



Summary Annual Financial Report



Funds of the State of Washington for the Year Ended June 30, 2015

This publication is a summary of the DRS *Comprehensive Annual Financial Report*. For the complete report, including sources for the numbers and data contained here, see the *Annual Financial Reports* on the DRS website.

Fiscal year 2015 is from July 1, 2014, through June 30, 2015.

Director's Message

What gets measured gets managed

This past year has seen a continued focus on operational excellence at the Department of Retirement Systems (DRS). As always, our value system is driven by high levels of customer satisfaction supported by high levels of team member engagement.



To that end, we firmly believe in the adage “what gets measured gets managed.” At the center of this belief is our performance management system, which establishes a clear connection between the core work of the agency and how that work measures up with outcome targets. This connection is the key to accountability and engagement.

DRS has made a significant investment in engaging team members in problem solving and process improvement, including the development of a common language and a new tool set to encourage, identify and implement ideas that reduce waste and enhance services to better serve our customers. By the end of this year, we will have expanded to 35 the number of team members trained and certified as Lean/Six Sigma Green Belts, plus another five at the higher Black Belt level.

Team members are encouraged to submit ideas for improvement through a variety of channels, including the online platform IdeaScale. They can see how their suggestions are evaluated through a “priority quadrant” measurement that gives precedence to ideas that offer high customer value and low implementation cost. By generating a single, prioritized list of work items, the priority quadrant reduces waste and speeds up implementation.

Because leadership behaviors determine the culture of an organization, we have continued to strengthen the development of DRS leaders at all levels, ensuring they are equipped to support and engage team members through coaching and mentoring. This past year saw more training on facilitative leadership, focusing on further development of problem-solving skills for people who work closest with our customers and processes. As we measure team member satisfaction through one-to-one interviews, we’ve seen significant improvement in how team members rate DRS on the criterion of “supportive and engaged leadership.”

At DRS, we all take pride in meeting and exceeding customer expectations. Each month, team leaders and Green and Black Belts each conduct at least one direct interview with a customer who retired in the previous month. Interview responses are scored on the criteria of “respectful, responsive and right” (the Three R’s), and the results are analyzed for possible process improvements, team member recognition and strategic opportunities.

Since these interviews produce actionable data, team members are able to take direct input and improve specific processes immediately. For instance, the DRS online retirement application was updated in several ways to ensure customers receive timely notifications on the status of their applications.

Two years into doing customer satisfaction interviews, DRS has maintained a 90 percent satisfaction rating based on the Three R’s of customer expectations. We highly value the trust and confidence our customers place in us. There’s always room for improvement, and we look forward to continuing our journey of performance excellence in the coming year. It’s how we provide the best possible service to Washington’s public employees.

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

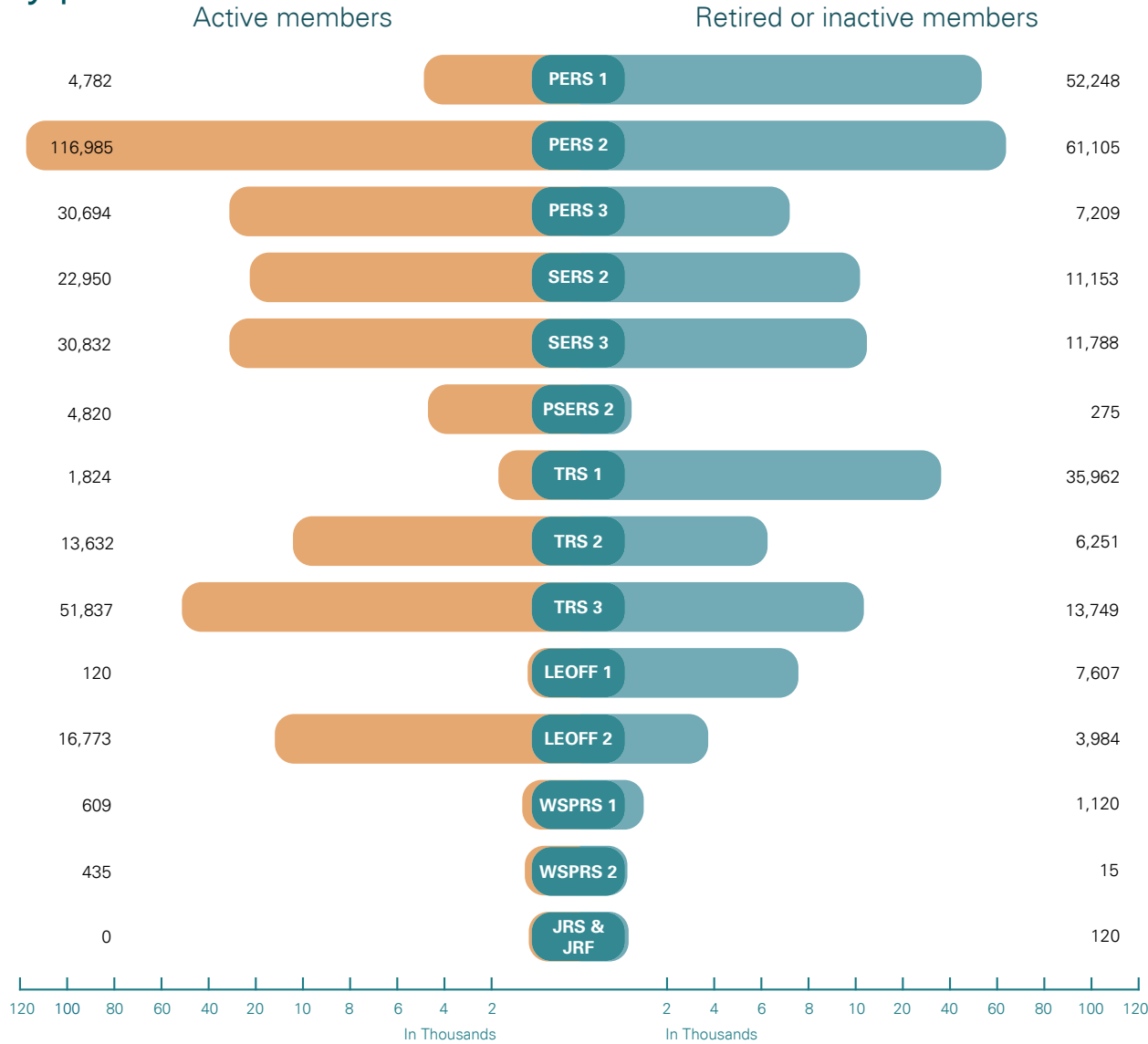
Sincerely,

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

Marcie Frost
Director

Membership

By plan



Total



- 8** Number of pension systems the Washington Department of Retirement Systems (DRS) manages
- 15** Number of plans DRS manages in addition to the Deferred Compensation Program (DCP)
- Over 500,000** Number of active, retired or inactive public service employees (state and local governments, school districts, police and fire departments, and judicial agencies)
- 58%** Percentage of members currently employed and contributing to their retirement

Investment Summary



The Washington State Investment Board (WSIB) manages retirement fund assets to maximize investment returns at a prudent level of risk. Most of these retirement funds are invested in the **Commingled Trust Fund (CTF)**.

\$2.4 billion The CTF increase in value during fiscal year 2015

\$80.5 billion The total value of DRS funds invested in the CTF as of June 30, 2015

4.9% The CTF percentage return for the fiscal year

Commingled Trust Fund Returns* (by asset class on a total fund basis)

	1-Year	3-Year	5-Year
Total Fund	4.93%	11.34%	11.13%
Fixed Income	0.30%	2.32%	3.97%
Tangible	3.63%	2.25%	3.08%
Real Estate	14.29%	15.03%	13.58%
Public Equity	1.37%	14.05%	12.85%
Private Equity	11.24%	14.88%	14.69%
Innovation	(10.38)%	17.58%	13.25%
Cash	0.10%	0.13%	0.14%

Current Asset Allocation and Long-Term Target Allocations*

Asset Type	Target Allocation	Actual Allocation
Fixed Income	20.00%	23.76%
Tangible Assets	5.00%	1.95%
Real Estate	15.00%	14.45%
Public Equity	37.00%	37.27%
Private Equity	23.00%	22.04%
Innovation	0.00%	0.32%
Cash	0.00%	0.21%

10 Largest Public Equity Holdings*

Apple Inc.	1.36%
Microsoft Corp.	0.84%
Wells Fargo & Co.	0.73%
ExxonMobil Corp.	0.72%
Nestle SA	0.65%
Oracle Corp.	0.63%
Novartis AG	0.60%
Google Inc.	0.58%
Sanofi	0.57%
Intel Corp.	0.55%

*As of June 30, 2015



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



The WSIB sets a specific long-term asset mix and adopts tight ranges around those targets to control the overall risk and return of the Commingled Trust Fund.



Each day, the WSIB compares the asset allocation to the established ranges and shifts assets whenever it exceeds the approved range or when cash is needed elsewhere. Every three to four years, the WSIB reviews changes to the overall asset mix.



Additions to Fiduciary Net Position

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

Total Additions to the Fiduciary Net Position (expressed in millions)

	Fiscal Year 2015	Fiscal Year 2014
Retirement Contributions	\$2,826.5	\$2,695.9
Deferred Compensation Participant Contributions	208.4	190.5
Net Investment Income	3,727.4	13,623.6
Charges for Services	34.4	32.3
Other Additions	4.8	5.2
Total	\$6,801.5	\$16,547.5



296,293 active members contributed \$2,826.5 million in fiscal year 2015.



Deductions to Fiduciary Net Position

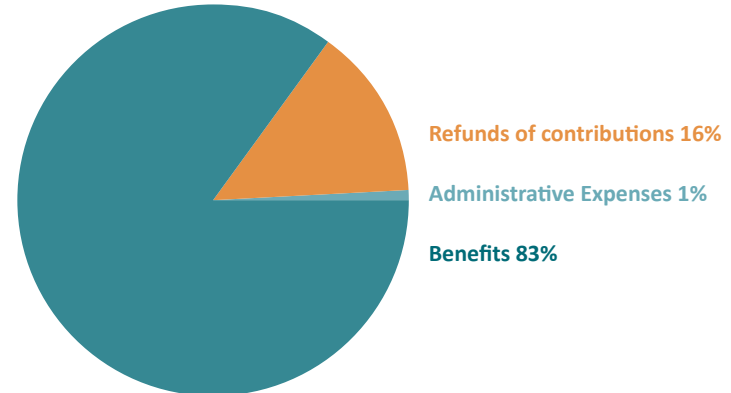
The retirement system primary fund deductions (excluding transfers) include the payment of benefits to retirees and beneficiaries, the refund of contributions to former members, and the cost of administering the retirement systems.

\$3,651.7 million Total number of benefits paid to members in fiscal year 2015 (including pension and annuity benefits)

\$731.7 million Refunds paid to former members in fiscal year 2015

\$31.7 million Administrative expenses, including pension expenses incurred by DRS and the Offices of the State Actuary and Attorney General

Expenses for the management of trust funds are incurred by the Washington State Investment Board and are funded from earnings on investments.



Financial Information (cont.)

Condensed Statement of Fiduciary Net Position

Pension trust and other employee benefit trust funds by plan as of June 30, 2015 (expressed in thousands)

PERS, SERS, PSERS and TRS

Assets	PERS	PERS	PERS	SERS	SERS	PSERS	TRS	TRS	TRS
	Plan 1	Plan 2/3	Plan 3 Defined Contribution	Plan 2/3	Plan 3 Defined Contribution	Plan 2	Plan 1	Plan 2/3	Plan 3 Defined Contribution
Cash and Pooled Investments	\$3,266	\$6,149	\$215	\$2,812	\$788	\$276	\$2,894	\$4,802	\$3,510
Total Receivables	246,075	946,802	47,741	137,980	42,613	13,051	190,638	352,187	155,105
Capital Assets, Net of Depreciation	44	51	-	9	-	-	38	28	-
Total Investments, Noncurrent	7,649,869	29,812,072	2,434,152	4,099,999	1,701,968	354,450	6,144,612	10,464,574	7,264,413
Other Assets	283	328	-	59	-	4	243	180	-
Total Assets	7,899,537	30,765,402	2,482,108	4,240,859	1,745,369	367,781	6,338,425	10,821,771	7,423,028
Total Liabilities	338,459	1,250,241	63,919	173,004	56,897	14,986	266,459	442,980	191,850
Total Fiduciary Net Position	\$7,561,078	\$29,515,161	\$2,418,189	\$4,067,855	\$1,688,472	\$352,795	\$6,071,966	\$10,378,791	\$7,231,178

LEOFF, WSPRS, JRS, JRF, JRA, DCP and Annual Totals

Assets	LEOFF	LEOFF	WSPRS	JRS	JRF	JRA	Deferred	Total	Total
	Plan 1	Plan 2	Plan 1/2			Defined Contribution	Compensation	June 30, 2015	June 30, 2014
Cash and Pooled Investments	\$2,089	\$1,854	\$866	\$6,363	\$517	\$9	\$4,369	\$40,779	\$59,332
Total Receivables	166,953	306,200	33,405	4	1	2	2,570	2,641,327	1,780,331
Capital Assets, Net of Depreciation	21	16	3	-	-	-	-	210	279
Total Investments, Noncurrent	5,677,270	9,936,050	1,123,132	182	14	12,234	3,609,230	90,284,221	88,208,531
Other Assets	138	100	18	-	-	-	-	1,353	1,413
Total Assets	5,846,471	10,244,220	1,157,424	6,549	532	12,245	3,616,169	92,967,890	90,049,886
Total Liabilities	234,971	410,571	46,625	213	16	-	2,246	3,493,437	2,957,080
Total Fiduciary Net Position	\$5,611,500	\$9,833,649	\$1,110,799	\$6,336	\$516	\$12,245	\$3,613,923	\$89,474,453	\$87,092,806

For a detailed breakdown of this table, see page 20 of the 2015 *Comprehensive Annual Financial Report*.

Summary of Plan Provisions

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

Plan 3 (PERS, SERS and TRS) is a defined benefit plan with a defined contribution component. Employers fund the defined benefit. Employees fund the defined contribution. Handbooks for each system and plan are available on the DRS website.

Pension System Roles and Responsibilities

Organization and Contact Information	Responsibility
<p>Office of Financial Management ☑ PO Box 43113 • Olympia, WA 98504-3113 ☎ 360.902.0555</p>	<p>Advises the governor on pension and funding policies and issues</p>
<p>Office of the State Actuary ☑ PO Box 40914 • Olympia, WA 98504-0914 ☎ 360.786.6140</p>	<p>Acts as an advisory agency to the Legislature and to the director of DRS</p> <p>Performs actuarial studies and reports on retirement bills</p> <p>Creates factors used to compute benefit payment adjustments that are based on early retirement, cost-of-living or long-term survivor benefits</p>
<p>Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board ☑ PO Box 40918 • Olympia, WA 98504-0918 ☎ 360.586.2320</p>	<p>Policy-making board that studies pension issues, acts as fiduciary of LEOFF Plan 2, sets contribution rates and recommends pension policy to the Legislature for LEOFF Plan 2 members</p>
<p>Select Committee on Pension Policy Contact through the Office of the State Actuary</p>	<p>Studies pension issues and retirement finances. Develops pension policies and recommends pension legislation</p>
<p>Pension Funding Council Contact through DRS</p>	<p>Adopts economic assumptions for pension funding and member and employer pension contribution rates for LEOFF Plan 1, PERS, PSERS, SERS, TRS and WSPRS</p>
<p>DRS Advisory Committee Contact through DRS</p>	<p>Serves in an advisory role to the director of DRS</p>
<p>Legislative Fiscal Committees House Appropriations Committee ☑ PO Box 40600 • Olympia, WA 98504-0600 Senate Ways and Means Committee ☑ PO Box 40482 • Olympia, WA 98504-0482 ☎ 360.786.7155 or 800.562.6000</p>	<p>Reviews and reports on retirement bills to the full Legislature</p>



For a detailed view of DRS finances, visit the *Annual Financial Reports* section on the DRS website.



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