	12,416.0	16%
Liabilities				
Obligations Under Securities Lending Agreements	1,091.6	1,196.8	(105.2)	(9)%
Other Short-Term Liabilities	1,864.1	1,736.8	127.3	7%
Long-Term Obligations	1.4	1.6	(0.2)	(13)%
Total Liabilities	2,957.1	2,935.2	21.9	1%
Fiduciary Net Position	**$87,092.8**	**$ 74,698.7**	**$ 12,394.1**	17%

The fiduciary net position increased by $12,394.1 million in Fiscal Year 2014 and totaled $87,092.8 million as of June 30, 2014. The increase was almost entirely due to the impact of current year market movements on the investment portfolio.

Total trust fund assets as of June 30, 2014 were $90,049.9 million, representing an increase of $12,416.0 million, or 16 percent over the previous fiscal year. The trust fund asset growth was primarily due to increased investments. Total investments increased by $12,615.4 million, or 17 percent, and reflected improved market conditions during the year.

Total trust fund liabilities as of June 30, 2014 were $2,957.1 million, representing an increase of $21.9 million, or 1 percent, over the previous year.

Analysis of Changes in Fiduciary Net Position Dollars in Millions

Changes in Fiduciary Net Position	Fiscal Year 2014	Fiscal Year 2013	Increase (Decrease) Amount	Increase (Decrease) Percentage
Additions				
Employer Contributions	$ 1,527.4	$ 1,186.4	$ 341.0	29%
Member Contributions	1,102.4	1,031.9	70.5	7%
State Contributions	66.1	64.3	1.8	3%
Participant Contributions	190.5	182.3	8.2	4%
Net Investment Income (Loss)	13,623.6	8,149.4	5,474.2	67%
Charges for Services	32.3	28.0	4.3	15%
Transfers from Other Pension Plans	4.8	5.6	(0.8)	(14)%
Other Additions	0.4	0.6	(0.2)	(33)%
Total Additions	16,547.5	10,648.5	5,899.0	55%
Deductions				
Benefits	3,455.9	3,249.1	206.8	6%
Refunds of Contributions	661.9	547.4	114.5	21%
Transfers to Other Pension Plans	4.8	5.6	(0.8)	(14)%
Transfers to Other Funds	–	4.3	(4.3)	(100)%
Administrative Expenses	30.8	31.1	(0.3)	(1)%
Total Deductions	4,153.4	3,837.5	315.9	8%
Net Increase/(Decrease)	12,394.1	6,811.0	5,583.1	82%
Fiduciary Net Position Beginning of Year	74,698.7	67,887.7	6,811.0	10%
Fiduciary Net Position End of Year	**$87,092.8**	**$ 74,698.7**	**$ 12,394.1**	17%

Additions to the retirement trust funds primarily consist of contributions from employers, active system members, the state and from investment earnings. Additions to the deferred compensation trust fund consist of participant contributions and investment earnings.

Total trust fund additions (excluding plan transfers) for Fiscal Year 2014 totaled $16,542.7 million, an increase of $5,899.8 million from Fiscal Year 2013. This increase was primarily due to a $5,474.2 million increase in net income from investment activities, caused almost entirely by current year market movements. The investment performance yielded a 17.1 percent total return for the Retirement Funds' Commingled Trust Fund, compared to the 12.4 percent return of the previous year.

Employer contributions increased $341 million, or 29 percent, and totaled $1,527.4 million. This increase was the result of contribution rate changes.

Total covered payroll was $17,160.6 million and represented a 4 percent increase over the previous year.

Member contributions include both regular and restoration contributions, and service credit purchases. Total contributions increased $70.5 million, or 7 percent, over the previous year and totaled $1,102.4 million for Fiscal Year 2014.

- Regular member contributions increased $63.3 million to $1,049.9 million, and reflected higher contribution rates.
- Other contributions increased $7.2 million to $52.5 million during the current year.

State contributions increased $1.8 million to $66.1 million in Fiscal Year 2014 and reflected the higher allocations out of the State General Fund for the Judicial Retirement System (JRS) and the Law Enforcement Officers' and Fire Fighters' Retirement Plan 2 (LEOFF 2). State contributions to LEOFF 2 increased by $1.3 million to $55.5 million and state contributions to JRS increased by $.5 million to $10.6 million during the current year.

Participant contributions to the Deferred Compensation Program (DCP) increased 4 percent over the prior year and totaled $190.5 million in Fiscal Year 2014. As of June 30, 2014, the number of active and contributing DCP participants was 36,364 and represented an increase of 4,847, or 15 percent over the previous year.

Transfers from and to other pension plans decreased $0.8 million to $4.8 million in Fiscal Year 2014, and reflected a modest increase in member movement activity among the pension plans.

Other additions decreased by $0.2 million to $0.4 million in Fiscal Year 2014.

Deductions to the retirement trust funds consist of the payment of benefits to retirees and beneficiaries, the refund of contributions to former retirement system members and the cost of administering the retirement systems. Benefit payments to members include both pension and annuity benefits.

Deductions to the deferred compensation trust fund consist of payments to plan participants and administrative expenses. Expenses for the management of trust funds incurred by the Washington State Investment Board (WSIB) are funded from earnings on investments.

Total trust fund deductions (excluding plan transfers) for Fiscal Year 2014 were $4,148.6 million, an increase of $316.7 million, or 8 percent, over Fiscal Year 2013. This growth resulted primarily from an increase in benefits paid to retirees and beneficiaries. Benefit payments increased $206.8 million, or 6 percent, due to an increase in the number of retirees during the year, the annual cost-of-living adjustments that increased benefit payouts, and the higher salaries of those newly retired.

Total refunds for Fiscal Year 2014 were $661.9 million, representing a $114.5 million increase from the previous year. Of this increase, $80.8 million can be attributed to employees withdrawing their plan contributions upon terminating public employment and $33.7 million are additional distributions from the deferred compensation program for mandatory distributions and other withdrawals from program participants.

There were no transfers to other funds in Fiscal Year 2014 which represented a $4.3 million decrease from the prior year. There was no requirement for an operating transfer into the State General Fund in Fiscal year 2014 which represented a 100 percent decrease from the prior year.

Capital Assets

DRS' investment in capital assets for its fiduciary activities includes furnishings, equipment and improvements other than buildings. As of June 30, 2014, total investment was $2.4 million, with accumulated depreciation of $2.1 million, leaving a net book value of $0.3 million. Additional information on DRS' capital assets can be found in Note 1 to the financial statements.

Other Long-Term Obligations

At year-end, DRS had $1.4 million in outstanding general long-term obligations, which represented a slight decrease from the prior year. These long-term obligations represent DRS' liability for employees' accumulated annual and sick leave. Additional information on DRS' long-term debt obligations can be found in Note 1 to the financial statements.

Contacting DRS' Financial Management

This financial report is designed to provide a general overview of DRS' finances. If you have questions about this report or need additional financial information, contact the Department of Retirement Systems' Fiscal Office, PO Box 48380, Olympia, WA 98504-8380.

This page intentionally left blank.

Statement of Fiduciary Net Position

Pension Trust and Other Employee Benefit Trust Funds by Plan – Page 1 of 4
June 30, 2014 – With Comparative Totals for June 30, 2013

Expressed in Thousands	Pension Trust				
	PERS Plan 1	PERS Plan 2/3	PERS Plan 3 Defined Contribution	SERS Plan 2/3	SERS Plan 3 Defined Contribution
Assets					
Cash and Pooled Investments	$ 2,825	$ 8,903	$ 366	$ 7,163	$ 1,188
Receivables					
Due from Other Governments	3,372	60,555	4,861	12,576	5,146
Member Accounts Receivable (Net of Allowance)	746	198	–	10	–
Interest and Dividends	23,912	84,396	4,071	11,549	3,685
Investment Trades Pending Receivable – Short Term	137,169	484,300	23,358	66,268	21,142
Due from Pension Funds	3,055	337	317	371	–
Due from Other Washington State Agencies	8	6	–	2	–
Other Receivables – Short Term	–	–	–	–	–
Total Receivables	168,262	629,792	32,607	90,776	29,973
Capital Assets, net of depreciation	76	48	–	9	–
Investments, Noncurrent					
Equity in CTF	7,784,692	27,485,339	1,325,620	3,760,899	1,199,874
Liquidity	177,065	626,188	35,605	86,850	31,003
Other Noncurrent Investments	–	–	960,882	–	419,858
Collateral Held Under Securities Lending Agreements	109,628	385,664	18,964	52,774	17,077
Total Investments, Noncurrent	8,071,385	28,497,191	2,341,071	3,900,523	1,667,812
Other Assets	387	244	–	44	–
Total Assets	8,242,935	29,136,178	2,374,044	3,998,515	1,698,973
Liabilities					
Obligations Under Security Lending Agreements	109,628	385,664	18,964	52,773	17,077
Accounts Payable	1,790	5,153	4,165	765	3,444
Investment Trades Pending Payable – Short Term	180,835	638,472	30,794	87,364	27,872
Due to Other Governments	5,990	2,703	–	541	–
Due to Pension Funds	23	3,171	–	640	310
Due to Other Washington State Agencies	144	112	–	12	–
Other Short-Term Liabilities	1	–	–	–	–
Other Long-Term Obligations	387	244	–	44	–
Accrued Salaries	181	115	–	21	–
Unearned Revenues	41	243	–	2	–
Total Liabilities	299,020	1,035,877	53,923	142,162	48,703
Fiduciary Net Position					
Pension Plans	7,943,915	28,100,301	2,320,121	3,856,353	1,650,270
Deferred Compensation Plan	–	–	–	–	–
Total Fiduciary Net Position	**$ 7,943,915**	**$ 28,100,301**	**$ 2,320,121**	**$ 3,856,353**	**$ 1,650,270**

The accompanying notes are an integral part of this statement.

Pension Trust and Other Employee Benefit Trust Funds by Plan – Page 2 of 4
June 30, 2014 – With Comparative Totals for June 30, 2013

Expressed in Thousands	Pension Trust				
	PSERS Plan 2	TRS Plan 1	TRS Plan 2/3	TRS Plan 3 Defined Contribution	LEOFF Plan 1
Assets					
Cash and Pooled Investments	$ 468	$ 2,897	$ 12,329	$ 5,347	$ 1,704
Receivables					
Due from Other Governments	2,321	1,579	33,860	23,305	654
Member Accounts Receivable (Net of Allowance)	–	249	23	–	152
Interest and Dividends	898	19,553	29,312	12,667	17,215
Investment Trades Pending Receivable – Short Term	5,151	112,165	168,196	72,683	98,769
Due from Pension Funds	3	3,264	1,310	–	237
Due from Other Washington State Agencies	–	6	4	–	3
Other Receivables – Short Term	–	–	–	–	–
Total Receivables	8,373	136,816	232,705	108,655	117,030
Capital Assets, net of depreciation	–	66	27	–	34
Investments, Noncurrent					
Equity in CTF	292,321	6,365,665	9,545,512	4,124,953	5,605,448
Liquidity	9,218	146,228	229,020	110,495	127,376
Other Noncurrent Investments	–	–	–	2,717,466	–
Collateral Held Under Securities Lending Agreements	4,115	89,633	133,947	58,379	78,777
Total Investments, Noncurrent	305,654	6,601,526	9,908,479	7,011,293	5,811,601
Other Assets	2	336	135	–	172
Total Assets	314,497	6,741,641	10,153,675	7,125,295	5,930,541
Liabilities					
Obligations Under Security Lending Agreements	4,115	89,633	133,947	58,380	78,777
Accounts Payable	53	1,341	2,049	7,019	1,397
Investment Trades Pending Payable – Short Term	6,791	147,871	221,739	95,820	130,212
Due to Other Governments	1	5,898	1,044	–	3
Due to Pension Funds	149	15	3,351	1,125	1
Due to Other Washington State Agencies	1	83	35	–	44
Other Short-Term Liabilities	–	–	–	–	–
Other Long-Term Obligations	2	336	135	–	172
Accrued Salaries	1	154	62	–	79
Unearned Revenues	–	25	–	–	–
Total Liabilities	11,113	245,356	362,362	162,344	210,685
Fiduciary Net Position					
Pension Plans	303,384	6,496,285	9,791,313	6,962,951	5,719,856
Deferred Compensation Plan	–	–	–	–	–
Total Fiduciary Net Position	**$ 303,384**	**$ 6,496,285**	**$ 9,791,313**	**$ 6,962,951**	**$ 5,719,856**

The accompanying notes are an integral part of this statement.

Statement of Fiduciary Net Position (continued)

Pension Trust and Other Employee Benefit Trust Funds by Plan – Page 3 of 4
June 30, 2014 – With Comparative Totals for June 30, 2013

Expressed in Thousands	Pension Trust LEOFF Plan 2	WSPRS Plan 1/2	JRS	Judges
Assets				
Cash and Pooled Investments	$ 1,997	$ 702	$ 5,062	$ 958
Receivables				
Due from Other Governments	14,180	499	–	–
Member Accounts Receivable (Net of Allowance)	32	2	–	–
Interest and Dividends	27,800	3,302	–	–
Investment Trades Pending Receivable – Short Term	159,531	18,949	–	–
Due from Pension Funds	102	26	1	–
Due from Other Washington State Agencies	2	1	1	–
Other Receivables – Short Term	–	–	–	–
Total Receivables	201,647	22,779	2	–
Capital Assets, net of depreciation	15	4	–	–
Investments, Noncurrent				
Equity in CTF	9,054,010	1,075,408	–	–
Liquidity	206,152	25,077	–	–
Other Noncurrent Investments	–	–	–	–
Collateral Held Under Securities Lending Agreements	127,122	15,123	146	27
Total Investments, Noncurrent	9,387,284	1,115,608	146	27
Other Assets	74	19	–	–
Total Assets	9,591,017	1,139,112	5,210	985
Liabilities				
Obligations Under Security Lending Agreements	127,121	15,123	146	27
Accounts Payable	1,922	213	1	–
Investment Trades Pending Payable – Short Term	210,316	24,981	–	–
Due to Other Governments	27	212	30	2
Due to Pension Funds	231	8	–	–
Due to Other Washington State Agencies	30	6	–	–
Other Short-Term Liabilities	–	–	–	–
Other Long-Term Obligations	74	19	–	–
Accrued Salaries	40	9	–	–
Unearned Revenues	–	–	–	–
Total Liabilities	339,761	40,571	177	29
Fiduciary Net Position				
Pension Plans	9,251,256	1,098,541	5,033	956
Deferred Compensation Plan	–	–	–	–
Total Fiduciary Net Position	**$ 9,251,256**	**$ 1,098,541**	**$ 5,033**	**$ 956**

The accompanying notes are an integral part of this statement.

Pension Trust and Other Employee Benefit Trust Funds by Plan – Page 4 of 4
June 30, 2014 – With Comparative Totals for June 30, 2013

Expressed in Thousands	Pension Trust		Totals	
	JRA Defined Contribution	Deferred Compensation	June 30, 2014	June 30, 2013
Assets				
Cash and Pooled Investments	$ 13	$ 7,410	$ 59,332	$ 39,053
Receivables				
Due from Other Governments	–	–	162,908	137,170
Member Accounts Receivable (Net of Allowance)	2	911	2,325	2,625
Interest and Dividends	–	–	238,360	199,286
Investment Trades Pending Receivable – Short Term	–	–	1,367,681	1,657,752
Due from Pension Funds	–	1	9,024	2,958
Due from Other Washington State Agencies	–	–	33	–
Other Receivables – Short Term	–	–	–	1
Total Receivables	2	912	1,780,331	1,999,792
Capital Assets, net of depreciation	–	–	279	292
Investments, Noncurrent				
Equity in CTF	–	–	77,619,741	66,077,326
Liquidity	–	–	1,810,277	1,575,338
Other Noncurrent Investments	13,019	3,575,736	7,686,961	6,743,729
Collateral Held Under Securities Lending Agreements	–	176	1,091,552	1,196,782
Total Investments, Noncurrent	13,019	3,575,912	88,208,531	75,593,175
Other Assets	–	–	1,413	1,586
Total Assets	13,034	3,584,234	90,049,886	77,633,898
Liabilities				
Obligations Under Security Lending Agreements	–	176	1,091,551	1,196,782
Accounts Payable	–	580	29,892	23,031
Investment Trades Pending Payable – Short Term	–	–	1,803,067	1,689,736
Due to Other Governments	–	–	16,451	16,024
Due to Pension Funds	–	–	9,024	2,958
Due to Other Washington State Agencies	–	11	478	327
Other Short-Term Liabilities	3	4,182	4,186	3,943
Other Long-Term Obligations	–	–	1,413	1,586
Accrued Salaries	–	45	707	78
Unearned Revenues	–	–	311	727
Total Liabilities	3	4,994	2,957,080	2,935,192
Fiduciary Net Position				
Pension Plans	13,031	–	83,513,566	71,495,401
Deferred Compensation Plan	–	3,579,240	3,579,240	3,203,305
Total Fiduciary Net Position	**$ 13,031**	**$ 3,579,240**	**$ 87,092,806**	**$ 74,698,706**

The accompanying notes are an integral part of this statement.

Statement of Changes in Fiduciary Net Position

Pension Trust and Other Employee Benefit Trust Funds by Plan – Page 1 of 4
June 30,2014—With Comparative Totals for June 30,2013

Expressed in Thousands	Pension Trust				
	PERS Plan1	PERS Plan2/3	PERS Plan 3 Defined Contribution	SERS Plan2/3	SERS Plan 3 Defined Contribution
Additions					
Retirement Contributions					
Employer	$ 448,895	$ 430,345	$ –	$ 88,783	$ –
Plan Member	18,797	346,270	105,183	31,305	60,766
State	–	–	–	–	–
Plan Member Restorations	9,290	21,981	–	552	–
Total Retirement Contributions	476,982	798,596	105,183	120,640	60,766
Participant Contributions	–	–	–	–	–
Investment Income					
Net Appreciation (Depreciation) in Fair Value of Investments	1,157,754	3,922,917	313,388	536,742	222,334
Interest and Other Investment Income	128,705	434,023	21,814	59,375	19,394
Dividends	57,330	195,390	9,419	26,725	8,559
Less: Investment Expenses	(31,789)	(107,393)	(5,953)	(14,858)	(4,951)
Total Net Investment Income	1,312,000	4,444,937	338,668	607,984	245,336
Charges for Services	2,887	10,805	251	1,774	227
Transfers from Other Pension Plans	36	141	1,871	42	682
Miscellaneous	12	44	–	8	–
Total Additions	1,791,917	5,254,523	445,973	730,448	307,011
Deductions					
Benefits	1,189,496	565,660	–	81,216	–
Refunds of Contributions	4,219	35,202	81,924	2,732	73,826
Annuity Payments	–	–	1,435	–	854
Transfers to Other Pension Plans	–	2,441	326	504	302
Transfer to Other Funds	–	–	–	–	–
Administrative Expenses	3,016	9,977	251	1,543	227
Total Deductions	1,196,731	613,280	83,936	85,995	75,209
Net Increase (Decrease)	595,186	4,641,243	362,037	644,453	231,802
Fiduciary Net Position					
Beginning of Year: July 1	7,348,729	23,459,058	1,958,084	3,211,900	1,418,468
End of Year: June 30	**$ 7,943,915**	**$ 28,100,301**	**$ 2,320,121**	**$ 3,856,353**	**$ 1,650,270**

The accompanying notes are an integral part of this statement.

Pension Trust and Other Employee Benefit Trust Funds by Plan – Page 2 of 4
June 30, 2014 – With Comparative Totals for June 30, 2013

Expressed in Thousands	Pension Trust				
	PSERS Plan 2	TRS Plan 1	TRS Plan 2/3	TRS Plan 3 Defined Contribution	LEOFF Plan 1
Additions					
Retirement Contributions					
Employer	$ 17,124	$ 200,674	$ 249,342	$ –	$ 98
Plan Member	17,344	9,039	41,081	273,656	–
State	–	–	–	–	–
Plan Member Restorations	102	5,587	2,931	–	844
Total Retirement Contributions	34,570	215,300	293,354	273,656	942
Participant Contributions	–	–	–	–	–
Investment Income					
Net Appreciation (Depreciation) in Fair Value of Investments	39,842	952,903	1,359,570	966,000	824,336
Interest and Other Investment Income	4,390	105,955	150,400	66,997	91,501
Dividends	1,998	47,124	67,732	29,248	40,881
Less: Investment Expenses	(1,086)	(26,175)	(37,801)	(18,205)	(22,593)
Total Net Investment Income	45,144	1,079,807	1,539,901	1,044,040	934,125
Charges for Services	110	2,360	5,305	784	2,079
Transfers from Other Pension Plans	5	51	45	1,115	–
Miscellaneous	–	9	24	–	8
Total Additions	79,829	1,297,527	1,838,629	1,319,595	937,154
Deductions					
Benefits	256	909,234	149,522	–	355,740
Refunds of Contributions	2,194	2,262	1,988	235,635	248
Annuity Payments	–	16,741	–	3,084	–
Transfers to Other Pension Plans	–	–	445	721	–
Transfer to Other Funds	–	–	–	–	–
Administrative Expenses	104	2,195	4,585	784	1,851
Total Deductions	2,554	930,432	156,540	240,224	357,839
Net Increase (Decrease)	77,275	367,095	1,682,089	1,079,371	579,315
Fiduciary Net Position					
Beginning of Year: July 1	226,109	6,129,190	8,109,224	5,883,580	5,140,541
End of Year: June 30	**$ 303,384**	**$ 6,496,285**	**$ 9,791,313**	**$ 6,962,951**	**$ 5,719,856**

The accompanying notes are an integral part of this statement.

Statement of Changes in Fiduciary Net Position (continued)

Pension Trust and Other Employee Benefit Trust Funds by Plan – Page 3 of 4
June 30, 2014 – With Comparative Totals for June 30, 2013

	Pension Trust			
Expressed in Thousands	LEOFF Plan 2	WSPRS Plan 1/2	JRS	Judges
Additions				
Retirement Contributions				
Employer	$ 85,532	$ 6,587	$ –	$ –
Plan Member	140,921	5,489	–	–
State	55,551	–	10,600	–
Plan Member Restorations	10,120	1,066	–	–
Total Retirement Contributions	292,124	13,142	10,600	–
Participant Contributions	–	–	–	–
Investment Income				
Net Appreciation (Depreciation) in Fair Value of Investments	1,285,185	156,073	16	6
Interest and Other Investment Income	142,137	17,300	10	2
Dividends	64,054	7,755	–	–
Less: Investment Expenses	(35,107)	(4,272)	–	–
Total Net Investment Income	1,456,269	176,856	26	8
Charges for Services	3,363	399	2	–
Transfers from Other Pension Plans	265	510	–	–
Miscellaneous	13	2	–	–
Total Additions	1,752,034	190,909	10,628	8
Deductions				
Benefits	124,921	47,143	9,480	444
Refunds of Contributions	9,028	367	–	–
Annuity Payments	–	–	–	–
Transfers to Other Pension Plans	24	–	–	–
Transfer to Other Funds	–	–	–	–
Administrative Expenses	4,192	431	2	–
Total Deductions	138,165	47,941	9,482	444
Net Increase (Decrease)	1,613,869	142,968	1,146	(436)
Fiduciary Net Position				
Beginning of Year: July 1	7,637,387	955,573	3,887	1,392
End of Year: June 30	**$ 9,251,256**	**$ 1,098,541**	**$ 5,033**	**$ 956**

The accompanying notes are an integral part of this statement.

Pension Trust and Other Employee Benefit Trust Funds by Plan – Page 4 of 4
June 30, 2014 – With Comparative Totals for June 30, 2013

Expressed in Thousands	Pension Trust		Totals	
	JRA Defined Contribution	Deferred Compensation	June 30, 2014	June 30, 2013
Additions				
Retirement Contributions				
Employer	$ 25	$ –	$ 1,527,405	$ 1,186,357
Plan Member	25	–	1,049,876	986,590
State	–	–	66,151	64,346
Plan Member Restorations	–	–	52,473	45,277
Total Retirement Contributions	50	–	2,695,905	2,282,570
Participant Contributions	–	190,538	190,538	182,305
Investment Income				
Net Appreciation (Depreciation) in Fair Value of Investments	1,349	391,850	12,130,265	6,560,007
Interest and Other Investment Income	31	6,798	1,248,832	580,517
Dividends	10	3,444	559,669	1,265,835
Less: Investment Expenses	(18)	(5,009)	(315,210)	(256,924)
Total Net Investment Income	1,372	397,083	13,623,556	8,149,435
Charges for Services	–	1,949	32,295	28,008
Transfers from Other Pension Plans	–	–	4,763	5,626
Miscellaneous	(2)	314	432	602
Total Additions	1,420	589,884	16,547,489	10,648,546
Deductions				
Benefits	668	–	3,433,780	3,233,398
Refunds of Contributions	–	212,298	661,923	547,420
Annuity Payments	–	–	22,114	15,722
Transfers to Other Pension Plans	–	–	4,763	5,626
Transfer to Other Funds	–	–	–	4,330
Administrative Expenses	–	1,651	30,809	31,076
Total Deductions	668	213,949	4,153,389	3,837,572
Net Increase (Decrease)	752	375,935	12,394,100	6,810,974
Fiduciary Net Position				
Beginning of Year: July 1	12,279	3,203,305	74,698,706	67,887,732
End of Year: June 30	**$ 13,031**	**$ 3,579,240**	**$ 87,092,806**	**$ 74,698,706**

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements – For the Fiscal Year Ended June 30, 2014
Note 1: Summary of Significant Accounting Policies and Plan Asset Matters

A. Reporting Entity
The Governmental Accounting Standards Board (GASB) has developed criteria relating to elements of financial accountability to be used to determine the reporting entity. Financial accountability is manifest when the primary government appoints a voting majority of an organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government.

The primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board. An organization is fiscally dependent if it is unable to determine its budget without another government having the substantive authority to approve or modify that budget, or to set rates or charges without substantive approval by another government.

Because DRS is part of the primary government of the state of Washington, based on GASB's criteria, it is considered part of the state's financial reporting entity and is included in the state's comprehensive annual financial report (CAFR).

The state of Washington's CAFR may be obtained from the Office of Financial Management's website at: *www.ofm.wa.gov/cafr*

The state of Washington, through DRS, administers eight retirement systems for public employees of the state and political subdivisions: the Public Employees' Retirement System, the School Employees' Retirement System, the Public Safety Employees' Retirement System, the Teachers' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, the Washington State Patrol Retirement System, the Judicial Retirement System, and the Judges' Retirement Fund.

The members of the public retirement systems, together with their employers and the state provide funding for the systems based upon actuarial valuations. The Legislature establishes benefit levels and approves the actuarial assumptions used in determining contribution levels.

B. Basic Financial Statements
The financial statements provided in this report are fiduciary statements.

Fiduciary funds report assets held for others in a trustee or agency capacity and therefore, cannot be used to support the government's own programs. DRS' fiduciary funds are the retirement pension trust funds. The statements presented for these funds include a Statement of Fiduciary Net Position (SFNP) and a Statement of Changes in Fiduciary Net Position (SCFNP).

The statements provide a separate column for each plan administered by DRS. The SFNP includes information about the assets, liabilities, and net fiduciary position for each plan. The SCFNP includes information about the additions to, deductions from, and net increase (or decrease) in fiduciary net position for each plan for the year.

C. Measurement Focus and Basis of Accounting
DRS' financial statements have been prepared in conformity with generally accepted accounting principles (GAAP). The retirement plans are accounted for in pension trust funds using the flow of economic resources measurement focus and the accrual basis of accounting.

Plan member contributions are recognized as revenues in the period in which the contributions are earned. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The deferred compensation plan is accounted for in a pension trust fund using the flow of economic resources measurement focus and the accrual basis of accounting. Participant contributions are recognized as revenues in the period in which the contributions are due. Refunds are recognized when due and payable in accordance with the terms of the plan.

DRS maintains an administrative fund to account for the administrative revenues and operating expenditures incurred in administering the deferred compensation plan. Since these costs are incurred in the administration of the deferred compensation plan, they have been reported within the deferred compensation plan.

D. Method Used to Value Investments

Investments are reported at fair value. Unrealized gains and losses are included as investment income in the Statement of Changes in Fiduciary Net Position. The net assets of the Retirement Funds are valued using the following sources:

Publicly Traded Securities (corporate stock, commingled funds, exchange-traded derivatives, and fixed income): Fair values are based on published market prices, quotations from national security exchanges and security pricing services.

Limited Partnerships: The fair value of investments (such as private equity, real estate, innovation and tangible assets) that are organized as limited partnerships and have no readily ascertainable fair value has been determined by the Washington State Investment Board (WSIB) management based on the individual investment's capital account balance, reported at fair value by the general partner, at the closest available reporting period, adjusted for subsequent contributions, distributions, management fees, and changes in value of foreign currency and published market prices for certain securities.

The limited partnerships' annual financial statements are audited by independent auditors. These investments are valued at $29.6 billion (37 percent of total investments) as of June 30, 2014. Because of the inherent uncertainties in estimating fair values, it is at least reasonably possible that the estimates will change in the near-term.

Private Equity Limited Partnerships: The fair value of individual capital account balances is based on the valuations reported by private equity partnerships using the following methodologies to value the underlying portfolio companies:

- Valuations of publicly traded portfolio companies are based on active exchanges using quoted market prices as of the close of trading for each month end.
- When a portfolio company investment does not have a readily available market price, but has a return that is determined by reference to an asset for which a market price is readily available, valuations are based on the closing market price of the reference asset on the valuation date, adjusted for factors that affect the fair value of the investment held.
- When the portfolio company's investments are private holdings and are not traded on active security exchanges, valuation methodologies used consist primarily of income and market approaches. The income approach involves a discounted cash flow analysis based on the portfolio company's projections. The market approach involves valuing a company at a multiple of a specified financial measure, generally Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) based on multiples at which comparable companies trade.

Real Estate Limited Partnerships: Real estate partnerships provide the WSIB management with quarterly valuations based on the most recent capital account balances. Individual properties are valued by the partnerships at least annually, and are adjusted as frequently as quarterly if material market or operational changes have occurred. Properties are generally externally valued every one to five years, depending upon the partnership. Structured finance investments receive quarterly value adjustments by the partners, generally applying the assumption that all such positions will be held to maturity. Annual audits of most partnerships include a review of compliance with the partnerships' valuation policies.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

F. Revenue Recognition

Interest and dividend income is recognized when earned. Capital gains and losses are recognized on a trade-date basis. Purchases and sales of investments are also recorded on a trade-date basis.

G. Allocation

DRS maintains a fund to account for the administrative additions and deductions incurred in administering the pension plans (excluding any fees incurred while protecting the pension plans). These additions and deductions have been allocated to the pension plans.

DRS maintains a general capital assets fund to account for the capital assets used in administering the pension plans. These capital assets have been allocated to the pension plans based on asset balance. DRS also maintains a general long-term obligation fund to account for accumulated compensated absences incurred in administering the pension plans. These general long-term obligations have also been allocated to the pension plans based on asset balance.

H. Deposits, Investments, and Securities Lending

Deposits: DRS' deposits are managed by the Office of the State Treasurer (OST) and consist of securities issued by AAA rated issuers or deposits in financial institutions partially insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized by the Washington Public Deposit Protection Commission (PDPC) up to statute limitations. The PDPC constitutes a multiple financial institution collateral pool. Pledged securities under the PDPC collateral pool are held by the PDPC's agent in the name of the collateral pool.

State law (chapter 43.84.080 RCW) specifies that whenever there is a fund or cash balance in the state treasury more than sufficient to meet the current expenditures properly payable therefrom, the OST may invest or reinvest such portion of such funds or balances as the OST deems expedient. Statute authorizes the OST to buy and sell the following types of instruments: U.S. Government and Agency securities, bankers' acceptances, commercial paper and deposits with qualified public depositories. Securities underlying repurchase and reverse repurchase agreements are limited to those stated above. DRS receives its proportionate share of investment earnings from surplus balances in the state treasury based upon its daily balance for the period. DRS' deposits are separately displayed on the Statement of Fiduciary Net Position as cash and pooled investments.

Deposits – Custodial Credit Risk: Custodial credit risk is the risk that deposits may not be returned in the event of the failure of a financial institution. The OST minimizes custodial credit risk by restrictions set forth in state law. Statutes restrict the OST to deposit funds in financial institutions that are physically located in Washington unless otherwise expressly permitted by statute and authorized by the PDPC. As of June 30, 2014, the carrying amount of DRS' cash and pooled investment deposits is $59.3 million, all of which is insured or collateralized.

Investments: The WSIB has been authorized by statute as having the investment management responsibility for Retirement and Deferred Compensation Funds. The WSIB is authorized to invest as provided by statute (chapter 43.33A RCW) and WSIB policy. The WSIB is authorized and invests in the following: U.S. Treasury Bills; discount notes; repurchase agreements; reverse repurchase agreements; bankers' acceptances; commercial paper; guaranteed investment contracts; U.S. Government and Agency (government sponsored corporations eligible for collateral purposes at the Federal Reserve) securities; non-U.S. dollar bonds; investment grade corporate bonds; non-investment grade corporate bonds; publicly traded mortgage-backed securities; privately placed mortgages; private placements of corporate debt; U.S. and foreign common stock; U.S. preferred stock; convertible securities; private equity including but not limited to: investment corporations, partnerships, and limited liability companies for venture capital, leveraged buy-outs, real estate and other tangible assets, or other forms of private equity; asset backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions.

There were no violations of these investment restrictions during Fiscal Year 2014.

Investments – Interest Rate Risk: Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. This risk is managed within the portfolios using effective duration, which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Increases in prevailing interest rates generally translate into decreases in the fair values of those investments.

The Retirement Funds' fixed income investments are to be actively managed to meet or exceed the return of the Barclays Capital Universal Index, with volatility similar to or less than the index. As of June 30, 2014 the Retirement Funds' duration was within the duration target of this index.

The schedule on page 34 provides information about the interest rate risks associated with the categorized investments in the Commingled Trust Fund (CTF) as of June 30, 2014. The schedule displays asset classes held by maturity in years, effective durations, and credit ratings. Residential mortgage backed, commercial mortgage backed, and asset backed securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time until maturity for these securities, taking into account possible prepayments of principal. All other categorized securities on this schedule are reported using the stated maturity date.

Investments – Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The WSIB's investment policies for the Retirement Funds limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa, or a Standard and Poor's rating of AAA to BBB. The Retirement Funds' rated debt investments as of June 30, 2014, were rated by Moody's and/or an equivalent national rating organization.

Credit ratings for the Retirement Funds' rated debt investments as of June 30, 2014 are presented in the schedule on page 34. Investment types with multiple credit ratings are presented in the schedule on page 35.

Investments – Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer.

The WSIB's policy states that no corporate fixed income issue shall exceed three percent of cost at the time of purchase or six percent of fair value of the fund thereafter, and that no high yield issues shall exceed one percent of cost or two percent of the fair value of the fund.

There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2014. Additionally, no single investment (other than any issued or explicitly guaranteed by the U.S. government, or involving mutual funds or investment pools) comprised more than five percent of DRS' net investments at the end of Fiscal Year 2014.

Notes to the Financial Statements

Note 1: Summary of Significant Accounting Policies and Plan Asset Matters (continued)

Investment Maturities

As of June 30, 2014 – Expressed in Thousands

Investment Type	Total Fair Value	Maturity: Less than one year	1-5 years	6-10 years	More than 10 years	Effective Duration	Credit Rating
Mortgage and Other Asset Backed Securities	$ 1,619,194	$ 420,959	$ 1,122,642	$ 75,588	$ 4	2.91	*
Corporate Bonds	8,373,642	370,654	3,729,334	3,019,900	1,253,754	5.86	*
U.S. Government and Agency Securities	7,083,931	897,921	5,513,369	473,793	198,848	3.30	Aaa
Foreign Government and Agency Securities	1,276,028	96,337	414,093	567,394	198,205	5.01	*
Total Retirement Funds Investment Categorized	**$ 18,352,795**	**$1,785,871**	**$10,779,438**	**$ 4,136,675**	**$ 1,650,811**	**4.59**	
Investments Not Required to be Categorized							
Cash and Cash Equivalents	1,811,287						
Equity Securities	29,708,079						
Alternative Investments	29,557,857						
Total Investments Not Categorized	**$ 61,077,223**						
DCP, JRA, and Defined Contribution – SELF Plan Assets:							
Retirement Strategy Funds (Target Date Funds)	3,499,914						
Equity Index Funds	1,878,357						
Guaranteed Investment Contracts	941,650						
Bond Funds	642,273						
Money Market Mutual Funds	496,746						
Balanced Fund	228,016						
Life Annuity	5						
Total DCP, JRA, and Defined Contribution – SELF Plan Assets	**$ 7,686,961**						
Securities Under Lending Agreements	1,091,552						
Total Investments Non-Current– 6/30/2014	**$ 88,208,531**						

* These Investment Types have Multiple Credit Ratings, refer to *Investments with Multiple Credit Ratings* Schedule presented on following page.

Investments with Multiple Credit Ratings
As of June 30, 2014 – Expressed in Thousands

Moody's Equivalent Credit Rating	Mortgage and Other Asset Backed Securities	Corporate Bonds	U.S. Government and Agency Securities	Foreign Government and Agency Securities	Total Debt Securities
Aaa	$1,607,233	$ 577,753	$7,083,931	$ 274,458	**$ 9,543,375**
Aa1	–	18,013	–	69,235	**87,248**
Aa2	–	198,617	–	83,773	**282,390**
Aa3	–	382,040	–	105,402	**487,442**
A1	1,282	437,250	–	–	**438,532**
A2	–	534,973	–	–	**534,973**
A3	–	715,514	–	94,686	**810,200**
Baa1	1,381	1,056,086	–	46,985	**1,104,452**
Baa2	9,298	1,491,213	–	166,980	**1,667,491**
Baa3	–	1,882,377	–	344,045	**2,226,422**
Ba1 or Lower	–	1,079,806	–	90,464	**1,170,270**
Total Fair Value	**$1,619,194**	**$8,373,642**	**$7,083,931**	**$1,276,028**	**$18,352,795**

Investments – Custodial Credit Risk: Custodial credit risk is the risk that, in the event a depository institution or counterparty fails, the WSIB would not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2014, investment securities (excluding cash, cash equivalents, and repurchase agreements held as securities lending collateral) are registered and held in the name of the WSIB for the benefit of the Retirement Funds, and are not exposed to custodial credit risk. The WSIB has no general policies relating to custodial credit risk.

Investments – Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The WSIB does not have a formal policy to limit the Retirement Funds' foreign currency risk.

The WSIB manages exposure to fair value loss by requiring its international securities investment managers to maintain diversified portfolios by sector and by issuer to limit foreign currency and security risk. The Retirement Funds' exposure to foreign currency risk as of June 30, 2014, is presented in the schedule on page 36. The schedule, stated in U.S. dollars, provides information on deposits and investments held in various foreign currencies. Private equity and real estate are presented according to the financial reporting currency of the individual funds. This is not a presentation of currency exposure relating to the underlying holdings.

Note 1: Summary of Significant Accounting Policies and Plan Asset Matters (continued)

Foreign Currency Exposure by Country
As of June 30, 2014 – Expressed in Thousands
Investment Type in US Dollar Equivalent

Foreign Currency Denomination	Cash and Cash Equivalents	Debt Securities	Equity Securities	Alternative Assets	Total
Australia Dollar	$ 9,207	$ 404,835	$ 521,232	$ 28,746	$ 964,020
Brazil Real	356	357,172	105,525	–	463,053
Canada Dollar	13,287	–	897,531	–	910,818
Chile Peso	–	124,509	4,018	–	128,527
China Yuan	277	168,512	–	–	168,789
Colombia Peso	–	141,053	–	–	141,053
Denmark Krone	63	–	151,661	–	151,724
E.M.U. Euro	34,766	–	3,327,231	2,626,325	5,988,322
Hong Kong Dollar	3,654	–	482,347	–	486,001
Hungary Forint	112	–	7,275	–	7,387
India Rupee	612	88,654	155,641	–	244,907
Indonesia Rupiah	178	56,808	62,953	–	119,939
Israel Shekel	1,475	–	39,560	–	41,035
Japan Yen	16,194	–	1,933,532	–	1,949,726
Malaysia Ringgit	187	66,090	37,389	–	103,666
Mexico Peso	38	128,668	52,113	–	180,819
New Taiwan Dollar	1,830	–	146,401	–	148,231
New Zealand Dollar	990	–	14,371	–	15,361
Nigeria Naira	–	47,608	–	–	47,608
Norway Krone	3,510	–	86,204	–	89,714
Philippines Peso	4	38,735	19,175	–	57,914
Poland Zloty	–	–	9,934	–	9,934
Singapore Dollar	564	–	169,167	–	169,731
South Africa Rand	(21)	–	89,938	–	89,917
South Korea Won	227	–	115,132	–	115,359
Sweden Krona	2,857	–	345,212	–	348,069
Switzerland Franc	215	–	1,016,333	–	1,016,548
Thailand Baht	132	46,986	47,985	–	95,103
Turkey Lira	163	68,672	64,904	–	133,739
United Kingdom Pound	10,486	–	2,456,482	–	2,466,968
Uruguay Peso	–	52,991	–	–	52,991
Total Foreign Currency Exposure	**$ 101,363**	**$ 1,791,293**	**$ 12,359,246**	**$ 2,655,071**	**$ 16,906,973**

Source: Washington State Investment Board

Securities Lending and Repurchase Agreements: Management responsibilities for securities lending and repurchase agreements, as authorized by statute, are as follows:

WSIB: Washington law and WSIB policy permit the WSIB to participate in securities lending transactions to augment the investment income of the Retirement Funds. The WSIB has entered into an agreement with State Street Corporation (SSC) to act as agent for the WSIB in securities lending transactions. As SSC is the custodian bank for the WSIB, it is counterparty to these transactions.

The fair value of the securities on loan at June 30, 2014 was approximately $3.6 billion. The securities on loan remain in the Statement of Fiduciary Net Position in their respective categories. At June 30, 2014, cash collateral received totaling $1.1 billion is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $1.1 billion is reported as security lending collateral in the Statement of Fiduciary Net Position. Securities received as collateral where the WSIB does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities. Total securities received as collateral at June 30, 2014 was $2.6 billion.

Debt and equity securities were loaned and collateralized by the WSIB's agent with cash and U.S. Government or U.S. Agency securities including U.S. Agency mortgage-backed securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest of the loaned securities.

The following table summarizes the securities held from reinvestment of cash collateral and securities received as collateral at June 30, 2014.

Cash and Securities Held as Collateral As of June 30, 2014 – Expressed in Millions	
Mortgage Backed	$ 2,408
Repurchase Agreements	558
Yankee CD	201
Cash Equivalents and Other	555
Total Collateral Held	**$ 3,722**

During Fiscal Year 2014, securities lending transactions could be terminated on demand by either the WSIB or the borrower.

As of June 30, 2014, the collateral held had an average duration of 22.5 days and an average weighted final maturity of 82.2 days. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non- cash collateral could not be pledged or sold, absent borrower default. No more than 20 percent of the total on loan value could be held by a specific borrower. Collateral investment guidelines specifically prohibit European domiciled holdings. There were no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. SSC indemnified the WSIB by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. SSC's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During Fiscal Year 2014, there were no significant violations of legal or contractual provisions or failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the Retirement Funds incurred no losses during Fiscal Year 2014 resulting from a default by either the borrowers or the securities lending agents.

Credit Risk: The WSIB mitigates credit risk in securities lending with a policy that strictly limits the types of collateral that may be used to secure these transactions.

OST: State statues permit the OST to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The OST, which has contracted with Citibank as lending agent, receives earnings for this activity.

The OST lending agent lends U.S. Government and U.S. Agency securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the fair market value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent.

The cash is invested by the lending agent in accordance with investment guidelines approved by the OST. The securities held as collateral and the securities underlying the cash collateral are held by the custodian. One option available to the lending agent is to invest cash collateral into an OST account in the Local Government Investment Pool (LGIP).

The contract with the lending agent requires indemnification of the OST if the borrowers fail to return the securities (or if the collateral is inadequate to replace the securities lent) or if the borrower fails to pay the OST for income distribution by the securities' issuers while the securities are on loan. The OST cannot pledge or sell collateral securities received unless the borrower defaults. At June 30, 2014, securities lent totaled \$2.5 million. Collateral held under securities lending agreements and obligations under securities lending agreements each totaled \$2.6 million, which was invested in the LGIP.

State law also permits the OST to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in the fair value of the securities.

If the dealers default on their obligations to resell these securities to the OST or provide securities or cash of equal value, the Retirement Funds would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest.

During Fiscal Year 2014, the OST did not engage in reverse repurchase activity and it incurred no losses by default, nor recovered prior period losses, from these transactions. At June 30, 2014, there were no obligations under reverse repurchase agreements.

Credit Risk: The OST limits its credit risk with an investment policy that restricts the types of investments in which the OST can participate. Additionally, the OST investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the OST. During Fiscal Year 2014, the OST had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the OST.

Custodial Credit Risk: The OST investment policy requires that securities purchased be held by the master custodian, acting as an independent third party, in its safekeeping or trust department. Securities utilized repurchase agreements are subject to additional restrictions. These restrictions are designed to limit the OST's exposure to risk and ensure the safety of the investment.

During Fiscal Year 2014, there were no violations of legal or contractual provisions or any losses resulting from a default by either the borrowers or the securities lending agent.

Derivatives: Derivative management responsibilities as authorized by statute are as follows:

WSIB: is authorized to utilize various derivative financial instruments, including financial futures, forward contracts, interest rate swaps, credit default swaps, equity swaps and options. Derivative transactions involve, to varying degrees, market and credit risk. At June 30, 2014, the Retirement Funds held investments in financial futures and forward currency contracts that are recorded at fair value with changes in value recognized in investment income in the Statement of Changes in Fiduciary Net Position in the period of change. The derivative instruments are considered investment derivatives and not hedging derivatives.

Derivatives are generally used to achieve the desired market exposure of a security, index or currency, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation. Derivative contracts are instruments that derive their value from underlying assets, indices, reference interest rates, or a combination of these factors. A derivative instrument could be a contract negotiated on behalf of the Retirement Funds and a specific counterparty. This would typically be referred to as an "over the counter (OTC) contract" such as forward contracts. Alternatively, derivative instruments, such as futures, could be listed and traded on an exchange, and referred to as "exchange traded."

Derivatives which are exchange traded are not subject to credit risk.

Inherent in the use of OTC derivatives, the Retirement Funds are exposed to counterparty credit risk on all open OTC positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract. As of June 30, 2014, the Retirement Funds' counterparty risk was not deemed to be significant.

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on an underlying principal value and do not involve an actual transfer of the specific instrument. The exchange assumes the risk that the counterparty will not pay and generally requires margin payments to minimize such risk. Futures are generally used to achieve the desired market exposure of a security or index or rebalance the total portfolio.

Forward currency contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. These forward commitments are not standardized and carry credit risk due to the possible nonperformance by one of the counterparties. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such loss is remote.

At June 30, 2014, the Retirement Funds had outstanding forward currency contracts with a net unrealized gain of $14.8 million which is included in the accompanying Statement of Changes in Fiduciary Net Position. The contracts have varying maturity dates ranging from July 31, 2014 to September 17, 2014.

At June 30, 2014, the counterparties' credit ratings for forwards currency contracts that are subject to credit risk had a credit rating of no less than Baa1 using the Moody's rating scale.

At June 30, 2014, the Retirement Funds' fixed income portfolio held derivative securities consisting of collateralized mortgage obligations of $163 million. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable.

The following schedule presents the significant terms for derivatives held as investments by WSIB.

Note 1: Summary of Significant Accounting Policies and Plan Asset Matters (continued)

Derivatives Schedule
Significant terms for derivatives held as investments by WSIB – Expressed in Thousands

	Classification	Changes in Fair Value – Included in Investment Income	Fair Value at June 30, 2014 – Investment Derivative	
		Amount	Amount	Notional
Futures Contracts				
Bond Index Futures	Investment	$ 20,107	$ 3,381	$ 767,167
Equity Index Futures	Investment	18,261	(194)	539
Total		**$ 38,368**	**$ 3,187**	**$ 767,706**
Forward Currency Contracts				
Australian Dollar	Investment	$ (1,960)	$ (562)	$ 29,185
Canadian Dollar	Investment	5,089	7,087	247,237
Danish Krone	Investment	3,811	(50)	10,352
Euro Currency	Investment	(12,796)	(1,101)	189,932
Hong Kong Dollar	Investment	(139)	3	17,478
Japanese Yen	Investment	4,701	(1,042)	132,812
New Israeli Shekel	Investment	(229)	(52)	5,167
New Zealand Dollar	Investment	19,040	4,524	151,941
Norwegian Krone	Investment	(46)	340	16,245
Pound Sterling	Investment	11,663	2,286	133,478
Singapore Dollar	Investment	755	(1)	68
Swedish Krona	Investment	132	(3)	69,964
Swiss Franc	Investment	788	(254)	29,315
Miscellaneous	Investment	37	–	–
Total		**$ 30,846**	**$ 11,175**	**$ 1,033,174**

OST: The OST did not engage in derivative transactions during Fiscal Year 2014.

Certain investment types in DRS' portfolio cannot be categorized within the guidelines established by GASB Statement Number 3. These investments total approximately $61.1 billion in both carrying value and fair value.

Deferred Compensation Program (DCP), Judicial Retirement Account (JRA) and Defined Contribution - SELF Plan Assets: The assets within DCP, JRA and the SELF investments total $7.7 billion and represent less than ten percent of the total investments administered by DRS. (Please refer to the Investment Maturities schedule on page 34 of this report). Participation and membership in these plans is voluntary. Although withdrawals from the plans is restricted to those that have left employment (except in the case of hardship withdrawals from DCP), the participant/members own these assets, have full control over the investment choices made, and assume the responsibility for the results of those choices.

The composition of these assets is as follows:

46% Retirement Strategy Funds (Target Date Funds)— These funds are customized asset allocation portfolios, managed by investment professionals contracted by WSIB, that offer investors a diversified mix of equities, bonds, and global REITs, in five-year increments. Each of these funds has both actively and passively managed investments. The investment mix becomes progressively more conservative over time as the fund approaches and passes through its target date for retirement. These funds are not publicly traded and thus have no ratings.

Foreign credit risk and fixed income exposure are deemed immaterial for these funds at June 30, 2014.

24% Equity Index Funds—There are four funds in this category, all are passively managed, and all seek to meet or surpass the returns of established benchmarks.

12% Guaranteed Investment Contracts (GIC)—GICs are valued at contract value as estimated by the respective insurance companies or investment managers. GICs provide a guaranteed return on the principal invested over a specified time period. The GIC pool has no credit rating because it is not a publicly traded fund. The pool has no duration since GICs are priced at par. The GIC pool contains no foreign currency exposure at June 30, 2014.

7% Money Market Funds—There are two money market funds in this portfolio. Neither is publicly traded.

3% US Socially Responsible Fund—This is a balanced fund containing both equities and fixed income components.

8% Bond Fund—The Washington State Bond Fund has no rating because it is not publicly traded. Refer to the tables below for the maturities, effective duration, and credit ratings of its underlying securities.

Investment Maturities
As of June 30, 2014 – Expressed in Thousands

		Maturity				
Investment Type	**Total Fair Value**	**Less than one year**	**1-5 Years**	**6-10 Years**	**More than 10 Years**	**Effective Duration**
Corporate Bonds	$ 597,314	$ 39,542	$ 320,348	$ 230,715	$ 6,709	4.24
Foreign Government and Agency Securities	44,959	5,166	27,617	12,176	–	3.74
Total Categorized Investments	**$ 642,273**	**$ 44,709**	**$ 347,965**	**$ 242,891**	**$ 6,709**	

Credit Ratings (Moody's Equivalent)
As of June 30, 2014 – Expressed in Thousands

		Moody's Equivalent Credit Rating										
Investment Type	**Fair Value**	**Aaa**	**Aa1**	**Aa2**	**Aa3**	**A1**	**A2**	**A3**	**Baa1**	**Baa2**	**Baa3**	**Ba1**
Corporate Bonds	$ 597,314	$ 42,765	$ 2,003	$ –	$ 66,772	$ 44,014	$ 76,437	$ 89,017	$ 72,143	$ 103,938	$ 89,964	$10,260
Foreign Government and Agency Securities	44,959	6,119	2,860	14,940	11,045	2,871	–	–	–	7,124	–	–
Total	**$ 642,273**	**$ 48,884**	**$ 4,862**	**$ 14,940**	**$ 77,818**	**$46,886**	**$ 76,437**	**$ 89,017**	**$ 72,143**	**$111,062**	**$ 89,964**	**$10,260**

Management Fees: The fees paid by the WSIB are accounted for as a reduction of investment income or are netted directly from the asset value of the Retirement Funds' investments. These fees include investment management fees and commissions, investment consultant fees and legal fees. As of June 30, 2014, total investment management fees paid were $315.2 million and total netted fees totaled $26.1 million. For a detailed disclosure, refer to the Schedule of Investment Expenses in the Supporting Schedules of the Financial Section of this report.

Unfunded Commitments: The WSIB has entered into agreements that commit the DRS pension funds, upon request, to make additional investment purchases up to a predetermined amount. As of June 30, 2014, the Retirement Funds had the following unfunded investment commitments in millions of dollars:

Unfunded Commitments
As of June 30, 2014 – Expressed in Millions

Innovation Portfolio	$26.7
Private Equity Partnerships	$10,369.3
Real Estate	$8,405.3
Tangible Assets	$1,124.9

I. Reserves

Member Reserves: The member reserves reflect the total liability for all contributions made by members. These reserves are increased by employee contributions and interest earnings and are decreased by contributions refunded and contributions transferred to the benefit reserves for current year retirees. The member reserves are considered fully funded.

Because the PERS Plan 3, SERS Plan 3 and TRS Plan 3 defined contribution plans each offer two separate investment programs to members, DRS maintains two separate member reserves for each defined contribution plan. The "PERS Plan 3–WSIB," "SERS Plan 3–WSIB" and "TRS Plan 3–WSIB" reserves account for members who participate in the investment programs offered by the Washington State Investment Board (WSIB). The "PERS Plan 3–SELF," "SERS Plan 3–SELF" and "TRS Plan 3–SELF" reserves account for members who participate in the self-directed investment offerings.

Member reserves as of June 30, 2014 and 2013 are as follows:

Member Reserves as of June 30, 2014 and 2013
Expressed in Thousands

	June 30, 2014	June 30, 2013
PERS Plan 1	$ 675,887	$ 749,190
PERS Plan 2/3	5,415,618	5,087,740
PERS Plan 3-WSIB	1,355,131	1,128,774
PERS Plan 3-SELF	964,990	829,310
SERS Plan 2/3	416,841	387,548
SERS Plan 3-WSIB	1,226,442	1,046,277
SERS Plan 3-SELF	423,828	372,191
PSERS Plan 2	123,513	102,816
TRS Plan 1	358,205	451,486
TRS Plan 2/3	590,989	551,728
TRS Plan 3-WSIB	4,232,176	3,531,252
TRS Plan 3-SELF	2,730,775	2,352,328
LEOFF Plan 1	23,420	27,340
LEOFF Plan 2	2,266,386	2,136,678
WSPRS Plans 1/2	84,325	81,651
JRS	–	1
Judges	–	–
Total Member Reserves	**$ 20,888,526**	**$ 18,836,310**

Benefit Reserves: The benefit reserves reflect the funded liability associated with all retired members of DRS administered systems. These reserves are increased by employer contributions, state contributions, investment earnings, and employee contributions which are attributable to current year retirees. These reserves are decreased by the amounts of pensions actually paid in the current year, interest payments transferred to the member reserves, and administrative expenses in support of the trust funds.

Benefit Reserves as of June 30, 2014 and 2013 are as follows:

Benefit Reserves as of June 30, 2014 and 2013
Expressed in Thousands

	June 30, 2014	June 30, 2013
PERS Plan 1	$ 7,265,678	$ 6,597,632
PERS Plan 2/3	22,683,199	18,371,361
SERS Plan 2/3	3,439,248	2,824,376
PSERS Plan 2	179,857	123,295
TRS Plan 1	6,136,035	5,676,015
TRS Plan 2/3	9,199,514	7,557,549
LEOFF Plan 1	5,695,389	5,112,449
LEOFF Plan 2	6,975,121	5,494,917
LEOFF Plan 2-Medical	9,296	5,802
WSPRS Plans 1/2	1,014,045	873,819
WSPRS Plans 1/2-Medical	58	49
JRS	5,035	3,903
Judges	956	1,398
Total Benefit Reserves	**$ 62,603,431**	**$ 52,642,565**

The funded status of each of the benefit reserves is the same as the funded status of each of the respective pension plans. The funded status of the pension plans is shown in the Solvency Test schedules in the Actuarial Section of this report.

J. Capital Assets

All capital assets with a unit cost (including ancillary costs) of $5,000 or greater are capitalized and reported in the accompanying financial statements. Capital leases with a net present value or fair market value, whichever is less, of $10,000 or more are capitalized and also included in these financial statements. All purchased capital assets are valued at cost where historical records exist. Donated capital assets are valued at their estimated fair market value on the date of donation. Where necessary, estimates of original cost and fair market value are derived by factoring price levels from the current period to the time of acquisition.

Capital asset costs include the purchase price or construction cost, plus those costs necessary to place the asset in its intended location and condition for use. Normal maintenance and repair costs that do not materially add to the value or extend the life of the asset are not capitalized.

Depreciation is calculated using the straight-line method with estimated useful lives of 5 to 50 years for buildings, and 3 to 50 years for furnishings and equipment, other improvements and miscellaneous capital assets.

Following is a summary of changes in capital assets for Fiscal Year 2014.

Changes in Capital Assets
For Fiscal Year 2014 – Expressed in Thousands

Assets	Beginning Balance	Acquisition/ Increase Depreciation	Disposal	Ending Balance
Improvements (Other than Buildings)	$ 662	$ –	$ (17)	$ 645
Furnishings & Equipment	1,732	120	(56)	1,796
Accumulated Depreciation	(2,102)	(133)	73	(2162)
Total	**$ 292**	**$ (13)**	**$ –**	**$ 279**

K. Leases

DRS leases land, office facilities, office and computer equipment. Lease terms vary. Leases are considered non-cancelable for financial reporting purposes. All DRS leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease. Certain operating leases are renewable for specified periods. In most cases, management expects that the leases will be renewed or replaced by other leases.

The following schedule presents future minimum payments for operating leases as of June 30, 2014:

Future Minimum Payments for Operating Leases
As of June 30, 2014 – Expressed in Thousands

By Fiscal Year:	2015	$ 1,490
	2016	1,397
	2017	1,231
	2018	1,231
	2019 (and beyond)	820
Total Future Minimum Payments		**$ 6,169**

The total operating lease rental expenditure for Fiscal year 2014 was $1.5 million.

L. Other Long-Term Obligations

Annual leave: DRS employees accrue annual leave at a variable rate based on years of service. In general, accrued annual leave cannot exceed 30 days at the employee's anniversary date. The expense and accrued liability is recognized when the annual leave is earned. DRS' liability for accumulated annual leave was $1 million as of June 30, 2014.

Sick leave: Employees accrue sick leave at the rate of one day per month without limitation on the amount that can be accumulated. Sick leave is not vested; i.e. the department does not pay employees for unused sick leave upon termination except upon employee death or retirement, at which time DRS is liable for 25 percent of the employee's accumulated sick leave. In addition, the state has a "sick leave buyout option" in which each January, employees who accumulate sick leave in excess of 60 days may redeem sick leave earned but not taken during the previous year at the rate of one day's pay in exchange for each four days of sick leave. The expense and accrued liability is recognized when the sick leave is earned. DRS' liability for accumulated sick leave was $0.4 million as of June 30, 2014.

Following is a summary of changes in compensated absences for the fiduciary funds for Fiscal Year 2014.

Changes in Compensated Absences
For Fiscal Year 2014 – Expressed in Thousands

Compensated Absences	Beginning Balance	Additions	Deletions	Ending Balance
Annual Leave	$ 1,142	$ 1,019	$ (1,188)	$ 973
Sick Leave	444	145	(149)	440
Total	**$ 1,586**	**$ 1,164**	**$ (1,337)**	**$ 1,413**

M. Transfers

Transfers from and to other pension plans, as reported in the financial statements, typically reflect routine transfers among the various trust funds resulting from plan membership changes and member-directed defined contribution plan selections. In Fiscal Year 2014, these transfers totaled $4.8 million and represented a decrease of $0.8 million from the previous year.

In Fiscal Year 2014 there were no transfers to other funds which represented a decrease of $4.3 million from the prior fiscal year.

N. Contingencies – Litigation

As a state agency, DRS is party to legal proceedings that normally occur in governmental operations. There are pending legal actions involving DRS. For each pending legal action, DRS has good defenses and will continue to vigorously defend each case.

In the case of WEA, et al., v. Dept. of Retirement Systems & State of Washington, Costello, et al., v. Dept. of Retirement Systems & State of Washington, WFSE, et al., v. Dept. of Retirement Systems & State of Washington, King County Superior Court No. 07-2-17203-3 SEA, Washington Supreme Court No. 87424-7 plaintiffs challenged the 2007 Legislature's repeal of gainsharing and the repeal of replacement benefits if gainsharing was restored. Three cases were filed in King County Superior Court and consolidated into one case. The case was brought as a class action.

The Washington Supreme Court found in favor of the State and DRS by reversing the trial court, holding that the Legislature had the authority to reserve the right to repeal gainsharing, and the repeal of gainsharing was lawful.

The Washington Supreme Court will issue the mandate to conclude the case since the plaintiff class members did not file a motion for reconsideration by the deadline of September 3, 2014.

There is no financial loss to the State, DRS or to the trust funds DRS administers.

In the case of WEA, WFSE & RPEC v. Dept. of Retirement Systems and State of Washington, Thurston County Superior Court No. 11-2-02213-4, Washington Supreme Court No. 88546-0, unions representing PERS Plan 1 and TRS Plan 1 members and retirees filed a lawsuit in October 2011 alleging, among other claims, that the 2011 Legislature's suspension of the annual adjustment to the Plan 1 retirement benefit violated their constitutionally protected contract rights.

The Washington Supreme Court found in favor of the State and the DRS by reversing the trial court holding that the Legislature had the authority to reserve the right to repeal the UCOLA and, therefore, the repeal of the UCOLA was lawful.

The Washington Supreme Court will issue the mandate to conclude the case since the plaintiff class members did not file a motion for reconsideration by the deadline of September 3, 2014.

There is no financial loss to the State, DRS or to the trust funds DRS administers.

O. Adoption of New Accounting Standards

GASB Statement No. 67, Financial Reporting for Pension Plans, became effective for financial statements for fiscal years beginning after June 15, 2013. This report has been prepared to conform with this newly adopted GASB statement.

This page intentionally left blank.

Notes to the Financial Statements
Note 2: General Description of the Retirement Systems

A. General
The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems. As established in the Revised Code of Washington (RCW) chapter 41.50, the Department of Retirement Systems (DRS) administers eight retirement systems covering eligible employees of the state and local governments.

The Governor appoints the Director of DRS. Administration of the retirement systems is funded by a current employer rate of 0.18 percent of reported compensation.

The retirement systems are comprised of 12 defined benefit pension plans and three combination defined benefit plans with defined contribution components, as follows:

Public Employees' Retirement System (PERS)

Plan 1—defined benefit

Plan 2—defined benefit

Plan 3—defined benefit/defined contribution

School Employees' Retirement System (SERS)

Plan 2—defined benefit

Plan 3—defined benefit/defined contribution

Public Safety Employees' Retirement System (PSERS)

Plan 2—defined benefit

Teachers' Retirement System (TRS)

Plan 1—defined benefit

Plan 2—defined benefit

Plan 3—defined benefit/defined contribution

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

Plan 1—defined benefit

Plan 2—defined benefit

Washington State Patrol Retirement System (WSPRS)

Plan 1—defined benefit

Plan 2—defined benefit

Judicial Retirement System (JRS)

Defined benefit

Judges' Retirement Fund (Judges)

Defined benefit

Note 2: General Description of the Retirement Systems (continued)

Number of Participating Members

Plan	Retirees and Beneficiaries Receiving Benefits	Terminated Members Entitled to But Not Yet Receiving Benefits	Active Plan Members Vested	Active Plan Members Nonvested	Total
PERS Plan 1	51,860	1,384	5,389	264	58,897
PERS Plan 2	31,329	25,383	89,387	26,364	172,463
PERS Plan 3	2,139	4,280	12,297	17,005	35,721
SERS Plan 2	5,084	5,190	13,494	8,266	32,034
SERS Plan 3	3,995	6,398	20,282	10,253	40,928
PSERS Plan 2	43	119	2,784	1,729	4,675
TRS Plan 1	35,912	391	2,379	14	38,696
TRS Plan 2	3,445	2,330	6,062	6,009	17,846
TRS Plan 3	4,863	7,102	35,357	16,114	63,436
LEOFF Plan 1	7,729	1	143	–	7,873
LEOFF Plan 2	2,782	698	14,389	2,298	20,167
WSPRS Plan 1	964	119	657	–	1,740
WSPRS Plan 2	–	10	257	152	419
JRS	114	–	–	–	114
Judges	12	–	–	–	12
Total	**150,271**	**53,405**	**202,877**	**88,468**	**495,021**

The latest actuarial valuation date for all plans was June 30, 2013.
Source: Washington State Office of the State Actuary

Number of Participating Employers

Plan	Component Units of the State of WA	Counties/ Municipalities	School Districts	Other Political Subdivisions	Total
PERS Plan 1	128	147	212	147	634
PERS Plan 2	169	275	–	490	934
PERS Plan 3	158	209	–	306	673
SERS Plan 2	–	–	303	–	303
SERS Plan 3	–	–	300	–	300
PSERS Plan 2	9	65	–	1	75
TRS Plan 1	36	–	228	–	264
TRS Plan 2	22	–	295	–	317
TRS Plan 3	39	–	302	–	341
LEOFF Plan 1	–	36	–	9	45
LEOFF Plan 2	8	204	–	157	369
WSPRS Plan 1	1	–	–	–	1
WSPRS Plan 2	1	–	–	–	1
Total	**571**	**936**	**1,640**	**1,110**	**4,257**

Employers can participate in multiple systems and/or plans. The actual total number of participating employers as of June 30, 2014 is 1,319; of which 171 are component units of the State.
For a listing of the covered employers, refer to the Statistical Section of this report.

B. System and Plan Descriptions

Public Employees' Retirement System (PERS)

Administration PERS was established in 1947 and its retirement benefit provisions are contained in chapters 41.34 and 41.40 RCW. PERS is a cost-sharing multiple-employer retirement system comprised of three separate pension plans for membership purposes. PERS Plan 1 and PERS Plan 2 are defined benefit plans, and PERS Plan 3 is a defined benefit plan with a defined contribution component.

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1

As of June 30, 2014, there were 507 employers and 610 non-employer contributing entities participating in PERS Plan 1. PERS Plan 1 is closed to new entrants.

Plan membership At June 30, 2013 (the date of the latest valuation), PERS Plan 1 membership consisted of the following:

PERS Plan 1	
Inactive plan members or beneficiaries currently receiving benefits	51,860
Inactive plan members entitled to but not yet receiving benefits	1,384
Active plan members	5,653
Total Membership	**58,897**

Vesting PERS 1 members were vested after the completion of five years of eligible service.

Benefits provided PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service.

Members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

Contributions The PERS Plan 1 member contribution rate is established by statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent.

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) at the close of Fiscal Year 2014 were as follows:

PERS Plan 1		
Actual Contribution Rates	**Employer**	**Employee**
State agencies	9.21%	6.00%
Local governmental units	9.21%	6.00%

Investments

Investment policy The Washington State Investment Board (WSIB) has been authorized by statute as having investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk.

Retirement funds are invested in the Commingled Trust Fund (CTF). The CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of WSIB-adopted investment policies for the various asset classes.

General information about the Retirement Funds' investments, their valuation, classifications, concentrations and maturities can be found in Note 1: Summary of Significant Accounting Policies and Plan Asset Matters.

Rate of return[1] For the year ended June 30, the annual money-weighted rate of return on PERS Plan1 pension investments, net of pension plan investment expense, was 16.98 percent. This money-weighted rate of return expresses investment performance, net of pension plan investment expense, and reflects both the size and timing of cash flows.

Net Pension Liability of Participating Employers

The components of the net pension liability of PERS 1 at June 30, 2014 were as follows:

PERS Plan 1 Dollars in Thousands	
Total pension liability	$ 12,979,104
Plan fiduciary net position	(7,941,557)
Participating employers' net pension liability	**$ 5,037,547**
Plan fiduciary net position as a percentage of the total pension liability	61.19%

Actuarial assumptions[2] The total pension liability was determined by an actuarial valuation as of June 30, 2013, with the results rolled forward to June 30, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement.

PERS Plan 1	
Inflation:	3.0% total economic inflation, 3.75% salary inflation
Salary Increases:	In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
Investment rate of return:	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of the 2007-2012 Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best-estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the Washington State Investment Board (WSIB). Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs).

The CMAs contain three pieces of information for each class of assets the WSIB currently invest in:

- Expected annual return
- Standard deviation of the annual return
- Correlations between the annual returns of each asset class with every other asset class

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

[1] Money-weighted rates of return provided by the Washington State Investment Board.
[2] CMAs and expected rates of return by asset class provided by the Washington State Investment Board. The Office of the State Actuary relied on the CMAs in their selection of the long-term expected rate of return for purposes of GASB statement 67.

The long-term expected rate of return of 7.50 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen-year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table:

PERS Plan 1

Asset Class	% Long-term Expected Real Rate of Return
Fixed Income	0.80%
Tangible Assets	4.10%
Real Estate	5.30%
Global Equity	6.05%
Private Equity	9.05%

The inflation component used to create the above table is 2.70 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

Discount rate The discount rate used to measure the total pension liability was 7.50 percent. To determine the discount rate an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contributions rate requirements. Consistent with the Long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including PERS Plan 2/3, PSERS Plan 2 and SERS Plan 2/3 employers whose rates include a component for the PERS Plan 1 liability). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate The following presents the net pension liability of the employers calculated using the discount rate of 7.50 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate.

PERS Plan 1

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Employers' net pension liability (in thousands of dollars)	$6,209,270	$5,037,547	$4,031,738

PERS Plan 2/3

As of June 30, 2014, there were 766 employers participating in PERS Plan 2/3.

Plan membership At June 30, 2013 (the date of the latest valuation), PERS Plan 2/3 membership consisted of the following:

PERS Plan 2/3

	Plan 2	Plan 3
Inactive plan members or beneficiaries currently receiving benefits	31,329	2,139
Inactive plan members entitled to but not yet receiving benefits	25,383	4,280
Active plan members	115,751	29,302
Total Membership	**172,463**	**35,721**

Vesting PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

Benefits provided PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3.

The AFC is the monthly average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by a factor that varies according to age, for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 2, 2013:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service

PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit.

Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost- of-living allowance (based on the Consumer Price Index), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries

Contributions The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 unfunded actuarial accrued liability and an administrative expense that is currently set at 0.18 percent.

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) at the close of Fiscal Year 2014 were as follows:

PERS Plan 2/3

Actual Contribution Rates	Employer	Employee Plan 2	Employee Plan 3
State agencies	9.21%	4.92%	0%
Local governmental units	9.21%	4.92%	0%

Investments

Investment policy The Washington State Investment Board (WSIB) has been authorized by statute as having investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk.

Retirement funds are invested in the Commingled Trust Fund (CTF). The CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of WSIB-adopted investment policies for the various asset classes.

General information about the Retirement Funds' investments, their valuation, classifications, concentrations and maturities can be found in Note 1: Summary of Significant Accounting Policies and Plan Asset Matters.

Rate of return[1] For the year ended June 30, the annual money-weighted rate of return on PERS Plan 2/3 pension investments, net of pension plan investment expense, was 17.06 percent. This money-weighted rate of return expresses investment performance, net of pension plan investment expense, and reflects both the size and timing of cash flows.

[1] Money-weighted rates of return provided by the Washington State Investment Board.

Net Pension Liability of Participating Employers

The components of the net pension liability of PERS 2/3 at June 30, 2014 were as follows:

PERS Plan 2/3 Dollars in Thousands	
Total pension liability	$ 30,120,170
Plan fiduciary net position	(28,098,809)
Participating employers' net pension liability	**$ 2,021,361**
Plan fiduciary net position as a percentage of the total pension liability	93.29%

Actuarial assumptions[1] The total pension liability was determined by an actuarial valuation as of June 30, 2013, with the results rolled forward to June 30, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

PERS Plan 2/3	
Inflation:	3.0% total economic inflation, 3.75% salary inflation
Salary Increases:	In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
Investment rate of return:	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best-estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the Washington State Investment Board (WSIB). Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return
- Standard deviation of the annual return
- Correlations between the annual returns of each asset class with every other asset class

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.50 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen-year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table:

PERS Plan 2/3	
Asset Class	**% Long-term Expected Real Rate of Return**
Fixed Income	0.80%
Tangible Assets	4.10%
Real Estate	5.30%
Global Equity	6.05%
Private Equity	9.05%

The inflation component used to create the above table is 2.70 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

[1] CMAs and expected rates of return by asset class provided by the Washington State Investment Board. The Office of the State Actuary relied on the CMAs in their selection of the long-term expected rate of return for purposes of GASB statement 67.

Discount rate The discount rate used to measure the total pension liability was 7.50 percent. To determine the discount rate an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contributions rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate The following presents the net pension liability of the employers calculated using the discount rate of 7.50 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.5 percent) or 1 percentage-point higher (8.5 percent) than the current rate.

PERS Plan 2/3

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Employers' net pension liability (in thousands of dollars)	$8,431,530	$2,021,361	$(2,874,815)

PERS Plan 3

As of June 30, 2014, there were 516 employers participating in PERS Plan 3.

Plan membership At June 30, 2013 (the date of the latest valuation), PERS Plan 3 membership consisted of the following:

PERS Plan 3

Inactive plan members or beneficiaries currently receiving benefits	2,139
Inactive plan members entitled to but not yet receiving benefits	4,280
Active plan members	29,302
Total Membership	**35,721**

Vesting PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Benefits provided PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions.

Contributions PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by chapter 41.34 RCW Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits.

School Employees' Retirement System (SERS)

Administration The Legislature created SERS in 1998 to be effective in 2000. SERS retirement benefit provisions are established in chapters 41.34 and 41.35 RCW. SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans for membership purposes. SERS Plan 2 is defined benefit plan and SERS Plan 3 is a defined benefit plan with a defined contribution component. SERS members include classified employees of school districts and educational service districts.

SERS is reported as two separate plans for accounting purposes: Plan 2/3 and Plan 3. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

SERS Plan 2/3

As of June 30, 2014, there were 303 employers participating in SERS Plan 2/3.

Plan membership At June 30, 2013 (the date of the latest valuation), SERS Plan 2/3 membership consisted of the following:

SERS Plan 2/3	Plan 2	Plan 3
Inactive plan members or beneficiaries currently receiving benefits	5,084	3,995
Inactive plan members entitled to but not yet receiving benefits	5,190	6,398
Active plan members	21,760	30,535
Total Membership	**32,034**	**40,928**

Vesting SERS 2 members are vested after completing five years of eligible service. SERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

Benefits provided SERS provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and one percent of AFC for Plan 3. The AFC is the monthly average of the member's 60 highest-paid consecutive service months before retirement, termination or death. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. SERS members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by a factor that varies according to age, for each year before age 65. SERS members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 2, 2013:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

SERS members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

SERS retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit.

Other benefits include duty and non-duty disability payments, a cost- of-living allowance (based on the Consumer Price Index), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

Contributions The SERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the defined benefits of Plan 2/3. The employer rate includes components to address the PERS Plan 1 unfunded actuarial accrued liability an administrative expense currently set at 0.18 percent.

The SERS Plan 2/3 required defined benefit contribution rates (expressed as a percentage of covered payroll) at the close of Fiscal Year 2014 were as follows:

SERS Plan 2/3 Actual Contribution Rates	Employer	Employee Plan 2	Employee Plan 3
State agencies and Higher Education	9.82%	4.64%	0%
Local governmental units	9.82%	4.64%	0%

Investments

Investment policy The Washington State Investment Board (WSIB) has been authorized by statute as having investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk.

Retirement funds are invested in the Commingled Trust Fund (CTF). The CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of WSIB-adopted investment policies for the various asset classes in which the WSIB invests.

General information about the Retirement Funds' investments, their valuation, classifications, concentrations and maturities can be found in Note 1: Summary of Significant Accounting Policies and Plan Asset Matters.

Rate of return[1] For the year ended June 30, the annual money-weighted rate of return on SERS Plan 2/3 pension investments, net of pension plan investment expense, was 17.08 percent. This money-weighted rate of return expresses investment performance, net of pension plan investment expense, and reflects both the size and timing of cash flows.

Net Pension Liability of Participating Employers

The components of the net pension liability of SERS 2/3 at June 30, 2014 were as follows:

SERS Plan 2/3 Dollars in Thousands	
Total pension liability	$ 4,066,004
Plan fiduciary net position	(3,856,083)
Participating employers' net pension liability	**$ 209,921**
Plan fiduciary net position as a percentage of the total pension liability	94.84%

Actuarial assumptions[2] The total pension liability was determined by an actuarial valuation as of June 30, 2013, with the results rolled forward to June 30, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

SERS Plan 2/3	
Inflation:	3.0% total economic inflation, 3.75% salary inflation
Salary Increases:	In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
Investment rate of return:	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of the 2007-2012 Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best-estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the Washington State Investment Board (WSIB). Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs).

The CMAs contain three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

[1] Money-weighted rates of return provided by the Washington State Investment Board.
[2] CMAs and expected rates of return by asset class provided by the Washington State Investment Board. The Office of the State Actuary relied on the CMAs in their selection of the long-term expected rate of return for purposes of GASB statement 67.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons. The long-term expected rate of return of 7.50 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen-year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table:

SERS Plan 2/3

Asset Class	% Long-term Expected Real Rate of Return
Fixed Income	0.80%
Tangible Assets	4.10%
Real Estate	5.30%
Global Equity	6.05%
Private Equity	9.05%

The inflation component used to create the preceding table is 2.70 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

Discount rate The discount rate used to measure the total pension liability was 7.50 percent. To determine the discount rate an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contributions rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate The following presents the net pension liability of the employers calculated using the discount rate of 7.50 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1-percentage- point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate.

SERS Plan 2/3

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Employers' net pension liability (in thousands of dollars)	$1,021,733	$209,921	$(419,289)

SERS Plan 3

As of June 30, 2014, there were 300 employers participating in SERS Plan 3.

Plan membership At June 30, 2013 (the date of the latest valuation), SERS Plan 3 membership consisted of the following:

SERS Plan 3

Inactive plan members or beneficiaries currently receiving benefits	3,995
Inactive plan members entitled to but not yet receiving benefits	6,398
Active plan members	30,535
Total Membership	**40,928**

Vesting Plan 3 members are immediately vested in the defined contribution portion of their plan.

Benefits provided SERS Plan 3 defined contributions benefits are totally dependent on employee contributions and the investment earnings on those contributions.

Contributions SERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by chapter 41.34 RCW Plan 3 required defined contribution rates are set at a minimum of

5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits.

Public Safety Employees' Retirement System (PSERS)

Administration PSERS was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions have been established by chapter 41.37 RCW. PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS membership includes:

- PERS 2 or 3 employees hired by a covered employer before July 1, 2006, who met at least one of the PSERS eligibility criteria and elected membership during the period of July 1, 2006 to September 30, 2006; and
- Employees hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

Covered employers of PSERS include:

- Certain State of Washington agencies (Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol)
- Washington State Counties
- Washington State Cities (except for Seattle, Spokane, and Tacoma)
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.
- To be eligible for PSERS, an employee must work on a full time basis and:
- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job; or
- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- Function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS is comprised of one plan for accounting purposes: Plan 2. Plan 2 accounts for the defined benefits of Plan 2 members.

PSERS Plan 2

As of June 30, 2014, there were 67 employers participating in PSERS Plan 2.

Plan membership At June 30, 2013 (the date of the latest valuation), PSERS Plan 2 membership consisted of the following:

PSERS Plan 2	
Inactive plan members or beneficiaries currently receiving benefits	43
Inactive plan members entitled to but not yet receiving benefits	119
Active plan members	4,513
Total Membership	**4,675**

Vesting PSERS Plan 2 members are vested after completing five years of eligible service.

Benefits provided PSERS Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC) for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service.

Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit. Members are eligible for retirement at the age of 65 with five years of service; or at the age of 60 with at least ten years of PSERS service credit; or at age 53 with 20 years of service.

Retirement before age 60 is considered an early retirement. PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a three percent per year reduction for each year between the age at retirement and age 60 applies. PSERS Plan 2 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

Contributions The PSERS Plan 2 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The Plan 2 employer rates include components to address the PERS Plan 1 unfunded actuarial accrued liability and administrative expense currently set at 0.18 percent.

The PSERS Plan 2 required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2014 were as follows:

PSERS Plan 2		
Actual Contribution Rates	**Employer**	**Employee**
State agencies	10.54%	6.36%
Local governmental units	10.54%	6.36%

Investments

Investment policy The Washington State Investment Board (WSIB) has been authorized by statute as having investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk.

Retirement funds are invested in the Commingled Trust Fund (CTF). The CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of WSIB-adopted investment policies for the various asset classes.

General information about the Retirement Funds' investments, their valuation, classifications, concentrations and maturities can be found in Note 1: Summary of Significant Accounting Policies and Plan Asset Matters.

Rate of return[1] For the year ended June 30, the annual money-weighted rate of return on PSERS Plan 2 pension investments, net of pension plan investment expense, was 16.94 percent. This money-weighted rate of return expresses investment performance, net of pension plan investment expense, and reflects both the size and timing of cash flows.

Net Pension Liability of Participating Employers

The components of the net pension liability of PSERS 2 at June 30, 2014 were as follows:

PSERS Plan 2 Dollars in Thousands	
Total pension liability	$ 288,888
Plan fiduciary net position	(303,369)
Participating employers' net pension liability	**$ (14,481)**
Plan fiduciary net position as a percentage of the total pension liability	105.01%

Actuarial assumptions[2] The total pension liability was determined by an actuarial valuation as of June 30, 2013, with the results rolled forward to June 30, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

PSERS Plan 2	
Inflation:	3.0% total economic inflation, 3.75% salary inflation
Salary Increases:	In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
Investment rate of return:	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of the 2007-2012 Experience Study.

[1] Money-weighted rates of return provided by the Washington State Investment Board.
[2] CMAs and expected rates of return by asset class provided by the Washington State Investment Board. The Office of the State Actuary relied on the CMAs in their selection of the long-term expected rate of return for purposes of GASB statement 67.

Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best-estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the Washington State Investment Board (WSIB). Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.50 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen-year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table:

PSERS Plan 2

Asset Class	% Long-term Expected Real Rate of Return
Fixed Income	0.80%
Tangible Assets	4.10%
Real Estate	5.30%
Global Equity	6.05%
Private Equity	9.05%

The inflation component used to create the above table is 2.70 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

Discount rate The discount rate used to measure the total pension liability was 7.50 percent. To determine the discount rate an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contributions rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate The following presents the net pension liability of the employers calculated using the discount rate of 7.50 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1-percentage- point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate.

PSERS Plan 2

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Employers' net pension liability (in thousands of dollars)	$80,920	$(14,481)	$(82,217)

Teachers' Retirement System (TRS)

Administration TRS was established in 1938 and its retirement benefit provisions are contained in chapters 41.32 and 41.34 RCW. TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. TRS eligibility for membership requires service as a certificated public school employee working in an instructional, administrative or supervisory capacity.

TRS is comprised of three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

TRS Plan 1

As of June 30, 2014, there were 229 employers and 71 non-employer contributing entities participating in TRS Plan 1. TRS Plan 1 is closed to new entrants.

Plan membership At June 30, 2013 (the date of the latest valuation), TRS Plan 1 membership consisted of the following:

TRS Plan 1	
Inactive plan members or beneficiaries currently receiving benefits	35,912
Inactive plan members entitled to but not yet receiving benefits	391
Active plan members	2,393
Total Membership	**38,696**

Vesting TRS 1 members were vested after the completion of five years of eligible service.

Benefits provided TRS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC), for each year of service credit, up to a maximum of 60 percent, divided by twelve. The AFC is the total earnable compensation for the two consecutive highest-paid fiscal years, divided by two. Members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. Other benefits include temporary and permanent disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

Contributions The TRS Plan 1 member contribution rate is established by statute at six percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component currently set at 0.18 percent.

The TRS Plan 1 required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2014 were as follows:

TRS Plan 1		
Actual Contribution Rates	**Employer**	**Employee**
State agencies	10.39%	6.00%
Local governmental units	10.39%	6.00%

Investments

Investment policy The Washington State Investment Board (WSIB) has been authorized by statute as having investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk.

Retirement funds are invested in the Commingled Trust Fund (CTF). The CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of WSIB-adopted investment policies for the various asset classes.

General information about the Retirement Funds' investments, their valuation, classifications, concentrations and maturities can be found in Note 1: Summary of Significant Accounting Policies and Plan Asset Matters.

Rate of return[1] For the year ended June 30, the annual money-weighted rate of return on TRS Plan1 pension investments, net of pension plan investment expense, was 16.97 percent. This money-weighted rate of return expresses investment performance, net of pension plan investment expense, and reflects both the size and timing of cash flows.

Net Pension Liability of Participating Employers

The components of the net pension liability of TRS 1 at June 30, 2014 were as follows:

TRS Plan 1 Dollars in Thousands	
Total pension liability	$ 9,443,688
Plan fiduciary net position	(6,494,234)
Participating employers' net pension liability	**$ 2,949,454**
Plan fiduciary net position as a percentage of the total pension liability	68.77%

Actuarial assumptions[2] The total pension liability was determined by an actuarial valuation as of June 30, 2013, with the results rolled forward to June 30, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

TRS Plan 1	
Inflation:	3.0% total economic inflation, 3.75% salary inflation
Salary Increases:	In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
Investment rate of return:	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of the 2007-2012 Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best-estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the Washington State Investment Board (WSIB). Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation (to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.50 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen-year period, becomes amplified over a fifty-year measurement period.

[1] Money-weighted rates of return provided by the Washington State Investment Board.
[2] CMAs and expected rates of return by asset class provided by the Washington State Investment Board. The Office of the State Actuary relied on the CMAs in their selection of the long-term expected rate of return for purposes of GASB statement 67.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table:

TRS Plan 1

Asset Class	% Long-term Expected Real Rate of Return
Fixed Income	0.80%
Tangible Assets	4.10%
Real Estate	5.30%
Global Equity	6.05%
Private Equity	9.05%

The inflation component used to create the above table is 2.70 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

Discount rate The discount rate used to measure the total pension liability was 7.50 percent. To determine the discount rate an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contributions rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including TRS Plan 2/3, whose rates include a component for the TRS Plan 1 liability). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate The following presents the net pension liability of the employers calculated using the discount rate of 7.50 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1-percentage- point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate.

TRS Plan 1

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Employers' net pension liability (in thousands of dollars)	$3,795,551	$2,949,454	$2,223,192

TRS Plan 2/3

As of June 30, 2014, there were 303 employers participating in TRS Plan 2/3.

Plan membership At June 30, 2013 (the date of the latest valuation), TRS Plan 2/3 membership consisted of the following:

TRS Plan 2/3

	Plan 2	Plan 3
Inactive plan members or beneficiaries currently receiving benefits	3,445	4,863
Inactive plan members entitled to but not yet receiving benefits	2,330	7,102
Active plan members	12,071	51,471
Total Membership	**17,846**	**63,436**

Vesting TRS 2 members are vested after completing five years of eligible service. TRS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

Benefits provided TRS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC) per year of service for Plan 2 members and one percent of AFC for Plan 3 members. The AFC is the monthly average of the 60 consecutive highest-paid service credit months. There is no cap on years of service credit. Members are eligible for normal retirement at the age of 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. TRS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit.

The benefit is reduced by a factor that varies according to age, for each year before age 65. TRS Plan 2/3 members who have 30 or more years of service credit, were hired prior to May 1, 2013, and are at least 55 years old, can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

TRS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age. This option is available only to those who are age 55 or older and have at least 30 years of service.

TRS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit.

Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the Consumer Price Index), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

Contributions The TRS Plan 2/3 member and employer contribution rates are developed by the Office of the State Actuary to fully fund the defined benefits of Plan 2/3. The employer rate also includes components to address the TRS Plan 1 unfunded actuarial accrued liability and an administrative expense currently set at 0.18 percent.

The TRS Plan 2/3 required defined benefit contribution rates (expressed as a percentage of covered payroll) at the close of Fiscal Year 2014 were as follows:

TRS Plan 2/3			
Actual Contribution Rates	**Employer**	**Employee Plan 2**	**Employee Plan 3**
State agencies and Higher Education	10.39%	4.96%	0%
Local governmental units	10.39%	4.96%	0%

Investments

Investment policy The Washington State Investment Board (WSIB) has been authorized by statute as having investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk.

Retirement funds are invested in the Commingled Trust Fund (CTF). The CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of WSIB-adopted investment policies for the various asset classes.

General information about the Retirement Funds' investments, their valuation, classifications, concentrations and maturities can be found in Note 1: Summary of Significant Accounting Policies and Plan Asset Matters.

Rate of return[1] For the year ended June 30, the annual money-weighted rate of return on TRS Plan1 pension investments, net of pension plan investment expense, was 17.07 percent. This money-weighted rate of return expresses investment performance, net of pension plan investment expense, and reflects both the size and timing of cash flows.

Net Pension Liability of Participating Employers

The components of the net pension liability of TRS 2/3 at June 30, 2014 were as follows:

TRS Plan 2/3 Dollars in Thousands	
Total pension liability	$ 10,113,479
Plan fiduciary net position	(9,790,490)
Participating employers' net pension liability	**$ 322,989**
Plan fiduciary net position as a percentage of the total pension liability	96.81%

[1] Money-weighted rates of return provided by the Washington State Investment Board.

Actuarial assumptions[1] The total pension liability was determined by an actuarial valuation as of June 30, 2013, with the results rolled forward to June 30, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

TRS Plan 2/3	
Inflation:	3.0% total economic inflation, 3.75% salary inflation
Salary Increases:	In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
Investment rate of return:	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of the 2007-2012 Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best-estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the Washington State Investment Board (WSIB). Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.50 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen-year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table:

TRS Plan 2/3	
Asset Class	**% Long-term Expected Real Rate of Return**
Fixed Income	0.80%
Tangible Assets	4.10%
Real Estate	5.30%
Global Equity	6.05%
Private Equity	9.05%

The inflation component used to create the above table is 2.70 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

Discount rate The discount rate used to measure the total pension liability was 7.50 percent. To determine the discount rate an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contributions rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test.

[1] CMAs and expected rates of return by asset class provided by the Washington State Investment Board. The Office of the State Actuary relied on the CMAs in their selection of the long-term expected rate of return for purposes of GASB statement 67.

Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate The following presents the net pension liability of the employers calculated using the discount rate of 7.50 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1-percentage- point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate.

TRS Plan 2/3	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Employers' net pension liability (in thousands of dollars)	$2,807,435	$322,989	$(1,523,697)

TRS Plan 3

As of June 30, 2014, there were 303 employers contributing entities participating in TRS Plan 3

Plan membership At June 30, 2013 (the date of the latest valuation), TRS Plan 3 membership consisted of the following:

TRS Plan 3	
Inactive plan members or beneficiaries currently receiving benefits	4,863
Inactive plan members entitled to but not yet receiving benefits	7,102
Active plan members	51,471
Total Membership	**63,436**

Vesting Plan 3 members are immediately vested in the defined contribution portion of their plan.

Benefits provided TRS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions.

Contributions TRS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. TRS Plan 3 members also currently have an annual January rate change window that will cease to exist after January 2015.

As established by chapter 41.34 RCW, the TRS Plan 3 required defined contribution benefit rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF):

Administration LEOFF was established in 1970 and its retirement benefit provisions are contained in chapters 41.26 RCW.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate pension plans. For both membership and accounting purposes. LEOFF plan 1 and LEOFF plan 2 are defined benefit plans. LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians.

LEOFF Plan 1

As of June 30, 2014, there were 45 employers participating in LEOFF Plan 1. LEOFF Plan 1 is closed to new entrants.

Plan membership At June 30, 2013 (the date of the latest valuation), LEOFF Plan 1 membership consisted of the following:

LEOFF Plan 1	
Inactive plan members or beneficiaries currently receiving benefits	7,729
Inactive plan members entitled to but not yet receiving benefits	1
Active plan members	143
Total Membership	**7,873**

Vesting LEOFF 1 members were vested after the completion of five years of eligible service.

Benefits provided LEOFF Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

LEOFF Plan 1	
Terms of Service	% of FAS
20+	2.0%
10-19	1.5%
5-9	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

Contributions The LEOFF Plan 1 had no required employer or employee contributions for fiscal year 2014. Employers paid only the administrative expense of 0.18 percent of covered payroll.

Investments

Investment policy The Washington State Investment Board (WSIB) has been authorized by statute as having investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk.

Retirement funds are invested in the Commingled Trust Fund (CTF). The CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of WSIB-adopted investment policies for the various asset classes.

General information about the Retirement Funds' investments, their valuation, classifications, concentrations and maturities can be found in Note 1: Summary of Significant Accounting Policies and Plan Asset Matters

Rate of return[1] For the year ended June 30, the annual money-weighted rate of return on LEOFF Plan 1 pension investments, net of pension plan investment expense, was 17.01 percent. This money-weighted rate of return expresses investment performance, net of pension plan investment expense, and reflects both the size and timing of cash flows.

Net Pension Liability of Participating Employers

The components of the net pension liability of LEOFF 1 employers at June 30, 2014 were as follows:

LEOFF Plan 1 Dollars in Thousands	
Total pension liability	$ 4,506,015
Plan fiduciary net position	(5,718,806)
Participating employers' net pension liability	**$(1,212,791)**
Plan fiduciary net position as a percentage of the total ension liability	126.91%

Actuarial assumptions[2] The total pension liability was determined by an actuarial valuation as of June 30, 2013, with the results rolled forward to June 30, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

LEOFF Plan 1	
Inflation:	3.0% total economic inflation, 3.75% salary inflation
Salary Increases:	In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
Investment rate of return:	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

[1] Money-weighted rates of return provided by the Washington State Investment Board.
[2] CMAs and expected rates of return by asset class provided by the Washington State Investment Board. The Office of the State Actuary relied on the CMAs in their selection of the long-term expected rate of return for purposes of GASB statement 67.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of the 2007-2012 Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best-estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the Washington State Investment Board (WSIB). Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons. The long-term expected rate of return of 7.50 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen-year period, becomes amplified over a fifty-year measurement period. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2013 are summarized in the following table:

LEOFF Plan 1

Asset Class	% Long-term Expected Real Rate of Return
Fixed Income	0.80%
Tangible Assets	4.10%
Real Estate	5.30%
Global Equity	6.05%
Private Equity	9.05%

The inflation component used to create the previous table is 2.70 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

Discount rate The discount rate used to measure the total pension liability was 7.50 percent. To determine the discount rate an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contributions rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate The following presents the net pension liability of the employers calculated using the discount rate of 7.50 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is percentage- point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate.

LEOFF Plan 1

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Employers' net pension liability (in thousands of dollars)	$(759,080)	$(1,212,791)	$(1,598,400)

LEOFF Plan 2

As of June 30, 2014, there were 362 employers participating in LEOFF Plan 2.

Plan membership At June 30, 2013 (the date of the latest valuation), LEOFF Plan 2 membership consisted of the following:

LEOFF Plan 2	
Inactive plan members or beneficiaries currently receiving benefits	2,782
Inactive plan members entitled to but not yet receiving benefits	698
Active plan members	16,687
Total Membership	**20,167**

Vesting LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Benefits provided LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF plan 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit.

Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the Consumer Price Index), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

Contributions The LEOFF Plan 2 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate includes an administrative expense component set at 0.18 percent.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) at the close of Fiscal Year 2014 were as follows:

LEOFF Plan 2		
Actual Contribution Rates	**Employer**	**Employee**
State agencies and local governments	5.23%	8.41%
Ports and Universities	8.59%	8.41%

Investments

Investment policy The Washington State Investment Board (WSIB) has been authorized by statute as having investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk.

Retirement funds are invested in the Commingled Trust Fund (CTF). The CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of WSIB-adopted investment policies for the various asset classes.

General information about the Retirement Funds' investments, their valuation, classifications, concentrations and maturities can be found in Note 1: Summary of Significant Accounting Policies and Plan Asset Matters.

Rate of return[1] For the year ended June 30, the annual money-weighted rate of return on LEOFF Plan 2 pension investments, net of pension plan investment expense, was 17.04 percent. This money-weighted rate of return expresses investment performance, net of pension plan investment expense, and reflects both the size and timing of cash flows.

[1] Money-weighted rates of return provided by the Washington State Investment Board.

Net Pension Liability of Participating Employers

The components of the net pension liability of the participating LEOFF 2 employers at June 30, 2014 were as follows:

LEOFF Plan 2 Dollars in Thousands	
Total pension liability	$ 7,923,759
Plan fiduciary net position	(9,250,802)
Participating employers' net pension liability	**$(1,327,043)**
Plan fiduciary net position as a percentage of the total pension liability	116.75%

Actuarial assumptions[1] The total pension liability was determined by an actuarial valuation as of June 30, 2013, with the results rolled forward to June 30, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

LEOFF Plan 2	
Inflation:	3.0% total economic inflation, 3.75% salary inflation
Salary Increases:	In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
Investment rate of return:	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of the 2007-2012 Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best-estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the Washington State Investment Board (WSIB). Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons. The long-term expected rate of return of 7.50 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen-year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table:

LEOFF Plan 2	
Asset Class	**% Long-term Expected Real Rate of Return**
Fixed Income	0.80%
Tangible Assets	4.10%
Real Estate	5.30%
Global Equity	6.05%
Private Equity	9.05%

The inflation component used to create the preceding table is 2.70 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

[1] CMAs and expected rates of return by asset class provided by the Washington State Investment Board. The Office of the State Actuary relied on the CMAs in their selection of the long-term expected rate of return for purposes of GASB statement 67.

Discount rate The discount rate used to measure the total pension liability was 7.50 percent. To determine the discount rate an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.50 percent long-term discount rate to determine funding liabilities for calculating future contributions rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate The following presents the net pension liability of the employers calculated using the discount rate of 7.50 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate.

LEOFF Plan 2	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Employers' net pension liability (in thousands of dollars)	$567,899	$(1,327,043)	$(2,749,073)

Washington State Patrol Retirement System (WSPRS):

Administration WSPRS was established by the Legislature in 1947 and its retirement benefit provisions are contained in chapter 43.43 RCW. WSPRS is a single-employer retirement system comprised of two separate pension plans for membership purposes. WSPRS Plan 1 and WSPRS Plan 2 are defined benefit plans. WSPRS membership includes only commissioned employees of the Washington State Patrol. WSPRS Plan 1 and Plan 2 are reported as one plan for financial reporting and investment purposes in the same pension fund. All assets of this Plan 1/2 may legally be used to pay the defined benefits of any of the members or beneficiaries.

WSPRS Plan 1/2

As of June 30, 2014, there was 1 employer participating in WSPRS Plan 1/2.

Plan membership At June 30, 2013 (the date of the latest valuation), WSPRS Plan 1/2 membership consisted of the following:

WSPRS Plan 1/2	Plan 1	Plan 2
Inactive plan members or beneficiaries currently receiving benefits	964	0
Inactive plan members entitled to but not yet receiving benefits	119	10
Active plan members	657	409
Total Membership	**1,740**	**419**

Vesting There is no vesting requirement for active WSPRS Plan 1 or Plan 2 members. Inactive WSPRS members are vested after the completion of five years of eligible service.

WSPRS Plan 1 is closed to new entrants. All new WSPRS members are enrolled in Plan 2.

Benefits provided WSPRS Plan 1/2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final salary (AFS) per year of service, capped at 75 percent. For Plan 1 members, the AFS is based on the average of the 24 consecutive highest-paid service credit months and for Plan 2 members, AFS is based on the average of the 60 consecutive highest-paid service credit months. Active members are eligible for retirement at the age of 55 with no minimum required service credit, or at any age with 25 years of service credit. Members must retire at age 65. WSPRS retirement benefits are actuarially reduced to reflect the choice of a survivor benefit.

Other benefits include cost-of-living adjustment (COLA), death benefits and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

Contributions The WSPRS Plan 1/2 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund WSPRS. The employer rate also includes an administrative expense that is currently set a 0.18 percent.

The WSPRS Plan 1/2 required contribution rates (expressed as a percentage of covered payroll) at the close of Fiscal Year 2014 were as follows:

WSPRS Plan 1/2		
Actual Contribution Rates	**Employer**	**Employee**
State agencies	8.09%	6.59%

Investments

Investment policy The Washington State Investment Board (WSIB) has been authorized by statute as having investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk.

Retirement funds are invested in the Commingled Trust Fund (CTF). The CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of WSIB-adopted investment policies for the various asset classes in which the WSIB invests.

General information about the Retirement Funds' investments, their valuation, classifications, concentrations and maturities can be found in *Note 1: Summary of Significant Accounting Policies and Plan Asset Matters*.

Rate of return[1] For the year ended June 30, the annual money-weighted rate of return on WSPRS Plan 1 pension investments, net of pension plan investment expense, was 17.03 percent. This money-weighted rate of return expresses investment performance, net of pension plan investment expense, and reflects both the size and timing of cash flows.

Net Pension Liability of Participating Employers

The components of the net pension liability of the WSPRS at June 30, 2014 were as follows:

WSPRS Plan 1/2 Dollars in Thousands	
Total pension liability	$ 1,072,424
Plan fiduciary net position	(1,098,427)
Participating employers' net pension liability	**$ (26,003)**
Plan fiduciary net position as a percentage of the total pension liability	102.42%

Actuarial assumptions[2] The total pension liability was determined by an actuarial valuation as of June 30, 2013, with the results rolled forward to June 30, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

WSPRS Plan 1/2	
Inflation:	3.0% total economic inflation, 3.75% salary inflation
Salary Increases:	In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
Investment rate of return:	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

[1] Money-weighted rates of return provided by the Washington State Investment Board.
[2] CMAs and expected rates of return by asset class provided by the Washington State Investment Board. The Office of the State Actuary relied on the CMAs in their selection of the long-term expected rate of return for purposes of GASB statement 67.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best-estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the Washington State Investment Board (WSIB). Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons. The long-term expected rate of return of 7.50 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen-year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table:

WSPRS Plan 1/2

Asset Class	% Long-term Expected Real Rate of Return
Fixed Income	0.80%
Tangible Assets	4.10%
Real Estate	5.30%
Global Equity	6.05%
Private Equity	9.05%

The inflation component used to create the above table is 2.70 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

.**Discount rate**. The discount rate used to measure the total pension liability was 7.50 percent. To determine the discount rate an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contributions rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate The following presents the net pension liability of the employers calculated using the discount rate of 7.50 percent as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate.

WSPRS Plan 1/2

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Employers' net pension liability (in thousands of dollars)	$156,101	$(26,003)	$(168,669)

Judicial Retirement System (JRS):

Administration JRS was established by the Legislature in 1971 and its retirement benefit provisions are contained in chapter 2.10 RCW. JRS is a single-employer retirement system. JRS membership include judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts on or after August 9, 1971.

JRS is comprised of and reported as 1 plan for accounting purposes. JRS is closed to new entrants.

Plan membership At June 30, 2013 (the date of the latest valuation), JRS membership consisted of the following:

JRS	
Inactive plan members or beneficiaries currently receiving benefits	114
Inactive plan members entitled to but not yet receiving benefits	0
Active plan members	0
Total Membership	**114**

Vesting JRS members were vested after the completion of fifteen years of eligible service or twelve years if the member left office involuntarily.

Benefits provided JRS provides retirement, disability and death benefits. Retirement benefits are determined as three and one half percent of final average salary (FAS) for members with fifteen years of eligible service and three percent of FAS for members with ten to fourteen years of eligible service. JRS members are eligible for retirement at the age of 60 with 15 years of service, or after 12 years of service (if the member left office involuntarily) with at least 15 years after beginning judicial service. Other benefits include disability and death benefits.

Contributions There were no active plan members in JRS for fiscal year 2014 therefore there were no required employer and employee contributions for JRS.

JRS retirement benefits are financed on a pay-as-you-go basis from a combination of investment earnings and a special funding situation in which the state pays the remaining contributions.

Investments

The Office of State Treasurer (OST) manages all pension assets for JRS.

Investment policy The overall objective of the OST investment policy is to construct an investment portfolio that is optimal or efficient. An optimal or efficient portfolio is one that provides the greatest expected return for a given expected level of risk, or the lowest expected risk for a given expected return.

Eligible investments are only those securities and deposits authorized by statute (chapters 39.58, 39.59, 43.250, and 43.84.080 RCW) and include:

- Obligations of the U.S. government.
- Obligations of U.S. government agencies or of corporations wholly owned by the U.S. government.
- Obligations of government-sponsored enterprises that are or may become eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve.
- Banker's acceptances purchased on the secondary market rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. If the banker's acceptance is rated by more than two NRSROs, it must have the highest rating from all of the organizations.
- Commercial paper provided that the OST adheres to policies and procedures of the WSIB regarding commercial paper (RCW 43.84.080(7)).
- Certificates of deposit with financial institutions qualified by the Washington Public Deposit Protection Commission.
- Local Government Investment Pool.
- Obligations of the state of Washington or its political subdivisions.

- General information about the Retirement Funds' investments, their valuation, classifications, concentrations and maturities can be found in Note 1: Summary of Significant Accounting Policies and Plan Asset Matters.

Rate of return[1] For the year ended June 30, the annual money-weighted rate of return on JRS pension investments, net of pension plan investment expense, was 16 percent. This money-weighted rate of return expresses investment performance, net of pension plan investment expense, and reflects both the size and timing of cash flows.

Net Pension Liability of Participating Employers

The components of the net pension liability of JRS at June 30, 2014 were as follows:

JRS Dollars in Thousands	
Total pension liability	$ 100,341
Plan fiduciary net position	(5,031)
Participating employers' net pension liability	**$ 95,310**
Plan fiduciary net position as a percentage of the total pension liability	5.01%

Actuarial assumptions[2] The total pension liability was determined by an actuarial valuation as of June 30, 2013, with the results rolled forward to June 30, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

JRS	
Inflation:	3.0% total economic inflation
Salary Increases:	None, only inactive participants
Investment rate of return:	4.00%

For JRS, mortality rates were set equal to those used for PERS. Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of the 2007-2012 Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

Discount rate Contributions are made to JRS to ensure cash is available to make benefit payments. Since this plan is operated on a pay-as-you-go basis, the discount rate used to measure the Total Pension Liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 4.29 percent for the June 30, 2014 measurement date.

Sensitivity of the net pension liability to changes in the discount rate The following presents the net pension liability of the employers calculated using the discount rate of 4.29 percent as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.29 percent) or 1-percentage-point higher (5.29 percent) than the current rate.

JRS	1% Decrease (3.29%)	Current Discount Rate (4.29%)	1% Increase (5.29%)
Employers' net pension liability (in thousands of dollars)	$104,668	$95,310	$87,377

[1] Money-weighted rates of return provided by the Washington State Investment Board.
[2] CMAs and expected rates of return by asset class provided by the Washington State Investment Board. The Office of the State Actuary relied on the CMAs in their selection of the long-term expected rate of return for purposes of GASB statement 67.

Judges' Retirement Fund (JRF):

Administration The Judges' Retirement Fund (JRF) was established in 1937 and its retirement benefit provisions are contained in chapters 2.12 RCW. JRF is a single-employer retirement system comprised of a single defined benefit plan. JRF members include judges of the Supreme Court, Court of Appeals, or Superior Courts of the state of Washington. JRF was closed to new entrants in 1971.

Judges' is comprised of and reported as 1 plan for accounting purposes.

Plan membership At June 30, 2013 (the date of the latest valuation), JRF membership consisted of the following:

JRF	
Inactive plan members or beneficiaries currently receiving benefits	12
Inactive plan members entitled to but not yet receiving benefits	0
Active plan members	0
Total Membership	**12**

Vesting JRF members were vested after the completion of eighteen years of eligible service at any age or ten years of eligible service at age 70.

Benefits provided JRF provides disability and retirement benefits.

Contributions There were no active plan members in JRF for fiscal year 2014 therefore there were no required employer and employee contributions. JRF retirement benefits are financed on a pay-as-you-go basis from a combination of investment earnings and a special funding situation in which the state pays the remaining contributions.

Investments

OST manages all pension assets for the Judges' Retirement Fund.

Investment policy The overall objective of the OST investment policy is to construct an investment portfolio that is optimal or efficient. An optimal or efficient portfolio is one that provides the greatest expected return for a given expected level of risk, or the lowest expected risk for a given expected return.

Eligible investments are only those securities and deposits authorized by statute (chapters 39.58, 39.59, 43.250, and 43.84.080 RCW) and include:

- Obligations of the U.S. government.
- Obligations of U.S. government agencies or of corporations wholly owned by the U.S. government.
- Obligations of government-sponsored enterprises that are or may become eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve.
- Banker's acceptances purchased on the secondary market rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. If the banker's acceptance is rated by more than two NRSROs, it must have the highest rating from all of the organizations.
- Commercial paper provided that the OST adheres to policies and procedures of the WSIB regarding commercial paper (RCW 43.84.080(7)).
- Certificates of deposit with financial institutions qualified by the Washington Public Deposit Protection Commission.
- Local Government Investment Pool.
- Obligations of the state of Washington or its political subdivisions.

General information about the Retirement Funds' investments, their valuation, classifications, concentrations and maturities can be found in *Note 1: Summary of Significant Accounting Policies and Plan Asset Matters*.

Rate of return[1] For the year ended June 30, the annual money-weighted rate of return on Judges pension investments, net of pension plan investment expense, was .16 percent. This money-weighted rate of return expresses investment performance, net of pension plan investment expense, and reflects both the size and timing of cash flows.

Net Pension Liability of Participating Employers

The components of the net pension liability of JRF at June 30, 2014 were as follows:

JRF Dollars in Thousands	
Total pension liability	$ 3,146
Plan fiduciary net position	(955)
Participating employers' net pension liability	**$ 2,191**
Plan fiduciary net position as a percentage of the total pension liability	30.36%

Actuarial assumptions[2] The total pension liability was determined by an actuarial valuation as of June 30, 2013, with the results rolled forward to June 30, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

JRF	
Inflation:	3.0% total economic inflation
Salary Increases:	None, only inactive participants
Investment rate of return:	4.00%

For JRF, mortality rates were set equal to those used for PERS. Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of the 2007-2012 Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

Discount rate Contributions are made to the Judges' Retirement Fund to ensure cash is available to make benefit payments. Since this plan is operated on a pay-as-you-go basis, the discount rate used to measure the Total Pension Liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 4.29 percent for the June 30, 2014 measurement date.

Sensitivity of the net pension liability to changes in the discount rate The following presents the net pension liability of the employers calculated using the discount rate of 4.29 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1-percentage- point lower (3.29 percent) or 1-percentage-point higher (5.29 percent) than the current rate.

JRF	1% Decrease (3.29%)	Current Discount Rate (4.29%)	1% Increase (5.29%)
Employers' net pension liability (in thousands of dollars)	$2,358	$2,191	$2,075

[1] Money-weighted rates of return provided by the Washington State Investment Board.
[2] CMAs and expected rates of return by asset class provided by the Washington State Investment Board. The Office of the State Actuary relied on the CMAs in their selection of the long-term expected rate of return for purposes of GASB statement 67.

Notes to the Financial Statements
Note 2: General Description of the Retirement Systems (continued)

Recent Legislation Affecting Pension Systems/Plans
Administered by DRS During Fiscal Year 2014
Arranged Chronologically by Effective Date – Page 1 of 2

Legal Reference	Effective Date	Systems/Plans Affected	Description
Chapter 521, Laws of 2009 (ESSSB 5688)	Varies per section from 7/26/09 to 1/1/14	All systems and plans	Domestic partners registered with the state will be treated the same as married spouses, to the extent that treatment is not in conflict with federal laws.
Chapter 362, Laws of 2011 (SHB 2021)	6/30/11	PERS 1 and TRS 1	The automatic annual benefit increase for retirees/beneficiaries in PERS 1 and TRS 1 is eliminated, and the Adjusted Minimum Benefit limit is increased to $1,545 per month. Additionally, the minimum employer contribution rates for the unfunded liability of both of these plans are lowered.
Chapter 5, Laws of 2011 (HB 2070)	7/1/11	LEOFF 2, PERS, PSERS, SERS, TRS and WSPRS	DRS is required to include the qualifying foregone compensation during the 2011-2013 biennium in the benefits calculation of retiring government employees in LEOFF 2, PERS, PSERS, SERS, TRS and WSPRS.
Chapter 47, Laws of 2011 (ESHB 1981)	Varies per section from 7/1/11 to 1/1/12	PERS, PSERS, SERS and TRS	Multi-faceted bill that: • Limits to 867 the post retirement hours that a PERS 1 or TRS 1 retiree may work prior to suspension of the pension benefit • Applies the return to work provision of the applicable retirement system to higher education positions eligible for the HERPs • Prohibits higher education institutions and entities from offering participation in a HERP to any newly hired employee that has retired or is eligible to retire from a DRS administered retirement plan • Provides, for newly hired employees eligible to participate in a HERP, the option at time of hire to participate in PERS 3, TRS 3 or a HERP • Requires institutions to contribute a percentage of their HERP-covered employees' salary to DRS to be invested by the WSIB. These funds are intended to be used to pay required supplemental benefits to eligible HERP retirees
Chapter 68, Laws of 2011 (HB 1263)	7/22/11	PSERS	The employer definition within PSERS is modified to include correctional entities formed by PSERS employers under the Interlocal Cooperation Act (RCW 39.34).
Chapter 80, Laws of 2011 (HB 1625)	7/22/11	PERS 3, SERS 3 and TRS 3	The investment option for new employees who default into membership in PERS 3, SERS 3 or TRS 3 by failing to choose a retirement plan within the allotted 90 days is changed from the Total Allocation Portfolio to a Retirement Strategy Fund, based on the member's birth year and an assumed retirement at age 65.
Chapter 3, Laws of 2012 (ESSB 6239)	6/7/12	All systems and plans	This bill allows same-gender couples to marry, and automatically converts certain domestic partnerships to marriages unless the couple marries or dissolves the partnership before June 30, 2014. Under the provisions of this bill, survivor benefits may be available to certain members of the state's retirement systems sooner than under current law.
Chapter 72, Laws of 2012 (ESB 5159)	6/7/12	WSPRS	Current WSPRS members who have service credit earned as commercial vehicle enforcement officers within PERS 2 may transfer said credit into the WSPRS. The member must pay the full actuarial cost of the transfer.

Recent Legislation Affecting Pension Systems/Plans
Administered by DRS During Fiscal Year 2014
Arranged Chronologically by Effective Date – Page 2 of 2

Legal Reference	Effective Date	Systems/Plans Affected	Description
Chapter 236, Laws of 2012 (EHB 2771)	6/7/12	LEOFF, PERS, PSERS, SERS, and TRS	This bill amends the retirement statutes to clarify that governmental contractors are not employers under the system, unless otherwise qualifying, and that the determination of whether an employee/employer relationship has been established shall be based solely on the relationship between the contracted employee and the governmental employer.
Chapter 248, Laws of 2012 (SB 6134)	6/7/12	LEOFF 2	The initial time line to transfer service credit under RCW 41.26.435 is moved from June 30, 2014 to June 30, 2012.
Chapter 22, Laws of 2013 (SB 5046)	7/28/13	PERS	The mandatory retirement criteria for District Court Judges is changed to require retirement after the end of the term of office in which they turn age 75, instead of at the end of the calendar year in which they turn age 75.
Chapter 287, Laws of 2013 (SHB 1868)	7/28/13	LEOFF 2	Allows catastrophically disabled LEOFF 2 members to be reimbursed for premiums of medical insurance other than those which are provided by the employer, COBRA, or Medicare A and/or B. The reimbursement is limited to payments made after June 30, 2013 that do not exceed the premium reimbursement amounts authorized by COBRA.
Chapter 95, Laws of 2014 (SB 6321)	6/12/14	PERS 3, SERS 3 and TRS 3	Removes annual rate flexibility in the Plans 3. A TRS 3 member no longer has the option to change contribution rates 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 2015. While this statutory option applies to PERS 3 and SERS 3 members 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.
Chapter 145, Laws of 2014 (HB 2456)	6/12/14	LEOFF	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.
Chapter 91, Laws of 2014 (SB 6201)	6/12/14	LEOFF 2	This bill allows LEOFF 2 members to use funds from certain tax-qualified plans to purchase a life annuity from the LEOFF 2 trust fund at the time of retirement.
Chapter 172, Laws of 2014 (SB 6328)	6/12/14	Deferred Compensation Program	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.

C. Funding Policy

All employers are required to contribute at the level established by the Legislature. Plan specific tables presented in Note 2 section B provide the required contributions rates for each plan at the close of Fiscal Year 2014.

PERS – Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 to 15 percent.

The methods used to determine PERS contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

SERS – Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under SERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 to 15 percent.

The methods used to determine SERS contribution requirements are established under state statute in accordance with chapters 41.35 and 41.45 RCW.

PSERS – Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2.

The methods used to determine PSERS contribution requirements are established under state statute in accordance with chapters 41.37 and 41.45 RCW.

TRS – Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under TRS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 to 15 percent.

The methods used to determine the TRS contribution requirements are established under state statute in accordance with chapters 41.32 and 41.45 RCW.

LEOFF – Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent, as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board.

This special funding situation is not mandated by the state constitution and could be changed by statute. For Fiscal Year 2014, the state contributed $55.6 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.26 and 41.45 RCW.

WSPRS – Each biennium, the state Pension Funding Council adopts the employee and the state contribution rates, subject to revision by the Legislature. The employee and the state contribution rates are developed by the Office of the State Actuary to fully fund the plan.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 43.43 and 41.45 RCW.

JRS – There are no active members in the Judicial Retirement System. The state guarantees the solvency of the JRS on a pay-as-you-go basis. Each biennium, the Legislature, through appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2014, the state contributed $10.6 million.

Judges – There are no active members in the Judges' Retirement Fund. The state guarantees the solvency of the Judges' Retirement fund on a pay-as-you-go basis. Each biennium, the Legislature, through appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2014, however, no such appropriations were needed.

Note 2: General Description of the Retirement Systems (continued)

D. Judicial Retirement Account

The Judicial Retirement Account (JRA) was established by the Legislature in 1988 to provide supplemental retirement benefits. It is a defined contribution plan administered by the state of Washington Administrative Office of the Courts (AOC), under the direction of the Board for Judicial Administration. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts, who are members of PERS for their services as a judge. Vesting is full and immediate.

Beginning January 1, 2007 any newly elected or appointed Supreme Court Justice, Court of Appeals Judge or Superior Court Judge could no longer participate in JRA. At June 30, 2014, there were five active members and 152 inactive members in JRA. The state, through the AOC, is the sole participating employer in JRA.

JRA plan members are required to contribute 2.5 percent of covered salary. The state, as employer, contributes an equal amount on a monthly basis. The employer and employee obligations to contribute are established in chapter 2.14 RCW. Plan provisions and contribution requirements are established in state statute and may be amended only by the state Legislature.

A JRA member who separates from judicial service for any reason is entitled to receive a lump-sum distribution of the accumulated contributions. The administrator of JRA may adopt rules establishing other payment options. If a member dies, the amount of accumulated contributions standing to the member's credit at the time of the member's death is to be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation.

The Administrator of JRA has entered into an agreement for services with DRS and with the Washington State Investment Board (WSIB). Under this agreement, DRS is responsible for all record keeping, accounting, and reporting of member accounts and the WSIB is granted the full power to establish investment policy, develop participant investment options and manage the investment funds for the JRA plan, consistent with the provisions of RCW 2.14.080 and 43.84.150.

E. Deferred Compensation Program

The state of Washington offers its employees and employees of those political subdivisions that elect to participate, a deferred compensation program (DCP) pursuant to RCW 41.50.770, in accordance with Internal Revenue Code Section 457. The deferred compensation is not available to employees until termination, retirement, disability, death or unforeseeable financial emergency. This deferred compensation program is administered by DRS.

The intent of the program is to provide additional income to participants upon retirement. By deferring part of their income, participants can reduce their taxable income each year. The investments remain tax-free until they are withdrawn. The program provides participants with a means to easily save money and help supplement their other retirement income.

Employees participating in DCP self-direct their investments through options provided by the WSIB. The WSIB has the full power to invest moneys in DCP in accordance with RCW 43.84.150, 43.33A.140, and 41.50.770.

The program offers two investment options: the **One-Step Investing** option, and the **Build and Monitor** option.

The **One-Step Investing** option is designed for those who do not have the desire, comfort level and/or time to select, monitor and rebalance, as needed, their own allocation mix of funds. Each Retirement Strategy Fund is diversified and automatically rebalances, adjusting the participant's allocation mix as the participant moves toward a retirement date. The funds in this option include:

- 2000 Retirement Strategy
- 2005 Retirement Strategy
- 2010 Retirement Strategy
- 2015 Retirement Strategy
- 2020 Retirement Strategy
- 2025 Retirement Strategy
- 2030 Retirement Strategy
- 2035 Retirement Strategy
- 2040 Retirement Strategy
- 2045 Retirement Strategy
- 2050 Retirement Strategy
- 2055 Retirement Strategy

The **Build and Monitor** option requires the participant to:

- Select fund(s) from any or all of the following funds:
    - o Emerging Market Equity Index Fund
    - o Global Equity Index Fund
    - o Savings Pool
    - o Socially Responsible Balanced Fund
    - o U.S. Large Cap Equity Index Fund
    - o U.S. Small Cap Value Equity Index Fund
    - o Washington State Bond Fund
- Monitor account activity
- Rebalance the allocation mix as necessary to maintain desired investment objectives

DCP participants may adjust or suspend their participation in the program at any time. Upon separation from employment, DCP participants have the option of withdrawing some or all of the balance in their account or leaving their balance in place to continue to benefit from market fluctuations.

The IRS requires a DCP participant to start receiving mandatory account distributions at retirement, or by April of the year after the participant turns 70 ½ years old, whichever comes later.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, are held in trust by the WSIB, as set forth under RCW 43.33A.030, for the exclusive benefit of the DCP participants and their beneficiaries. Neither the participant, nor the participant's beneficiary or beneficiaries, nor any other designee, has any right to commute, sell, assign, transfer, or otherwise convey the right to receive any payments under the plan. These payments and rights thereto are non-assignable and non-transferable.

Required Supplementary Information: Schedule of Changes in Net Pension Liability

Schedule of Changes in Net Pension Liability: PERS Plan 1

Dollars in Thousands

	6/30/2014*
Total Pension Liability	
Service Cost	$ 37,503
Interest	945,296
Changes of Benefit Terms	–
Differences Between Expected and Actual Experience	–
Changes in Assumptions	–
Benefit Payments, Including Refunds of Member Contributions	(1,193,715)
Net Change in Total Pension Liability	**(210,915)**
Total Pension Liability – Beginning	**13,190,019**
Total Pension Liability – Ending (a)	**$ 12,979,104**
Plan Fiduciary Net Position	
Contributions – Employer	$ 448,895
Contributions – Member	28,087
Net Investment Income	1,311,995
Benefit Payments, Including Refunds of Member Contributions	(1,193,715)
Administrative Expense	(506)
Other	36
Net Change in Plan Fiduciary Net Position	**594,792**
Plan Fiduciary Net Position – Beginning	**7,346,765**
Plan Fiduciary Net Position – Ending (b)	**$ 7,941,557**
Plan Net Pension Liability (Asset) – Ending (a) - (b)	**$ 5,037,547**

Note: Plan Fiduciary Net Position does not include the administrative fund allocations to the trust funds noted in Note 1 section G of the Financial Section.

*This schedule is to be built prospectively until it contains ten years of data.

Schedule of Changes in Net Pension Liability: PERS Plan 2/3

Dollars in Thousands

	6/30/2014*
Total Pension Liability	
Service Cost	$ 934,401
Interest	2,057,556
Changes of Benefit Terms	–
Differences Between Expected and Actual Experience	–
Changes in Assumptions	–
Benefit Payments, Including Refunds of Member Contributions	(600,862)
Net Change in Total Pension Liability	**2,391,094**
Total Pension Liability – Beginning	**27,729,076**
Total Pension Liability – Ending (a)	**$ 30,120,170**
Plan Fiduciary Net Position	
Contributions – Employer	$ 430,345
Contributions – Member	368,251
Net Investment Income	4,444,930
Benefit Payments, Including Refunds of Member Contributions	(600,862)
Administrative Expense	(617)
Other	(2,299)
Net Change in Plan Fiduciary Net Position	**4,639,748**
Plan Fiduciary Net Position – Beginning	**23,459,061**
Plan Fiduciary Net Position – Ending (b)	**$ 28,098,809**
Plan Net Pension Liability (Asset) – Ending (a) - (b)	**$ 2,021,361**

Note: Plan Fiduciary Net Position does not include the administrative fund allocations to the trust funds noted in Note 1 section G of the Financial Section.

*This schedule is to be built prospectively until it contains ten years of data.

Schedule of Changes in Net Pension Liability: SERS Plan 2/3
Dollars in Thousands

	6/30/2014*
Total Pension Liability	
Service Cost	$ 138,228
Interest	277,012
Changes of Benefit Terms	–
Differences Between Expected and Actual Experience	–
Changes in Assumptions	–
Benefit Payments, Including Refunds of Member Contributions	(83,948)
Net Change in Total Pension Liability	**331,292**
Total Pension Liability – Beginning	**3,734,712**
Total Pension Liability – Ending (a)	**$4,066,004**
Plan Fiduciary Net Position	
Contributions – Employer	$ 88,783
Contributions – Member	31,856
Net Investment Income	607,982
Benefit Payments, Including Refunds of Member Contributions	(83,948)
Administrative Expense	(30)
Other	(462)
Net Change in Plan Fiduciary Net Position	**644,181**
Plan Fiduciary Net Position – Beginning	**3,211,902**
Plan Fiduciary Net Position – Ending (b)	**$3,856,083**
Plan Net Pension Liability (Asset) – Ending (a) - (b)	**$ 209,921**

Note: Plan Fiduciary Net Position does not include the administrative fund allocations to the trust funds noted in Note 1 section G of the Financial Section.

*This schedule is to be built prospectively until it contains ten years of data.

Schedule of Changes in Net Pension Liability: PSERS Plan 2
Dollars in Thousands

	6/30/2014*
Total Pension Liability	
Service Cost	$ 42,679
Interest	17,264
Changes of Benefit Terms	–
Differences Between Expected and Actual Experience	–
Changes in Assumptions	–
Benefit Payments, Including Refunds of Member Contributions	(2,450)
Net Change in Total Pension Liability	**57,493**
Total Pension Liability – Beginning	**231,395**
Total Pension Liability – Ending (a)	**$ 288,888**
Plan Fiduciary Net Position	
Contributions – Employer	$ 17,124
Contributions – Member	17,446
Net Investment Income	45,143
Benefit Payments, Including Refunds of Member Contributions	(2,450)
Administrative Expense	(8)
Other	5
Net Change in Plan Fiduciary Net Position	**77,260**
Plan Fiduciary Net Position – Beginning	**226,109**
Plan Fiduciary Net Position – Ending (b)	**$ 303,369**
Plan Net Pension Liability (Asset) – Ending (a) - (b)	**$ (14,481)**

Note: Plan Fiduciary Net Position does not include the administrative fund allocations to the trust funds noted in Note 1 section G of the Financial Section.

*This schedule is to be built prospectively until it contains ten years of data.

Schedule of Changes in Net Pension Liability (continued)

Schedule of Changes in Net Pension Liability: TRS Plan 1

Dollars in Thousands

	6/30/2014*
Total Pension Liability	
Service Cost	$ 21,932
Interest	690,297
Changes of Benefit Terms	–
Differences Between Expected and Actual Experience	–
Changes in Assumptions	–
Benefit Payments, Including Refunds of Member Contributions	(928,237)
Net Change in Total Pension Liability	**(216,007)**
Total Pension Liability – Beginning	**9,659,695**
Total Pension Liability – Ending (a)	**$9,443,688**
Plan Fiduciary Net Position	
Contributions – Employer	$ 200,674
Contributions – Member	14,626
Net Investment Income	1,079,804
Benefit Payments, Including Refunds of Member Contributions	(928,237)
Administrative Expense	(143)
Other	51
Net Change in Plan Fiduciary Net Position	**366,775**
Plan Fiduciary Net Position – Beginning	**6,127,459**
Plan Fiduciary Net Position – Ending (b)	**$6,494,234**
Plan Net Pension Liability (Asset) – Ending (a) - (b)	**$2,949,454**

Note: Plan Fiduciary Net Position does not include the administrative fund allocations to the trust funds noted in Note 1 section G of the Financial Section.

*This schedule is to be built prospectively until it contains ten years of data.

Schedule of Changes in Net Pension Liability: TRS Plan 2/3

Dollars in Thousands

	6/30/2014*
Total Pension Liability	
Service Cost	$ 374,257
Interest	684,861
Changes of Benefit Terms	–
Differences Between Expected and Actual Experience	–
Changes in Assumptions	–
Benefit Payments, Including Refunds of Member Contributions	(151,510)
Net Change in Total Pension Liability	**907,609**
Total Pension Liability – Beginning	**9,205,870**
Total Pension Liability – Ending (a)	**$ 10,113,479**
Plan Fiduciary Net Position	
Contributions – Employer	$ 249,342
Contributions – Member	44,012
Net Investment Income	1,539,895
Benefit Payments, Including Refunds of Member Contributions	(151,510)
Administrative Expense	(76)
Other	(401)
Net Change in Plan Fiduciary Net Position	**1,681,262**
Plan Fiduciary Net Position – Beginning	**8,109,228**
Plan Fiduciary Net Position – Ending (b)	**$ 9,790,490**
Plan Net Pension Liability (Asset) – Ending (a) - (b)	**$ 322,989**

Note: Plan Fiduciary Net Position does not include the administrative fund allocations to the trust funds noted in Note 1 section G of the Financial Section.

*This schedule is to be built prospectively until it contains ten years of data.

Schedule of Changes in Net Pension Liability: LEOFF Plan 1
Dollars in Thousands

	6/30/2014*
Total Pension Liability	
Service Cost	$ 4,279
Interest	326,717
Changes of Benefit Terms	–
Differences Between Expected and Actual Experience	–
Changes in Assumptions	–
Benefit Payments, Including Refunds of Member Contributions	(355,988)
Net Change in Total Pension Liability	**(24,992)**
Total Pension Liability – Beginning	**4,531,007**
Total Pension Liability – Ending (a)	**$ 4,506,015**
Plan Fiduciary Net Position	
Contributions – Employer	$ 98
Contributions – Member	844
Net Investment Income	934,123
Benefit Payments, Including Refunds of Member Contributions	(355,988)
Administrative Expense	(44)
Other	–
Net Change in Plan Fiduciary Net Position	**579,033**
Plan Fiduciary Net Position – Beginning	**5,139,773**
Plan Fiduciary Net Position – Ending (b)	**$ 5,718,806**
Plan Net Pension Liability (Asset) – Ending (a) - (b)	**$ (1,212,791)**

Note: Plan Fiduciary Net Position does not include the administrative fund allocations to the trust funds noted in Note 1 section G of the Financial Section.

*This schedule is to be built prospectively until it contains ten years of data.

Schedule of Changes in Net Pension Liability: LEOFF Plan 2
Dollars in Thousands

	6/30/2014*
Total Pension Liability	
Service Cost	$ 301,625
Interest	536,534
Changes of Benefit Terms	–
Differences Between Expected and Actual Experience	–
Changes in Assumptions	–
Benefit Payments, Including Refunds of Member Contributions	(133,949)
Net Change in Total Pension Liability	**704,210**
Total Pension Liability – Beginning	**7,219,549**
Total Pension Liability – Ending (a)	**$ 7,923,759**
Plan Fiduciary Net Position	
Contributions – Employer	$ 85,532
Contributions – State	55,551
Contributions – Member	151,041
Net Investment Income	1,456,267
Benefit Payments, Including Refunds of Member Contributions	(133,949)
Administrative Expense	(1,268)
Other	241
Net Change in Plan Fiduciary Net Position	**1,613,415**
Plan Fiduciary Net Position – Beginning	**7,637,387**
Plan Fiduciary Net Position – Ending (b)	**$ 9,250,802**
Plan Net Pension Liability (Asset) – Ending (a) - (b)	**$ (1,327,043)**

Note: Plan Fiduciary Net Position does not include the administrative fund allocations to the trust funds noted in Note 1 section G of the Financial Section.

*This schedule is to be built prospectively until it contains ten years of data.

Schedule of Changes in Net Pension Liability (continued)

Schedule of Changes in Net Pension Liability: WSPRS Plan 1/2
Dollars in Thousands

	6/30/2014*
Total Pension Liability	
Service Cost	$ 18,041
Interest	75,249
Changes of Benefit Terms	–
Differences Between Expected and Actual Experience	–
Changes in Assumptions	–
Benefit Payments, Including Refunds of Member Contributions	(47,510)
Net Change in Total Pension Liability	**45,780**
Total Pension Liability – Beginning	**1,026,644**
Total Pension Liability – Ending (a)	**$1,072,424**
Plan Fiduciary Net Position	
Contributions – Employer	$ 6,587
Contributions – Member	6,555
Net Investment Income	176,856
Benefit Payments, Including Refunds of Member Contributions	(47,510)
Administrative Expense	(84)
Other	509
Net Change in Plan Fiduciary Net Position	**142,913**
Plan Fiduciary Net Position – Beginning	**955,514**
Plan Fiduciary Net Position – Ending (b)	**$1,098,427**
Plan Net Pension Liability (Asset) – Ending (a) - (b)	**$ (26,003)**

Note: Plan Fiduciary Net Position does not include the administrative fund allocations to the trust funds noted in Note 1 section G of the Financial Section.

*This schedule is to be built prospectively until it contains ten years of data.

Schedule of Changes in Net Pension Liability: JRS
Dollars in Thousands

	6/30/2014*
Total Pension Liability	
Service Cost	$ –
Interest	4,319
Changes of Benefit Terms	–
Differences Between Expected and Actual Experience	–
Changes in Assumptions	–
Benefit Payments, Including Refunds of Member Contributions	(9,480)
Net Change in Total Pension Liability	**(5,161)**
Total Pension Liability – Beginning	**105,502**
Total Pension Liability – Ending (a)	**$ 100,341**
Plan Fiduciary Net Position	
Contributions – Employer	$ –
Contributions – State	10,600
Contributions – Member	–
Net Investment Income	25
Benefit Payments, Including Refunds of Member Contributions	(9,480)
Administrative Expense	–
Other	–
Net Change in Plan Fiduciary Net Position	**1,145**
Plan Fiduciary Net Position – Beginning	**3,886**
Plan Fiduciary Net Position – Ending (b)	**$ 5,031**
Plan Net Pension Liability (Asset) – Ending (a) - (b)	**$ 95,310**

Note: Plan Fiduciary Net Position does not include the administrative fund allocations to the trust funds noted in Note 1 section G of the Financial Section.

*This schedule is to be built prospectively until it contains ten years of data.

Schedule of Changes in Net Pension Liability: Judges

Dollars in Thousands

	6/30/2014*
Total Pension Liability	
Service Cost	$ –
Interest	137
Changes of Benefit Terms	–
Differences Between Expected and Actual Experience	–
Changes in Assumptions	–
Benefit Payments, Including Refunds of Member Contributions	(444)
Net Change in Total Pension Liability	**(307)**
Total Pension Liability – Beginning	**3,453**
Total Pension Liability – Ending (a)	**$ 3,146**
Plan Fiduciary Net Position	
Contributions – Employer	$ –
Contributions – Member	–
Net Investment Income	7
Benefit Payments, Including Refunds of Member Contributions	(444)
Administrative Expense	–
Other	–
Net Change in Plan Fiduciary Net Position	**(437)**
Plan Fiduciary Net Position – Beginning	**1,392**
Plan Fiduciary Net Position – Ending (b)	**$ 955**
Plan Net Pension Liability (Asset) – Ending (a) - (b)	**$ 2,191**

Note: Plan Fiduciary Net Position does not include the administrative fund allocations to the trust funds noted in Note 1 section G of the Financial Section.

*This schedule is to be built prospectively until it contains ten years of data.

Required Supplementary Information: Schedule of Net Pension Liability

Schedule of Net Pension Liability: PERS Plan 1
Dollars in Thousands

	6/30/2014*
Total Pension Liability	$ 12,979,104
Plan Fiduciary Net Position	7,941,557
Plan Net Pension Liability (Asset)	**$ 5,037,547**
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	61.19%
Covered-Employee Payroll	$ 309,665
Plan Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll	1,626.77%

Schedule of Net Pension Liability: PERS Plan 2/3
Dollars in Thousands

	6/30/2014*
Total Pension Liability	$ 30,120,170
Plan Fiduciary Net Position	28,098,809
Plan Net Pension Liability (Asset)	**$ 2,021,361**
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	93.29%
Covered-Employee Payroll	$ 8,607,757
Plan Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll	23.48%

Schedule of Net Pension Liability: SERS Plan 2/3
Dollars in Thousands

	6/30/2014*
Total Pension Liability	$ 4,066,004
Plan Fiduciary Net Position	3,856,083
Plan Net Pension Liability (Asset)	**$ 209,921**
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.84%
Covered-Employee Payroll	$ 1,616,447
Plan Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll	12.99%

Schedule of Net Pension Liability: PSERS Plan 2
Dollars in Thousands

	6/30/2014*
Total Pension Liability	$ 288,888
Plan Fiduciary Net Position	303,369
Plan Net Pension Liability (Asset)	**$ (14,481)**
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	105.01%
Covered-Employee Payroll	$ 270,102
Plan Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll	(5.36)%

Note: Plan Fiduciary Net Position does not include the administrative fund allocations to the trust funds noted in Note 1 section G of the Financial Section.

*This schedule is to be built prospectively until it contains ten years of data.

Schedule of Net Pension Liability: TRS Plan 1
Dollars in Thousands

	6/30/2014*
Total Pension Liability	$9,443,688
Plan Fiduciary Net Position	6,494,234
Plan Net Pension Liability (Asset)	**$2,949,454**
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.77%
Covered-Employee Payroll	$ 148,430
Plan Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll	1,987.10%

Schedule of Net Pension Liability: TRS Plan 2/3
Dollars in Thousands

	6/30/2014*
Total Pension Liability	$10,113,479
Plan Fiduciary Net Position	9,790,490
Plan Net Pension Liability (Asset)	**$ 322,989**
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	96.81%
Covered-Employee Payroll	$ 4,436,592
Plan Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll	7.28%

Schedule of Net Pension Liability: LEOFF Plan 1
Dollars in Thousands

	6/30/2014*
Total Pension Liability	$ 4,506,015
Plan Fiduciary Net Position	5,718,806
Plan Net Pension Liability (Asset)	**$(1,212,791)**
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	126.91%
Covered-Employee Payroll	$ 13,888
Plan Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll	(8,732.65)%

Schedule of Net Pension Liability: LEOFF Plan 2
Dollars in Thousands

	6/30/2014*
Total Pension Liability	$ 7,923,759
Plan Fiduciary Net Position	9,250,802
Plan Net Pension Liability (Asset)	**$(1,327,043)**
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	116.75%
Covered-Employee Payroll	$ 1,674,432
Plan Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll	(79.25)%

Note: Plan Fiduciary Net Position does not include the administrative fund allocations to the trust funds noted in Note 1 section G of the Financial Section.

*This schedule is to be built prospectively until it contains ten years of data.

Schedule of Net Pension Liability (continued)

Schedule of Net Pension Liability: WSPRS Plan 1/2
Dollars in Thousands

	6/30/2014*
Total Pension Liability	$1,072,424
Plan Fiduciary Net Position	1,098,427
Plan Net Pension Liability (Asset)	**$ (26,003)**
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	102.42%
Covered-Employee Payroll	$ 83,282
Plan Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll	(31.22)%

Schedule of Net Pension Liability: JRS
Dollars in Thousands

	6/30/2014*
Total Pension Liability	$ 100,341
Plan Fiduciary Net Position	5,031
Plan Net Pension Liability (Asset)	**$ 95,310**
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	5.01%
Covered-Employee Payroll	$ –
Plan Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll	n/a

Schedule of Net Pension Liability: Judges
Dollars in Thousands

	6/30/2014*
Total Pension Liability	$ 3,146
Plan Fiduciary Net Position	955
Plan Net Pension Liability (Asset)	**$ 2,191**
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	30.36%
Covered-Employee Payroll	$ –
Plan Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll	n/a

Note: Plan Fiduciary Net Position does not include the administrative fund allocations to the trust funds noted in Note 1 section G of the Financial Section.

*This schedule is to be built prospectively until it contains ten years of data.

Required Supplementary Information: Schedule of Employer Contributions

Schedule of Employer Contributions: PERS Plan 1
Dollars in Thousands

	6/30/2014	6/30/13	6/30/12	6/30/11	6/30/10	6/30/09	6/30/08	6/30/07	6/30/06	6/30/05
Actuarially Determined Contributions*	$439,067	$534,200	$508,000	$439,300	$627,800	$620,200	$453,100	$397,300	$438,500	$340,300
Contributions in Relation to the Actuarially Determined Contributions	448,895	266,270	257,197	145,585	154,023	325,248	221,787	118,660	29,601	22,360
Contribution Deficiency (Excess)	**$(9,828)**	**$267,930**	**$250,803**	**$293,715**	**$473,777**	**$294,952**	**$231,313**	**$278,640**	**$408,899**	**$317,940**
Covered-Employee Payroll	$309,665	$352,909	$399,564	$493,559	$571,969	$654,711	$713,421	$761,800	$830,602	$892,756
Contributions as a Percentage of Covered-Employee Payroll	144.96%	75.45%	64.37%	29.50%	26.93%	49.68%	31.09%	15.58%	3.56%	2.50%

NOTE: Portions of the above contributions were assessed on the covered payrolls of PERS Plan 2/3, SERS Plan 2/3 and PSERS Plan 2.

Schedule of Employer Contributions: PERS Plan 2/3
Dollars in Thousands

	6/30/2014	6/30/13	6/30/12	6/30/11	6/30/10	6/30/09	6/30/08	6/30/07	6/30/06	6/30/05
Actuarially Determined Contributions*	$441,677	$408,300	$407,700	$408,600	$383,100	$369,700	$363,300	$331,300	$307,600	$227,700
Contributions in Relation to the Actuarially Determined Contributions	430,345	389,020	385,253	328,258	327,460	439,744	318,740	242,544	149,579	74,720
Contribution Deficiency (Excess)	**$11,332**	**$19,280**	**$22,447**	**$80,342**	**$55,640**	**$(70,044)**	**$44,560**	**$88,756**	**$158,021**	**$152,980**
Covered-Employee Payroll	$8,607,757	$8,265,361	$8,125,656	$8,139,901	$8,151,255	$8,108,034	$7,697,892	$7,019,718	$6,687,536	$6,289,809
Contributions as a Percentage of Covered-Employee Payroll	5.00%	4.71%	4.74%	4.03%	4.02%	5.42%	4.14%	3.46%	2.24%	1.19%

*Prior to 2014 the Annual Required Contribution (ARC) amounts are presented for the Actuarially Determined Contributions. The ARC changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses.

Required Supplementary Information: Schedule of Employer Contributions (continued)

Schedule of Employer Contributions: SERS Plan 2/3
Dollars in Thousands

	6/30/2014	6/30/13	6/30/12	6/30/11	6/30/10	6/30/09	6/30/08	6/30/07	6/30/06	6/30/05
Actuarially Determined Contributions*	$90,064	$86,600	$85,200	$88,600	$82,300	$71,500	$75,800	$71,500	$81,400	$64,000
Contributions in Relation to the Actuarially Determined Contributions	88,783	78,400	74,640	62,316	62,090	63,526	52,139	45,950	30,419	10,160
Contribution Deficiency (Excess)	**$1,281**	**$8,200**	**$10,560**	**$26,284**	**$20,210**	**$7,974**	**$23,661**	**$25,550**	**$50,981**	**$53,840**
Covered-Employee Payroll	$1,616,447	$1,549,224	$1,638,675	$1,650,375	$1,619,245	$1,585,931	$1,515,966	$1,407,307	$1,336,634	$1,269,398
Contributions as a Percentage of Covered-Employee Payroll	5.49%	5.06%	4.55%	3.78%	3.83%	4.01%	3.44%	3.27%	2.28%	0.80%

Schedule of Employer Contributions: PSERS Plan 2
Dollars in Thousands

	6/30/2014	6/30/13	6/30/12	6/30/11	6/30/10	6/30/09	6/30/08	6/30/07	6/30/06	6/30/05
Actuarially Determined Contributions*	$17,053	$15,100	$14,700	$14,700	$14,800	$14,300	$12,400	$7,100	n/a	n/a
Contributions in Relation to the Actuarially Determined Contributions	17,124	15,650	15,285	15,591	15,238	14,510	11,700	6,612	n/a	n/a
Contribution Deficiency (Excess)	**$(71)**	**$(550)**	**$(585)**	**$(891)**	**$(438)**	**$(210)**	**$700**	**$488**	**n/a**	**n/a**
Covered-Employee Payroll	$270,102	$249,022	$236,495	$232,044	$232,826	$222,044	$178,767	$101,789	$–	$–
Contributions as a Percentage of Covered-Employee Payroll	6.34%	6.28%	6.46%	6.72%	6.54%	6.53%	6.54%	6.50%	n/a	n/a

*Prior to 2014 the Annual Required Contribution (ARC) amounts are presented for the Actuarially Determined Contributions. The ARC changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses.

Schedule of Employer Contributions: TRS Plan 1

Dollars in Thousands

	6/30/2014	6/30/13	6/30/12	6/30/11	6/30/10	6/30/09	6/30/08	6/30/07	6/30/06	6/30/05
Actuarially Determined Contributions*	$208,119	$275,400	$254,000	$205,900	$406,100	$391,000	$294,700	$249,800	$287,500	$224,300
Contributions in Relation to the Actuarially Determined Contributions	200,674	118,569	111,937	96,803	112,731	178,850	113,089	60,462	15,077	8,793
Contribution Deficiency (Excess)	**$7,445**	**$156,831**	**$142,063**	**$109,097**	**$293,369**	**$212,150**	**$181,611**	**$189,338**	**$272,423**	**$215,507**
Covered-Employee Payroll	$148,430	$192,532	$280,366	$349,660	$418,353	$480,118	$525,223	$586,394	$646,830	$716,448
Contributions as a Percentage of Covered-Employee Payroll	135.20%	61.58%	39.93%	27.68%	26.95%	37.25%	21.53%	10.31%	2.33%	1.23%

Note: Portions of the above contributions were assessed on the covered payrolls of TRS Plan 2/3.

Schedule of Employer Contributions: TRS Plan 2/3

Dollars in Thousands

	6/30/2014	6/30/13	6/30/12	6/30/11	6/30/10	6/30/09	6/30/08	6/30/07	6/30/06	6/30/05
Actuarially Determined Contributions*	$255,277	$231,600	$232,200	$232,300	$221,100	$186,900	$208,900	$167,700	$166,400	$117,400
Contributions in Relation to the Actuarially Determined Contributions	249,341	228,974	213,852	168,264	164,959	160,793	109,523	102,180	75,353	33,767
Contribution Deficiency (Excess)	**$5,936**	**$2,626**	**$18,348**	**$64,036**	**$56,141**	**$26,107**	**$99,377**	**$65,520**	**$91,047**	**$83,633**
Covered-Employee Payroll	$4,436,592	$4,203,893	$4,162,779	$4,171,447	$4,056,271	$3,950,376	$3,664,646	$3,375,160	$3,152,152	$2,957,315
Contributions as a Percentage of Covered-Employee Payroll	5.62%	5.45%	5.14%	4.03%	4.07%	4.07%	2.99%	3.03%	2.39%	1.14%

*Prior to 2014 the Annual Required Contribution (ARC) amounts are presented for the Actuarially Determined Contributions. The ARC changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses.

Required Supplementary Information: Schedule of Employer Contributions (continued)

Schedule of Employer Contributions: LEOFF Plan 1
Dollars in Thousands

	6/30/2014	6/30/13	6/30/12	6/30/11	6/30/10	6/30/09	6/30/08	6/30/07	6/30/06	6/30/05
Actuarially Determined Contributions*	$–	$–	$–	$–	$–	$–	$–	$–	$–	$–
Contributions in Relation to the Actuarially Determined Contributions	98	555	2	3	49	216	8	56	70	9
Contribution Deficiency (Excess)	**$(98)**	**$(555)**	**$(2)**	**$(3)**	**$(49)**	**$(216)**	**$(8)**	**$44**	**$(70)**	**$(9)**
Covered-Employee Payroll	$13,888	$16,521	$21,456	$27,171	$32,110	$41,040	$41,384	$46,327	$54,804	$61,686
Contributions as a Percentage of Covered-Employee Payroll	0.71%	3.36%	0.01%	0.01%	0.15%	0.53%	0.02%	0.12%	0.13%	0.01%

Schedule of Employer Contributions and Other Contributing Entities: LEOFF Plan 2
Dollars in Thousands

	6/30/2014	6/30/13	6/30/12	6/30/11	6/30/10	6/30/09	6/30/08	6/30/07	6/30/06	6/30/05
Actuarially Determined Contributions*	$141,696	$94,700	$97,300	$84,000	$112,200	$105,300	$102,100	$94,900	$101,300	$80,800
Contributions in Relation to the Actuarially Determined Contributions	141,082	136,643	133,250	131,757	128,374	128,986	119,290	96,119	80,138	54,046
Contribution Deficiency (Excess)	**$614**	**$(41,943)**	**$(35,950)**	**$(47,757)**	**$(16,174)**	**$(23,686)**	**$(17,190)**	**$(1,219)**	**$21,162**	**$26,754**
Covered-Employee Payroll	$1,674,432	$1,605,364	$1,569,051	$1,542,269	$1,515,925	$1,455,623	$1,343,558	$1,221,223	$1,154,897	$1,062,660
Contributions as a Percentage of Covered-Employee Payroll	8.43%	8.51%	8.49%	8.54%	8.47%	8.86%	8.88%	7.87%	6.94%	5.09%

Note: Contributions in Relation to the Actuarially Determined Contributions include Employer contributions and State Contributions.

*Prior to 2014 the Annual Required Contribution (ARC) amounts are presented for the Actuarially Determined Contributions. The ARC changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses.

Schedule of Employer Contributions: WSPRS Plan 1/2
Dollars in Thousands

	6/30/2014	6/30/13	6/30/12	6/30/11	6/30/10	6/30/09	6/30/08	6/30/07	6/30/06	6/30/05
Actuarially Determined Contributions*	$6,677	$2,500	$2,900	$2,300	$6,600	$5,000	$6,800	$5,300	$6,100	$3,400
Contributions in Relation to the Actuarially Determined Contributions	6,587	6,478	6,454	5,251	5,271	6,371	6,064	3,278	3,133	–
Contribution Deficiency (Excess)	**$90**	**$(3,978)**	**$(3,554)**	**$(2,951)**	**$1,329**	**$(1,371)**	**$736**	**$2,022**	**$2,967**	**$3,400**
Covered-Employee Payroll	$83,282	$81,895	$81,578	$81,882	$82,764	$82,719	$78,781	$72,688	$69,515	$65,805
Contributions as a Percentage of Covered-Employee Payroll	7.91%	7.91%	7.91%	6.41%	6.37%	7.70%	7.70%	4.51%	4.51%	0.00%

Schedule of Employer Contributions and Other Contributing Entities: JRS
Dollars in Thousands

	6/30/2014	6/30/13	6/30/12	6/30/11	6/30/10	6/30/09	6/30/08	6/30/07	6/30/06	6/30/05
Actuarially Determined Contributions*	$9,205	$21,700	$22,600	$18,600	$20,400	$21,200	$26,600	$37,300	$27,700	$21,700
Contributions in Relation to the Actuarially Determined Contributions	10,600	10,112	8,131	10,906	11,649	10,305	9,712	9,650	6,716	6,150
Contribution Deficiency (Excess)	**$(1,395)**	**$11,588**	**$14,469**	**$7,694**	**$8,751**	**$10,895**	**$16,888**	**$27,650**	**$20,984**	**$15,550**
Covered-Employee Payroll	$–	$160	$407	$611	$1,053	$1,394	$1,496	$1,478	$1,534	$2,071
Contributions as a Percentage of Covered-Employee Payroll	n/a	6,320.00%	1,997.79%	1,784.94%	1,106.27%	739.24%	649.20%	652.91%	437.81%	296.96%

Note: There are no active members in JRS, contributions in relation to the Actuarially Determined Contributions are based on State Contributions.

*Prior to 2014 the Annual Required Contribution (ARC) amounts are presented for the Actuarially Determined Contributions. The ARC changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses.

Required Supplementary Information: Schedule of Employer Contributions (continued)

Schedule of Employer Contributions and Other Contributing Entities: Judges
Dollars in Thousands

	6/30/2014	6/30/13	6/30/12	6/30/11	6/30/10	6/30/09	6/30/08	6/30/07	6/30/06	6/30/05
Actuarially Determined Contributions*	$425	$400	$300	$100	$–	$–	$–	$–	$100	$100
Contributions in Relation to the Actuarially Determined Contributions		–	–	–	–	–	300	300	300	500
Contribution Deficiency (Excess)	**$425**	**$400**	**$300**	**$100**	**$–**	**$–**	**$(300)**	**$(300)**	**$(200)**	**$(400)**
Covered-Employee Payroll	$–	$–	$–	$–	$–	$–	$–	$–	$–	$–
Contributions as a Percentage of Covered-Employee Payroll	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

NOTE: Contributions in relation to the Actuarially Determined Contributions are based on State Contributions.

*Prior to 2014 the Annual Required Contribution (ARC) amounts are presented for the Actuarially Determined Contributions. The ARC changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses.

This page intentionally left blank.

Schedule of Investment Returns
Annual Money-Weighted Rates of Return Net of Investment Expense

Dollars in Thousands

	6/30/2014*
PERS Plan 1	16.98%
PERS Plan 2/3	17.06%
SERS Plan 2/3	17.08%
PSERS Plan 2	16.94%
TRS Plan 1	16.97%
TRS Plan 2/3	17.07%
LEOFF Plan 1	17.01%
LEOFF Plan 2	17.04%
WSPRS Plan 1/2	17.03%
JRS	0.16%
Judges	0.16%

*This schedule is to be built prospectively until it contains ten years of data.

Notes to Required Supplementary Information for the Year Ended June 30, 2014

Methods and assumptions used in calculations of actuarially determined contributions for PERS, SERS, TRS, LEOFF and WSPRS – The Office of the State Actuary (OSA) calculates the Actuarially Determined Contributions (ADC) based on the results of an actuarial valuation consistent with the state's funding policy defined under Chapter 41.45 RCW. Consistent with the state's contribution rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2013 valuation date, completed in the Fall of 2014, determines the ADC for the period beginning July 1, 2015 and ending June 30, 2017.

Methods and assumptions used in calculations of actuarially determined contributions for JRS and JRF – The Office of the State Actuary (OSA) calculates the Actuarially Determined Contributions (ADC) based on the results of an actuarial valuation, and sets it equal to the expected benefit payments from the plan. Consistent with the state's funding policy defined under Chapters 2.10.90 and 2.12.60 RCW, the legislature makes biennial appropriations in order to ensure the fund is solvent to make the necessary benefit payments.

Additional plan specific actuarial method and assumption information is located in Note 2 section B of the Financial Section

Schedule of Administrative Expenses

For the Year Ended June 30, 2014 with comparative totals for June 30, 2013 — Expressed in Thousands

	Retirement Pension Trust Funds	Deferred Compensation Pension Trust Fund	Totals June 30, 2014	Totals June 30, 2013
Current Personnel				
Salaries and Wages	$ 12,053	$ 968	$ 13,021	$ 12,452
Employee Benefits	4,099	342	4,441	4,128
Personal Service Contracts	1,516	12	1,528	1,540
Total Personnel Expenses	**17,668**	**1,322**	**18,990**	**18,120**
Goods and Services				
Actuary Services	1,727	–	1,727	1,604
Archives and Records Management	41	3	44	42
Attorney General Services	160	18	178	89
Audit Services	64	7	71	65
Bad Debts Expense	37	–	37	537
Collections	40	–	40	39
Communications	530	22	552	511
Data Processing Services	1,920	30	1,950	1,993
Employee Professional Development and Training	165	2	167	185
Facilities and Services	356	16	372	366
Insurance	10	1	11	5
Legal Fees	1,690	–	1,690	1,990
LEOFF 2 Board Governance	995	–	995	930
Medical Consultant Services	15	–	15	20
Other Contractual Services	647	14	661	686
Other Goods and Services	20	1	21	9
OWMBE Services	–	–	–	1
Pension Funding Council Services	–	–	–	115
Personnel Services	28	2	30	46
Printing and Reproduction	232	9	241	212
Rental and Leases	1,459	102	1,561	1,537
Repairs and Alterations	141	6	147	198
Subscriptions	29	–	29	28
Supplies and Materials	65	3	68	65
Utilities	126	9	135	125
Vehicle Maintenance	–	–	–	9
Total Goods and Services	**10,497**	**245**	**10,742**	**11,407**
Miscellaneous Expenses				
Grants, Benefits and Client Services	–	–	–	33
Noncapitalized Equipment	676	42	718	1,165
Travel	71	36	107	111
Total Miscellaneous Expenses	**747**	**78**	**825**	**1,309**
Total Current Expenses	**28,912**	**1,645**	**30,557**	**30,836**
Capital Outlays				
Furnishings, Equipment and Software	112	7	119	72
Improvements Other than Buildings	–	–	–	–
Total Capital Outlays	**112**	**7**	**119**	**72**
Depreciation and Loss– Capital Assets	133	–	133	168
Total Administrative Expenses	**$ 29,157**	**$ 1,652**	**$ 30,809**	**$ 31,076**

Schedule of Investment Expenses: Pension Trust Funds
For the Year Ended June 30, 2014 – Expressed in Thousands

	Fees Paid	Netted Fees*	Total Fees and Expenses
Equity Securities			
Public Equity - Emerging Markets	$ 12,107	$ 4,720	$ 16,827
Active Equity - Global	33,018	–	33,018
Passive Equity - Global	1,492	–	1,492
Alternative Investments			
Private Equity	193,937	7,576	201,513
Real Estate	19,822	13,789	33,611
Tangible Assets	22,025	–	22,025
Cash Management	2,369	–	2,369
Debt Securities	–	–	–
Securities Lending Expenses	3,656	–	3,656
Other Fees			
Consultants and Accounting	1,844	–	1,844
Legal Fees	1,335	–	1,335
Research Services	1,837	–	1,837
Miscellaneous Fees	111	–	111
DCP Management Fees	5,009	–	5,009
JRA Management Fees	18	–	18
PERS Plan 3 Management Fees	1,002	–	1,002
SERS Plan 3 Management Fees	443	–	443
TRS Plan 3 Management Fees	2,818	–	2,818
WSIB Operating Costs	12,367	–	12,367
Total Investment Expenses	**$ 315,210**	**$ 26,085**	**$ 341,295**

*Netted fees are included in unrealized gains (losses) in the accompanying financial statements.

Supporting Schedules (continued)

Schedule of Payments to Consultants
For the Year Ended June 30, 2014 – Expressed in Thousands

	Commission/Fee
Computer/Technology	
Aetea Information Technology, Inc.	$ 163
Fuze Digital Solutions, LLC	59
Martin Analysis and Programming, Inc.	253
Milestone Technology	1
Total Computer/Technology	**476**
Legal	
Buell Realtime Reporting, LLC	2
Calfo Harrigan Leyh & Eakes, LLP	170
Freimund Jackson Tardif & Benedict Garratt, PLLC	239
Gallitano & O'Connor, LLP	53
Ice Miller, LLP	50
Total Legal	**514**
Management	
CEM Benchmarking, Inc.	40
Charles W. Cammack Associates, Inc.	24
CliftonLarsonAllen, LLP	69
Kelly Services, Inc.	70
Mass Ingenuity, LLC	128
Solutions@Work	3
The Caughlin Group	14
Total Management	**348**
Recordkeeping	
ICMA Retirement Corporation	1,263
Total Recordkeeping	**1,263**
Total Payments to Consultants	**$ 2,601**

For fees paid to investment professionals, refer to the investment section of this report.