

Financial Section




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INDEPENDENT AUDITORS' REPORT

Mr. Steve Hill, Director
 Washington State Department of Retirement Systems
 Olympia, Washington

We have audited the accompanying financial statements (including the individual fund financial statements) of the Washington State Department of Retirement Systems as of and for the year ended June 30, 2011. The Department of Retirement Systems is a part of the State of Washington's primary government. These financial statements are the responsibility of the Department of Retirement Systems' management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Washington State Department of Retirement Systems' June 30, 2010, financial statements and in our report dated November 1, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of the Washington State Department of Retirement Systems as of June 30, 2011, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the financial statements present fairly, in all material respects, the financial position of each of the individual funds of the Washington State Department of Retirement Systems as of June 30, 2011, and the results of operations of such funds for the year then ended in conformity with accounting principles generally accepted in the United States.

The accompanying management discussion and analysis and required supplementary information listed in the accompanying table of contents is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supporting schedules (administrative expenses, investments expenses – pension trust funds, and payments to consultants) as listed in the accompanying table of contents are presented for the purposes of additional analysis and are not a required part of the financial statements of the Washington State Department of Retirement Systems. Such information has been subject to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The introductory, actuarial, investment, and statistical sections of this report are not required parts of the financial statements, and we did not audit or apply limited procedures to such information and do not express any assurance on such information.

October 28, 2011

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Management's Discussion and Analysis

This discussion and analysis of the Washington State Department of Retirement Systems' (DRS) financial performance provides an overview of financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the Letter of Transmittal beginning on page 10 and DRS' financial statements, which begin on page 28 of this report.

DRS' overall financial position improved during the year ended June 30, 2011.

FINANCIAL HIGHLIGHTS

The following financial highlights occurred during the fiscal year ended June 30, 2011:

- The combined plan net assets of all the pension funds administered by DRS increased \$10,681.7 million during Fiscal Year 2011.
- The covered payroll requiring both employee and employer pension contributions reported during the year totaled \$16,688.9 million, representing an increase of 0.04%.
- Employer contributions totaled \$901.9 million and member contributions (including restorations) totaled \$959.1 million, representing a decrease of 2% and an increase of 2%, respectively, from 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 \$5,273.9 million to \$11,913.4 million in Fiscal Year 2011.
- Pension benefits paid to retirees and beneficiaries increased \$182.3 million bringing the total benefit payments to \$2,926.4 million. Refunds of contributions

paid to former retirement system members increased 39% from \$310.8 million to \$431 million.

- Administrative expenses totaled \$28.6 million and represented a 3% decrease from last fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to DRS' financial statements, which consist 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, presented for the fiduciary funds, are fund financial statements and include a Statement of Plan Net Assets and a Statement of Changes in Plan Net Assets. The fiduciary funds include defined benefit and defined contribution pension trust funds and the deferred compensation program trust fund. The Statement of Plan Net Assets presented on pages 28-31 reports the assets, liabilities and resulting net assets available for pension and other benefits as of June 30, 2011. The Statement of Changes in Plan Net Assets presented on pages 32-35 reports the additions to, deductions from, and resulting net change in net assets for the fiscal year ended June 30, 2011.

Notes to the Financial Statements

The notes to the financial statements presented on pages 36-79 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 including the reporting entity, measurement focus, basis of

accounting, investments, reserves, capital assets, leases, long-term liabilities, transfers, financial statement formatting, accounting and reporting changes and contingencies. Note 2 provides a general description of DRS, plan descriptions and funding policy. Section D of this note also provides current year funded status and funding progress information as well as a summary of the actuarial and economic methods and significant assumptions used.

Required Supplementary Information

Because of 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 two historical trend schedules. The Schedules of Funding Progress presented on pages 80-83 include historical trend information about the actuarially funded status of each plan from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay benefits when due. The Schedule of Contributions from Employers and Other Contributing Entities presented on page 84 includes historical trend information about the annual required contributions of employers and the contributions made by employers in relation to this requirement. These schedules provide information that contributes to understanding the changes over time in the funded status of the plans.

Supporting Schedules and Other Financial Information

These schedules are presented on pages 85-87 and provide additional detailed information useful in evaluating the condition of the plans administered by DRS. These schedules include information on administrative expenses, investment expenses, payments to consultants and other additional information.

FINANCIAL ANALYSIS OF DRS FUNDS

Analysis of Net Assets – Fiduciary Funds (dollars in millions)

	Fiscal Year 2011	Fiscal Year 2010	Increase (Decrease) Amount	Increase (Decrease) Percentage
Net Assets				
Assets				
Cash and Pooled Investments	\$ 34.4	\$ 32.7	\$ 1.7	5%
Receivables	1,870.9	2,081.4	(210.5)	(10)%
Capital Assets, Net of Depreciation	0.4	0.5	(0.1)	(20)%
Investments, Noncurrent	71,067.4	61,280.2	9,787.2	16%
Other Assets	1.3	1.4	(0.1)	(7)%
Total Assets	<u>72,974.4</u>	<u>63,396.2</u>	<u>9,578.2</u>	<u>15%</u>
Liabilities				
Obligations Under Security Selling and Lending Agreements	2,712.5	3,659.0	(946.5)	(26)%
Other Short-Term Liabilities	1,948.8	2,105.7	(156.9)	(7)%
Long-Term Obligations	1.3	1.4	(0.1)	(7)%
Total Liabilities	<u>4,662.6</u>	<u>5,766.1</u>	<u>(1,103.5)</u>	<u>(19)%</u>
Total Net Assets	<u>\$68,311.8</u>	<u>\$57,630.1</u>	<u>\$10,681.7</u>	<u>19%</u>

Net trust assets increased by \$10,681.7 million in Fiscal Year 2011 and totaled \$68,311.8 million as of June 30, 2011. The increase was largely the result of investment portfolio realized and unrealized gains that totaled \$9,598.1 million and were the result of positive returns in all investment assets classes.

Total trust fund assets as of June 30, 2011 were \$72,974.4 million, representing an increase of \$9,578.2 million, or 15%, over the previous fiscal year. This increase was primarily due to increases in investments.

- Total investments increased by \$9,787.2 million, or 16%, and reflected unrealized gains in the equities category due to equity market appreciation, improved returns and reinvestment of income within the portfolio; and positive returns in all capital markets in the alternative investments portfolio.

- Receivables decreased \$210.5 million, or 10%, to \$1,870.9 million. This decrease was caused in part by international managers having fewer open trades at June 30, 2011 compared to the prior year.

Total trust fund liabilities as of June 30, 2011 were \$4,662.6 million, representing a decrease of \$1,103.5 million, or 19%, from the previous year. This decrease was largely due to fewer obligations under securities lending agreements and to short-term liabilities which were investment-related, as described below:

- Obligations under securities lending/selling agreements decreased \$946.5 million, or 26%, to \$2,712.5 million. Market conditions warranted a reduction in the cash collateral portfolio and loan balances were reduced accordingly. During Fiscal Year 2011, the plans incurred no losses resulting from a default by either the borrowers or the securities lending agents.
- Other short term liabilities decreased \$156.9 million, or 7%, over the previous year reflecting the fact that international managers had fewer open trades at June 30, 2011 compared to the prior year.

Analysis of Changes In Net Assets – Fiduciary Funds (dollars in millions)

Changes in Net Assets	Fiscal Year 2011	Fiscal Year 2010	Increase (Decrease) Amount	Increase (Decrease) Percentage
Additions				
Employer Contributions	\$ 901.9	\$ 919.0	\$ (17.1)	(2)%
Member Contributions	959.1	941.6	17.5	2%
State Contributions	62.9	63.0	(0.1)	0%
Participant Contributions	186.7	185.1	1.6	1%
Net Income (Loss) from Investment Activities	11,913.4	6,639.5	5,273.9	79%
Net Income (Loss) from Investment Selling and Lending Activities	15.7	13.9	1.8	13%
Charges for Services	28.0	28.1	(0.1)	0%
Transfers from Other Pension Plans	11.5	19.9	(8.4)	(42)%
Other Additions	1.5	1.6	(0.1)	(6)%
Total Additions	<u>14,080.7</u>	<u>8,811.7</u>	<u>5,269.0</u>	60%
Deductions				
Benefits	2,926.4	2,744.1	182.3	7%
Refunds of Contributions	431.0	310.8	120.2	39%
Transfers to Other Pension Plans	11.5	19.9	(8.4)	(42)%
Transfers to Other Funds	1.5	1.0	0.5	50%
Administrative Expenses	28.6	29.4	(0.8)	(3)%
Total Deductions	<u>3,399.0</u>	<u>3,105.2</u>	<u>293.8</u>	9%
Increase/(Decrease) in Net Assets	<u>10,681.7</u>	<u>5,706.5</u>	<u>4,975.2</u>	87%
Net Assets—Beginning of Year	<u>57,630.1</u>	<u>51,923.6</u>	<u>5,706.5</u>	11%
Net Assets—End of Year	<u>\$68,311.8</u>	<u>\$57,630.1</u>	<u>\$10,681.7</u>	19%

Additions to the retirement trust funds primarily consist of contributions from employers, active system members and 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 2011 amounted to \$14,069.2 million, an increase of \$5,277.4 million from Fiscal Year 2010. This increase was primarily due to the increase in net income from investment activities, which yielded an annual 21.1% return for the Retirement Funds. Specifically, this increase was the result of realized and unrealized gains due to the positive investment returns in all investment classes, as evidenced by the significant returns of 7.5% in the fixed income portfolio, 31% in the public equity portfolio, and of 24.3% in the private equity portfolio. Real estate and tangible assets returned 14.4% and 6.6% respectively.

Net income from investment selling and lending activities increased 13% to \$15.7 million in Fiscal Year 2011. WSIB and the Office of the State Treasurer decided to limit their exposure in this market during Fiscal Year 2010 due to the inability to recall these loaned securities in a timely fashion to settle the trades, which resulted in lower income last fiscal year.

Employer contributions decreased \$17.1 million, or 2%, and totaled \$901.9 million for the Fiscal Year ended June 30, 2011. This decrease was the result of contribution rate changes and a modest increase in covered payroll. Total covered payroll increased from \$16,681.8 million in the previous year to \$16,688.9 million in Fiscal Year 2011.

Member contributions include both regular contributions and the restoration contributions of those members that have returned to public employment after having previously withdrawn their plan contributions. While total contributions increased 2% from the previous year and totaled \$959.1 million for Fiscal Year 2011, regular member contributions actually remained steady at \$914.4 million and restoration contributions increased \$17.4 million (64%).

State contributions decreased slightly, from \$63 million last year to \$62.9 million in Fiscal Year 2011 and reflected the slightly lower allocation out of the State General Fund for the Judicial Retirement System (JRS).

Participant contributions to the Deferred Compensation Program (DCP) increased a slight 1% to \$1.6 million over the prior year. The weakened economic conditions, combined with the voluntary nature of this program's participation, which allows participants the option to stop or lower their contributions, were the likely causes of this modest growth. As of June 30, 2011, the number of active and contributing DCP participants was 32,762 and represented a decrease of 455 (1.3 %) from last year.

Transfers from and to other pension plans decreased a substantial \$8.4 million (42%) to \$11.5 million in Fiscal Year 2011. Fiscal Year 2010 transfers had been unusually high due to the passage of SB5303 (Chapter 209, Laws of 2009) which allowed SERS Plan 2 members who had previously had service credit automatically transferred out of PERS Plan 2 into SERS Plan 2 after September 1, 2000, to reverse their automatic transfers back into PERS Plan 2.

Other additions remained stable and decreased only by \$0.1 million to \$1.5 million in Fiscal Year 2011.

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

Total trust fund deductions (excluding plan transfers) for Fiscal Year 2011 were \$3,387.5 million, an increase of \$302.2 million or 10% over Fiscal Year 2010. This was primarily due to an increase in benefits paid to retirees and beneficiaries. Benefit payments increased \$182.3 million or 7% 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 2011 were \$431 million, representing \$120.2 million increase from the previous year.

Transfers to other funds increased \$.5 million to \$1.5 million in Fiscal Year 2011 and represented an operating budget transfer into the State General Fund.

CAPITAL ASSETS

DRS' investment in capital assets for its fiduciary activities includes furnishings, equipment and improvements other than buildings. As of June 30, 2011, total investment was \$2.6 million, with accumulated depreciation of \$2.2 million, leaving a net book value of \$0.4 million. This amount represents a slight decrease in book value from the previous year, resulting from the disposal of equipment. Additional information on DRS' capital assets can be found in section J of Note 1 to the financial statements.

OTHER LONG-TERM OBLIGATIONS

At year-end, DRS had \$1.3 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 section L of 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, P. O. Box 48380, Olympia, WA 98504-8380.

Statement of Plan Net Assets
Pension and Other Employee Benefit Trust Funds by Plan
As of June 30, 2011 and 2010 (page 1 of 4)
(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	\$ 3,111	\$ 4,119	\$ 207	\$ 3,054	\$ 1,097
Receivables					
Due from Other Governments	3,783	36,611	4,409	6,822	5,141
Member Account Receivable (Net of Allowance)	662	169	-	5	-
Interest and Dividends	24,219	59,301	2,863	8,092	2,760
Investment Trades Pending Receivable – Short Term	205,812	504,280	24,345	68,802	23,470
Due from Pension Funds	510	239	316	321	1
Due from Other Washington State Agencies	2	2	-	1	-
Other Receivables – Short Term	-	-	-	-	-
Total Receivables	<u>234,988</u>	<u>600,602</u>	<u>31,933</u>	<u>84,043</u>	<u>31,372</u>
Capital Assets, Net of Depreciation	<u>104</u>	<u>73</u>	<u>-</u>	<u>3</u>	<u>-</u>
Investments, Noncurrent					
Equity in the Commingled Trust Fund	7,956,380	19,494,733	941,155	2,659,805	907,316
Money Market Investments	245,200	620,302	34,906	84,269	32,135
Other Noncurrent Investments	-	-	714,333	-	329,678
Collateral Held Under Securities Lending Agreements	357,169	875,135	42,249	119,401	40,730
Total Investments, Noncurrent	<u>8,558,749</u>	<u>20,990,170</u>	<u>1,732,643</u>	<u>2,863,475</u>	<u>1,309,859</u>
Other Assets	<u>372</u>	<u>262</u>	<u>-</u>	<u>12</u>	<u>-</u>
TOTAL ASSETS	<u>8,797,324</u>	<u>21,595,226</u>	<u>1,764,783</u>	<u>2,950,587</u>	<u>1,342,328</u>
LIABILITIES					
Obligations Under Security Lending Agreements	357,169	875,135	42,249	119,401	40,730
Accounts Payable	1,400	2,512	3,489	354	3,397
Investment Trades Pending Payable – Short Term	251,023	615,056	29,693	83,916	28,626
Due to Other Governments	6,295	1,649	-	313	-
Due to Pension Funds	207	1,054	-	106	133
Due to Other Washington State Agencies	98	101	-	7	-
Other Short-Term Liabilities	165	456	-	5	-
Other Long-Term Obligations	372	262	-	12	-
Accrued Salaries	5	4	-	-	-
Deferred Revenue	109	361	-	17	-
TOTAL LIABILITIES	<u>616,843</u>	<u>1,496,590</u>	<u>75,431</u>	<u>204,131</u>	<u>72,886</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 8,180,481</u>	<u>\$ 20,098,636</u>	<u>\$ 1,689,352</u>	<u>\$ 2,746,456</u>	<u>\$ 1,269,442</u>

The accompanying notes are an integral part of this statement.

Statement of Plan Net Assets
Pension and Other Employee Benefit Trust Funds by Plan
As of June 30, 2011 and 2010 (page 2 of 4)
(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	\$ 343	\$ 3,041	\$ 4,384	\$ 4,496	\$ 1,451
Receivables					
Due from Other Governments	1,860	2,777	18,385	22,112	1
Member Account Receivable (Net of Allowance)	–	404	7	–	75
Interest and Dividends	410	20,436	20,145	8,886	15,343
Investment Trades Pending Receivable – Short Term	3,481	173,673	171,294	75,553	130,428
Due from Pension Funds	11	294	1,429	1	160
Due from Other Washington State Agencies	–	4	2	–	1
Other Receivables – Short Term	–	–	–	–	–
Total Receivables	<u>5,762</u>	<u>197,588</u>	<u>211,262</u>	<u>106,552</u>	<u>146,008</u>
Capital Assets, Net of Depreciation	–	90	27	–	49
Investments, Noncurrent					
Equity in the Commingled Trust Fund	134,551	6,713,925	6,621,983	2,920,763	5,042,158
Money Market Investments	6,722	209,545	213,131	104,786	156,537
Other Noncurrent Investments	–	–	–	1,991,989	–
Collateral Held Under Securities Lending Agreements	6,040	301,394	297,266	131,115	226,347
Total Investments, Noncurrent	<u>147,313</u>	<u>7,224,864</u>	<u>7,132,380</u>	<u>5,148,653</u>	<u>5,425,042</u>
Other Assets	–	323	96	–	176
TOTAL ASSETS	<u>153,418</u>	<u>7,425,906</u>	<u>7,348,149</u>	<u>5,259,701</u>	<u>5,572,726</u>
LIABILITIES					
Obligations Under Security Lending Agreements	6,040	301,394	297,266	131,115	226,347
Accounts Payable	17	958	988	3,332	1,042
Investment Trades Pending Payable – Short Term	4,245	211,824	208,923	92,150	159,079
Due to Other Governments	–	6,090	479	–	1
Due to Pension Funds	41	638	300	732	2
Due to Other Washington State Agencies	1	78	30	–	47
Other Short-Term Liabilities	–	143	43	–	78
Other Long-Term Obligations	–	323	96	–	176
Accrued Salaries	–	1	–	–	1
Deferred Revenue	–	140	121	–	–
TOTAL LIABILITIES	<u>10,344</u>	<u>521,589</u>	<u>508,246</u>	<u>227,329</u>	<u>386,773</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 143,074</u>	<u>\$ 6,904,317</u>	<u>\$ 6,839,903</u>	<u>\$ 5,032,372</u>	<u>\$ 5,185,953</u>

The accompanying notes are an integral part of this statement.

Statement of Plan Net Assets
Pension and Other Employee Benefit Trust Funds by Plan
As of June 30, 2011 and 2010 (page 3 of 4)
(expressed in thousands)

	Pension Trust			
	LEOFF Plan 2	WSPRS Plan 1/2	JRS	Judges
ASSETS				
Cash and Pooled Investments	\$ 1,111	\$ 590	\$ 215	\$ 2,336
Receivables				
Due from Other Governments	15,524	407	3	-
Member Account Receivable (Net of Allowance)	51	5	-	-
Interest and Dividends	18,744	2,644	2	1
Investment Trades Pending Receivable – Short Term	159,388	22,479	-	-
Due from Pension Funds	40	19	-	-
Due from Other Washington State Agencies	1	1	-	1
Other Receivables - Short Term	-	-	-	-
Total Receivables	<u>193,748</u>	<u>25,555</u>	<u>5</u>	<u>2</u>
Capital Assets, Net of Depreciation	<u>12</u>	<u>6</u>	<u>-</u>	<u>-</u>
Investments, Noncurrent				
Equity in the Commingled Trust Fund	6,161,698	869,005	-	-
Money Market Investments	205,126	27,517	4,874	-
Other Noncurrent Investments	-	-	-	-
Collateral Held Under Securities Lending Agreements	276,604	39,011	-	-
Total Investments, Noncurrent	<u>6,643,428</u>	<u>935,533</u>	<u>4,874</u>	<u>-</u>
Other Assets	<u>44</u>	<u>21</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>6,838,343</u>	<u>961,705</u>	<u>5,094</u>	<u>2,338</u>
LIABILITIES				
Obligations Under Security Lending Agreements	276,604	39,011	-	-
Accounts Payable	884	121	2	-
Investment Trades Pending Payable – Short Term	194,401	27,417	-	-
Due to Other Governments	12	213	31	2
Due to Pension Funds	122	6	-	-
Due to Other Washington State Agencies	26	8	-	1
Other Short-Term Liabilities	19	9	-	-
Other Long-Term Obligations	44	21	-	-
Accrued Salaries	3	-	-	-
Deferred Revenue	145	-	-	-
TOTAL LIABILITIES	<u>472,260</u>	<u>66,806</u>	<u>33</u>	<u>3</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 6,366,083</u>	<u>\$ 894,899</u>	<u>\$ 5,061</u>	<u>\$ 2,335</u>

The accompanying notes are an integral part of this statement.

Statement of Plan Net Assets
Pension and Other Employee Benefit Trust Funds by Plan
As of June 30, 2011 and 2010 (page 4 of 4)
(expressed in thousands)

	Pension Trust		Totals	
	JRA Defined Contribution	Deferred Compensation	June 30, 2011	June 30, 2010
ASSETS				
Cash and Pooled Investments	\$ 8	\$ 4,863	\$ 34,426	\$ 32,759
Receivables				
Due from Other Governments	–	–	117,835	111,751
Member Account Receivable (Net of Allowance)	3	1,303	2,684	2,642
Interest and Dividends	–	–	183,846	168,563
Investment Trades Pending Receivable – Short Term	–	–	1,563,005	1,795,529
Due from Pension Funds	1	189	3,531	2,944
Due from Other Washington State Agencies	–	1	16	26
Other Receivables – Short Term	–	–	–	1
Total Receivables	<u>4</u>	<u>1,493</u>	<u>1,870,917</u>	<u>2,081,456</u>
Capital Assets, Net of Depreciation	–	–	364	461
Investments, Noncurrent				
Equity in the Commingled Trust Fund	13,016	–	60,436,488	51,660,411
Money Market Investments	–	–	1,945,050	1,059,401
Other Noncurrent Investments	–	2,937,365	5,973,365	4,901,326
Collateral Held Under Securities Lending Agreements	–	–	2,712,461	3,659,047
Total Investments, Noncurrent	<u>13,016</u>	<u>2,937,365</u>	<u>71,067,364</u>	<u>61,280,185</u>
Other Assets	–	–	1,306	1,387
TOTAL ASSETS	<u>13,028</u>	<u>2,943,721</u>	<u>72,974,377</u>	<u>63,396,248</u>
LIABILITIES				
Obligations Under Security Lending Agreements	–	–	2,712,461	3,659,047
Accounts Payable	–	576	19,072	18,950
Investment Trades Pending Payable – Short Term	–	–	1,906,353	2,067,689
Due to Other Governments	–	–	15,085	13,170
Due to Pension Funds	1	189	3,531	2,944
Due to Other Washington State Agencies	–	9	406	730
Other Short-Term Liabilities	–	2,462	3,380	402
Other Long-Term Obligations	–	–	1,306	1,387
Accrued Salaries	–	46	60	704
Deferred Revenue	–	–	893	1,087
TOTAL LIABILITIES	<u>1</u>	<u>3,282</u>	<u>4,662,547</u>	<u>5,766,110</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 13,027</u>	<u>\$ 2,940,439</u>	<u>\$ 68,311,830</u>	<u>\$ 57,630,138</u>

The accompanying notes are an integral part of this statement.

Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Trust Funds by Plan
For the Years Ended June 30, 2011 and 2010 (page 1 of 4)
(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
ADDITIONS					
Retirement Contributions					
Employer	\$ 145,585	\$ 328,258	\$ -	\$ 62,316	\$ -
Plan Member	28,767	263,885	94,129	19,247	60,313
State	-	-	-	-	-
Plan Member Restorations	9,548	18,407	-	169	-
Total Retirement Contributions	<u>183,900</u>	<u>610,550</u>	<u>94,129</u>	<u>81,732</u>	<u>60,313</u>
Participant Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Investment Income					
Net Appreciation (Depreciation) in Fair Value of Investments	1,335,975	3,035,259	259,224	414,369	189,039
Interest	88,289	202,183	9,992	27,307	9,912
Dividends	125,678	292,092	13,429	39,912	13,438
Less: Investment Expenses	<u>(28,701)</u>	<u>(66,056)</u>	<u>(3,661)</u>	<u>(9,154)</u>	<u>(3,254)</u>
Net Income from Investment Activities	<u>1,521,241</u>	<u>3,463,478</u>	<u>278,984</u>	<u>472,434</u>	<u>209,135</u>
Securities Lending Income					
Securities Lending Income	2,325	5,325	257	726	248
Less: Costs of Lending Securities	<u>(151)</u>	<u>(345)</u>	<u>(17)</u>	<u>(47)</u>	<u>(16)</u>
Net Securities Lending Income	<u>2,174</u>	<u>4,980</u>	<u>240</u>	<u>679</u>	<u>232</u>
Total Net Investment Income	<u>1,523,415</u>	<u>3,468,458</u>	<u>279,224</u>	<u>473,113</u>	<u>209,367</u>
Charges For Services	3,148	8,387	246	1,546	238
Transfers from Other Pension Plans	90	4,036	1,546	413	500
Miscellaneous	<u>9</u>	<u>24</u>	<u>-</u>	<u>4</u>	<u>-</u>
TOTAL ADDITIONS	<u>1,710,562</u>	<u>4,091,455</u>	<u>375,145</u>	<u>556,808</u>	<u>270,418</u>
DEDUCTIONS					
Benefits	1,149,522	310,943	-	43,338	-
Refunds of Contributions	3,470	33,686	59,143	2,492	53,242
Annuity Payments	-	-	164	-	182
Transfers to Other Pension Plans	174	8,028	612	331	597
Transfer to Other Funds	188	500	-	92	-
Administrative Expenses	<u>3,213</u>	<u>8,325</u>	<u>246</u>	<u>1,484</u>	<u>237</u>
TOTAL DEDUCTIONS	<u>1,156,567</u>	<u>361,482</u>	<u>60,165</u>	<u>47,737</u>	<u>54,258</u>
NET INCREASE (DECREASE)	553,995	3,729,973	314,980	509,071	216,160
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
Beginning of Year: July 1	<u>7,626,486</u>	<u>16,368,663</u>	<u>1,374,372</u>	<u>2,237,385</u>	<u>1,053,282</u>
End of Year: June 30	<u>\$ 8,180,481</u>	<u>\$ 20,098,636</u>	<u>\$ 1,689,352</u>	<u>\$ 2,746,456</u>	<u>\$ 1,269,442</u>

The accompanying notes are an integral part of this statement.

Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Trust Funds by Plan
For the Years Ended June 30, 2011 and 2010 (page 2 of 4)
(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	\$ 15,591	\$ 96,803	\$ 168,264	\$ -	\$ 3
Plan Member	15,353	17,631	21,881	257,718	-
State	-	-	-	-	-
Plan Member Restorations	69	8,127	833	-	1,128
Total Retirement Contributions	<u>31,013</u>	<u>122,561</u>	<u>190,978</u>	<u>257,718</u>	<u>1,131</u>
Participant Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Investment Income					
Net Appreciation (Depreciation) in Fair Value of Investments	18,532	1,121,994	1,029,046	802,514	821,548
Interest	1,262	74,161	68,122	31,346	54,416
Dividends	1,844	105,644	99,319	42,914	77,905
Less: Investment Expenses	(414)	(24,113)	(22,882)	(11,337)	(17,703)
Net Income from Investment Activities	<u>21,224</u>	<u>1,277,686</u>	<u>1,173,605</u>	<u>865,437</u>	<u>936,166</u>
Securities Lending Income					
Securities Lending Income	33	1,954	1,805	792	1,434
Less: Costs of Lending Securities	(2)	(127)	(117)	(51)	(93)
Net Securities Lending Income	<u>31</u>	<u>1,827</u>	<u>1,688</u>	<u>741</u>	<u>1,341</u>
Total Net Investment Income	<u>21,255</u>	<u>1,279,513</u>	<u>1,175,293</u>	<u>866,178</u>	<u>937,507</u>
Charges For Services	55	2,657	4,570	767	1,996
Transfers from Other Pension Plans	5	1	850	650	-
Miscellaneous	<u>-</u>	<u>8</u>	<u>13</u>	<u>-</u>	<u>6</u>
TOTAL ADDITIONS	<u>52,328</u>	<u>1,404,740</u>	<u>1,371,704</u>	<u>1,125,313</u>	<u>940,640</u>
DEDUCTIONS					
Benefits	35	878,102	72,138	-	338,775
Refunds of Contributions	1,780	1,820	2,281	115,571	48
Annuity Payments	-	21,717	-	542	-
Transfers to Other Pension Plans	-	-	118	1,368	212
Transfer to Other Funds	3	159	272	-	119
Administrative Expenses	82	2,686	4,273	767	1,891
TOTAL DEDUCTIONS	<u>1,900</u>	<u>904,484</u>	<u>79,082</u>	<u>118,248</u>	<u>341,045</u>
NET INCREASE (DECREASE)	50,428	500,256	1,292,622	1,007,065	599,595
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
Beginning of Year: July 1	<u>92,646</u>	<u>6,404,061</u>	<u>5,547,281</u>	<u>4,025,307</u>	<u>4,586,358</u>
End of Year: June 30	<u>\$ 143,074</u>	<u>\$ 6,904,317</u>	<u>\$ 6,839,903</u>	<u>\$ 5,032,372</u>	<u>\$ 5,185,953</u>

The accompanying notes are an integral part of this statement.

Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Trust Funds by Plan
For the Years Ended June 30, 2011 and 2010 (page 3 of 4)
(expressed in thousands)

	Pension Trust			
	LEOFF Plan 2	WSPRS Plan 1/2	JRS	Judges
ADDITIONS				
Retirement Contributions				
Employer	\$ 79,733	\$ 5,251	\$ 46	\$ -
Plan Member	131,252	4,166	46	-
State	52,024	-	10,860	-
Plan Member Restorations	5,296	1,040	-	-
Total Retirement Contributions	<u>268,305</u>	<u>10,457</u>	<u>10,952</u>	<u>-</u>
Participant Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Investment Income				
Net Appreciation (Depreciation) in Fair Value of Investments	948,683	138,884	(2)	(13)
Interest	63,232	9,220	18	24
Dividends	91,375	13,240	-	-
Less: Investment Expenses	<u>(20,609)</u>	<u>(3,000)</u>	<u>(8)</u>	<u>-</u>
Net Income from Investment Activities	<u>1,082,681</u>	<u>158,344</u>	<u>8</u>	<u>11</u>
Securities Lending Income:				
Securities Lending Income	1,667	243	-	-
Less: Costs of Lending Securities	<u>(108)</u>	<u>(16)</u>	<u>-</u>	<u>-</u>
Net Securities Lending Income	<u>1,559</u>	<u>227</u>	<u>-</u>	<u>-</u>
Total Net Investment Income	<u>1,084,240</u>	<u>158,571</u>	<u>8</u>	<u>11</u>
Charges For Services	2,451	344	2	1
Transfers from Other Pension Plans	2,936	415	-	-
Miscellaneous	<u>7</u>	<u>1</u>	<u>-</u>	<u>-</u>
TOTAL ADDITIONS	<u>1,357,939</u>	<u>169,788</u>	<u>10,962</u>	<u>12</u>
DEDUCTIONS				
Benefits	61,876	38,387	9,738	499
Refunds of Contributions	8,181	315	-	-
Annuity Payments	-	-	-	-
Transfers to Other Pension Plans	1	1	-	-
Transfer to Other Funds	146	21	-	-
Administrative Expenses	<u>3,309</u>	<u>356</u>	<u>2</u>	<u>1</u>
TOTAL DEDUCTIONS	<u>73,513</u>	<u>39,080</u>	<u>9,740</u>	<u>500</u>
NET INCREASE (DECREASE)	1,284,426	130,708	1,222	(488)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of Year: July 1	<u>5,081,657</u>	<u>764,191</u>	<u>3,839</u>	<u>2,823</u>
End of Year: June 30	<u>\$ 6,366,083</u>	<u>\$ 894,899</u>	<u>\$ 5,061</u>	<u>\$ 2,335</u>

The accompanying notes are an integral part of this statement.

Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Trust Funds by Plan
For the Years Ended June 30, 2011 and 2010 (page 4 of 4)
(expresses in thousands)

	Pension Trust		Totals	
	JRA Defined Contribution	Deferred Compensation	June 30, 2011	June 30, 2010
ADDITIONS				
Retirement Contributions				
Employer	\$ 43	\$ —	\$ 901,893	\$ 918,941
Plan Member	43	—	914,431	914,397
State	—	—	62,884	62,946
Plan Member Restorations	—	—	44,617	27,223
Total Retirement Contributions	<u>86</u>	<u>—</u>	<u>1,923,825</u>	<u>1,923,507</u>
Participant Contributions	<u>—</u>	<u>186,734</u>	<u>186,734</u>	<u>185,120</u>
Investment Income				
Net Appreciation (Depreciation) in Fair Value of Investments	1,769	417,796	10,534,617	5,296,985
Interest	172	31,984	671,640	706,102
Dividends	19	5,693	922,502	856,608
Less: Investment Expenses	<u>(20)</u>	<u>(4,440)</u>	<u>(215,352)</u>	<u>(220,213)</u>
Net Income from Investment Activities	<u>1,940</u>	<u>451,033</u>	<u>11,913,407</u>	<u>6,639,482</u>
Securities Lending Income:				
Securities Lending Income	—	—	16,809	19,921
Less: Costs of Lending Securities	<u>—</u>	<u>—</u>	<u>(1,090)</u>	<u>(5,973)</u>
Net Securities Lending Income	<u>—</u>	<u>—</u>	<u>15,719</u>	<u>13,948</u>
Total Net Investment Income	<u>1,940</u>	<u>451,033</u>	<u>11,929,126</u>	<u>6,653,430</u>
Charges For Services	<u>—</u>	<u>1,610</u>	<u>28,018</u>	<u>28,103</u>
Transfers from Other Pension Plans	<u>—</u>	<u>—</u>	<u>11,442</u>	<u>19,905</u>
Miscellaneous	<u>5</u>	<u>1,461</u>	<u>1,538</u>	<u>1,623</u>
TOTAL ADDITIONS	<u>2,031</u>	<u>640,838</u>	<u>14,080,683</u>	<u>8,811,688</u>
DEDUCTIONS				
Benefits	445	—	2,903,798	2,726,950
Refunds of Contributions	—	149,010	431,039	310,767
Annuity Payments	—	—	22,605	17,116
Transfers to Other Pension Plans	—	—	11,442	19,905
Transfer to Other Funds	—	—	1,500	1,000
Administrative Expenses	<u>—</u>	<u>1,735</u>	<u>28,607</u>	<u>29,460</u>
TOTAL DEDUCTIONS	<u>445</u>	<u>150,745</u>	<u>3,398,991</u>	<u>3,105,198</u>
NET INCREASE (DECREASE)	<u>1,586</u>	<u>490,093</u>	<u>10,681,692</u>	<u>5,706,490</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of Year: July 1	<u>11,441</u>	<u>2,450,346</u>	<u>57,630,138</u>	<u>51,923,648</u>
End of Year: June 30	<u>\$ 13,027</u>	<u>\$ 2,940,439</u>	<u>\$ 68,311,830</u>	<u>\$ 57,630,138</u>

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

A. Reporting Entity

The Department of Retirement Systems (DRS) is a part of the primary government of the state of Washington. The Governmental Accounting Standards Board 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. Based on this criteria, DRS is considered part of the state of Washington financial reporting entity and is included in the state's comprehensive annual financial report as the administrator of the pension trust funds.

The state of Washington's Comprehensive Annual Financial Report may be obtained from the Washington State Office of Financial Management's website at:

www.ofm.wa.gov/cafr/default.asp

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 Director of DRS is appointed by the Governor. The state Legislature establishes laws pertaining to the creation and administration of all public retirement systems. The members of the public retirement systems together with their employers and the state provide funding for all costs of the systems based upon actuarial valuations. The state establishes benefit levels and approves the actuarial assumptions used in determining contribution levels. Based upon these criteria, DRS views itself as part of the state of Washington's primary government.

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 Plan Net Assets and a Statement of Changes in Plan Net Assets. The statements provide a separate column for each plan administered by DRS. The Statement of Plan Net Assets includes information about the assets, liabilities, and net assets for each plan. The Statement of Changes in Plan Net Assets includes information about the additions to, deductions from, and net increase (or decrease) in net assets for each plan for the year.

C. Measurement Focus and Basis of Accounting

DRS' financial statements have been prepared in conformity with accounting principles generally accepted in the United States (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 due. 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 net assets. The net assets of the Retirement Funds are valued on a monthly basis using the following sources:

Publicly Traded Securities (corporate stock, commingled funds, and fixed income): Fair values are based on published market prices, quotations from national security exchanges and security pricing services as of each month end closing of the New York Stock Exchange.

Limited Partnerships: The fair value of investments that are organized as limited partnerships and have no readily ascertainable fair value (such as private equity, real estate, innovation and tangible assets) 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 \$24.8 billion as of June 30, 2011. 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 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 a portfolio company's projections. The market approach involves valuing a company at a multiple of a specified financial measure (generally 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 company's 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 use 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 an administrative fund to account for the administrative additions and deductions incurred in administering the pension plans (excluding any fees incurred while protecting the pension plans). All additions received are based on a percent of employer contributions. These additions and deductions have been allocated to the pension plans based on asset balance.

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 Plan Net Assets as cash and pooled investments.

Deposits – Custodial Credit Risk: Custodial credit risk is the risk that deposits may not be returned to a depositor 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, 2011, the carrying amount of DRS' cash and pooled investment deposits is \$34.4 million, all of which are 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 2011.

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. The WSIB does not have a formal policy regarding interest rate risk. Effective duration is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Effective duration uses the present value of cash flows, weighted for those flows as a percentage of the investments' full price. Increases in prevailing interest rates generally translate into decreases in the fair values of those investments, and decreases in interest rates result in increases in valuations. The Retirement Funds' fixed income investments are to be actively managed to exceed the return of the Barclays Capital Universal Index with a duration that is not twenty percent higher or lower than the duration of the index. As of June 30, 2011 the Retirement Funds' duration was within the duration target of this index.

The schedule on page 40 provides information about the interest rate risks associated with the Retirement Trust Funds' categorized investments in the Commingled Trust Fund (CTF) as of June 30, 2011. The schedule displays various 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 (in years) 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 does not have a formal policy regarding credit risk but mitigates said risk through active management and credit analysis. The Retirement Funds' rated debt investments as of June 30, 2011, 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, 2011 are presented in the schedule on page 40. Investment types with multiple credit ratings are presented in the schedule on page 41.

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, 2011. 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 2011.

Investment Maturities

As of June 30, 2011

(expressed in thousands)

Investment Type	Total Fair Value	Maturity				Effective Duration	Credit Rating
		Less than one year	1-5 years	6-10 years	More than 10 years		
Asset Backed Securities	\$ 121,229	\$ 101,001	\$ 20,167	\$ –	\$ 61	0.03	Aaa
Residential Mortgage Backed Securities	2,366,004	355,053	1,926,787	84,164	–	2.45	Aaa
Commercial Mortgage Backed Securities	327,284	98,952	226,718	1,614	–	2.91	Multiple
Corporate Bonds Domestic (USD)	1,335,164	–	267,021	907,445	160,698	5.89	Multiple
Corporate Bonds Domestic (Non USD)	27,055	–	27,055	–	–	3.50	Multiple
Corporate Bonds Foreign (USD)	3,551,775	2,024	713,208	2,311,351	525,192	6.66	Multiple
Corporate Bonds Foreign (Non USD)	143,047	–	54,446	56,122	32,479	5.66	Multiple
U.S. Government Treasuries	2,072,847	806,145	952,750	313,952	–	2.78	Aaa
Foreign Government and Agencies (USD)	1,008,056	–	92,215	753,726	162,115	6.52	Multiple
Foreign Government and Agencies (Non USD)	437,673	–	63,730	226,219	147,724	6.31	Multiple
Supranational (USD)	30,587	–	30,587	–	–	4.57	Aaa
Supranational (Non USD)	316,290	–	154,641	161,649	–	4.12	Aaa
Total Categorized Investments	\$ 11,737,011	\$ 1,363,175	\$ 4,529,325	\$ 4,816,242	\$ 1,028,269		
Investments Not Required to be Categorized:							
Corporate Stock – U.S. Dollar Denominated	3,294,472						
Corporate Stock – Non U.S. Dollar Denominated	11,088,459						
Commingled Equity Index Funds	9,432,712						
Alternative Investments	24,870,817						
Liquidity	1,945,050						
Total Investments Not Categorized	\$ 50,631,510						
DCP and Defined Contribution – SELF Plan Assets:							
Mutual Funds							
Domestic Equity– Active	1,921,898						
Domestic Equity– Passive	1,574,913						
Non–U.S. Passive Developed	423,574						
Washington State Bond Fund	557,517						
Guaranteed Investment Contracts	1,018,374						
Life Annuity	5						
Money Market Mutual Funds	490,101						
Total DCP and Defined Contribution – SELF Plan Assets	\$ 5,986,382						
Securities Under Lending Agreements	2,712,461						
Total Investments Non Current – 6/30/2011	\$ 71,067,364						

Investments with Multiple Credit Ratings

As of June 30, 2011

(expressed in thousands)

Investment Type	Total Fair Value	Moody's Equivalent Credit Rating										
		Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3 or Lower	
Commercial Mortgage Backed Securities	\$ 327,284	\$ 283,893	\$ -	\$ -	\$ 43,391	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate Bonds Domestic (USD)	1,335,164	-	-	49,896	51,925	124,142	114,778	127,309	307,614	262,785	296,715	
Corporate Bonds Domestic (Non USD)	27,055	-	-	-	-	-	-	27,055	-	-	-	
Corporate Bonds Foreign (USD)	3,551,775	-	-	44,312	54,495	92,794	11,074	337,196	494,340	678,992	1,838,572	
Corporate Bonds Foreign (Non USD)	143,047	-	-	-	-	-	32,478	39,178	27,051	-	44,340	
Foreign Government and Agencies (USD)	1,008,056	-	17,267	26,586	76,685	308,881	22,464	54,487	57,509	132,963	311,214	
Foreign Government and Agencies (Non USD)	437,673	163,564	-	-	-	-	50,183	-	-	100,653	123,273	
Total	\$6,830,054	\$ 447,457	\$ 17,267	\$ 120,794	\$ 226,496	\$ 525,817	\$ 230,977	\$ 585,225	\$ 886,514	\$ 1,175,393	\$ 2,614,114	

Investments – Custodial Credit Risk: Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the WSIB would not be able to recover the value of the investments that are in the possession of an outside party. The WSIB has no formal policy regarding custodial credit risk, but mitigates this risk by having its investment securities held by a custodian. Also, investment securities, excluding cash and cash equivalents and repurchase agreements held as securities lending collateral, are registered in the name of the WSIB for the benefit of the Retirement Funds.

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 its 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, 2011, is presented in the schedule on page 42. 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 and is not a presentation of currency exposure relating to the underlying holdings.

Foreign Currency Risk
As of June 30, 2011
(expressed in thousands)

Investment Type in U.S. Dollar Equivalent								
Foreign Currency Denomination	Currency	Fixed Income	Common Stock	Commingled Index Funds	Private Equity	Real Estate	Total	Percent of Total Foreign Investments
Australia-Dollar	\$ 324	\$ 374,604	\$ 683,214	\$ -	\$ -	\$24,330	\$ 1,082,472	3.9%
Brazil-Real	356	244,034	91,650	-	-	-	336,040	1.2%
Canada-Dollar	3,052	-	862,690	-	-	-	865,742	3.1%
Denmark-Krone	465	-	103,573	-	-	-	104,038	0.4%
E.M.U.-Euro	8,688	-	2,916,594	-	2,223,748	142,745	5,291,775	19.2%
Hong Kong-Dollar	1,082	-	398,657	-	-	-	399,739	1.5%
India-Rupee	460	46,867	66,578	-	-	-	113,905	0.4%
Indonesia-Rupiah	117	99,767	54,962	-	-	-	154,846	0.6%
Japan-Yen	12,225	-	1,963,083	-	-	-	1,975,308	7.2%
Mexico-Peso	254	32,479	42,253	-	-	-	74,986	0.3%
Norway-Krone	1,220	-	102,362	-	-	-	103,582	0.4%
Singapore-Dollar	323	-	170,524	-	-	-	170,847	0.6%
South Africa-Rand	10	-	82,566	-	-	-	82,576	0.3%
South Korea-Won	-	-	128,817	-	-	-	128,817	0.5%
Sweden-Krona	1,116	-	263,147	-	1,853	-	266,116	1.0%
Switzerland-Franc	(91)	-	718,788	-	-	-	718,697	2.6%
Taiwan-Dollar	1,045	-	84,438	-	-	-	85,483	0.3%
Turkey-Lira	724	60,367	53,654	-	-	-	114,745	0.4%
United Kingdom - Pound	(1,001)	-	2,108,276	-	8,975	-	2,116,250	7.7%
Other - Miscellaneous	2,638	65,945	192,633	-	-	-	261,216	0.9%
Total Foreign Investments (in Foreign Currency)	33,007	924,063	11,088,459	-	2,234,576	167,075	14,447,180	52.5%
Foreign Investments Denominated in U.S. Dollars	-	4,559,831	809,372	1,865,938	3,249,616	2,588,186	13,072,943	47.5%
Total Foreign Investments (in Foreign Currency)	\$33,007	\$ 5,483,894	\$11,897,831	\$1,865,938	\$5,484,192	\$2,755,261	\$27,520,123	100%

Source: Washington State Investment Board

Securities Lending: Securities lending management responsibilities as authorized by statute are as follows:

WSIB—Washington State 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 JP Morgan (JPM) to act as agent for the WSIB in securities lending transactions. As JPM is the custodian bank for the WSIB, it is a counterparty to these transactions.

The Retirement Funds report securities lent (the underlying securities) as assets in the Statement of Plan Net Assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are also reported as assets if the WSIB has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are reported in the Statement of Plan Net Assets. Securities lending transactions collateralized by securities that the WSIB does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

Securities (consisting of fixed income and equities) were loaned and collateralized by the WSIB's agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102% of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105% of the fair value, including accrued interest, of the loaned securities.

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.

Custodial Credit Risk: At June 30, 2011, the fair value of securities on loan was \$2,915.7 million.

The corresponding collateral held totalled \$2,992.0 million. At year-end, since the amounts that the Retirement Funds owed the borrowers exceeded the amounts the borrowers owed the Retirement Funds, there was no credit risk exposure.

During Fiscal Year 2011, securities lending transactions could be terminated on demand by either the WSIB or the borrower. The weighted average maturity of loans for Fiscal Year 2011 was 1.5 days.

Cash collateral was invested by the WSIB's agents in the WSIB's separately managed short term investment pool (average final maturity of 34 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. Accordingly, non-cash collateral held under securities lending contracts with a value of \$279.5 million has not been included in the Statement of Plan Net Assets. There are 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. JPM 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. JPM'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 2011, there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the Retirement Funds incurred no losses during Fiscal Year 2011 resulting from a default by either the borrowers or the securities lending agents.

OST—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.

The OST has statutory authority 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 contracted with a third party securities lending agent, Union Bank (UB), to lend the U.S. Government and Agency securities portfolio. The agent lends securities for collateral in the form of cash or other securities at 102 percent of the loaned securities value. The collateral for the loans is maintained at 102 percent. At June 30, 2011, there were \$22.9 million in OST repurchase agreements within the Cash and Pooled Investments section of the Statement of Plan Net Assets.

State law also permits 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 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. The OST generally does not match maturities. Securities purchased from proceeds of reverse repurchase agreements are not used to liquidate the agreements. During Fiscal Year 2011, the OST incurred no losses by default, nor recovered prior period losses, from these transactions. At June 30, 2011, 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. The contract with the agent requires it to indemnify the OST if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or if the borrower fails to pay OST for income distributions by the securities' issuers while the securities are on loan.

All securities loans can be terminated on demand by either the OST or the borrower. Cash collateral is invested in accordance with the investment guidelines approved by the OST. The OST cannot pledge or sell collateral securities received unless the borrower defaults. Generally, the maturity of the securities on loan is matched with the term of the investment of the cash collateral. The OST did not participate in securities lending transactions during Fiscal Year 2011. As a result, on June 30, 2011, the OST had no securities on loan.

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 accepted as collateral for 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 2011, there were no violations of legal or contractual provisions nor 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 mortgage-backed securities, financial futures, forward contracts, interest rate swaps, credit default swaps, equity swaps

and options. Derivative transactions involve, to varying degrees, market and credit risk. In connection with the international and domestic active equity strategy, at June 30, 2011, the Retirement Funds held investments in financial futures, forward currency contracts and other derivative securities that are recorded at fair value with changes in value recognized in investment income in the Statement of Changes in Plan Net Assets in the period of change.

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 and to be announced (TBA) securities. Alternatively, a derivative instrument, such as futures, could be listed and traded on an exchange and referred to as “exchange traded.”

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, 2011, the Retirement Funds’ counterparty risk was not deemed to be significant, whether evaluating counterparty exposure outright or netting collateral against net assets positions on contracts with each counterparty.

Mortgage TBAs are used to achieve the desired market exposure of a security or asset class or adjust portfolio duration. A TBA is a contract for the purchase or sale of agency mortgage-backed securities to be delivered at a future agreed-upon date. TBAs carry future settlement risk due to the possibility of not receiving the asset or associated gains specified in the contract. Such loss upon failure by counterparties to deliver under contracts would not be material at

June 30, 2011. The fair value of TBA derivatives is included in residential mortgage-backed securities on page 40.

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 a notional (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, 2011, the Retirement Funds had outstanding forward currency contracts to purchase foreign currencies with a fair value of \$1,284.5 million and outstanding contracts to sell foreign currencies with a fair value of \$1,283.6 million included within the Investment Trades Pending payable and receivable categories in the accompanying Statement of Plan Net Assets. The net unrealized loss of \$871,901 is included within the Net Appreciation (Depreciation) in Fair Value of Investments category in the accompanying Statement of Changes in Plan Net Assets. The contracts have varying maturity dates ranging from July 1, 2011 to September 21, 2011.

At June 30, 2011, the Retirement Funds’ fixed income portfolio held derivative securities consisting of collateralized mortgage obligations of \$873,665. 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.

Derivatives which are exchange traded are not subject to credit risk. The maximum loss that would be recognized at June 30, 2011, if all counterparties fail to perform as contracted is \$7.98 million of unrealized gain on TBA securities. This maximum exposure is reduced by \$871,901 of unrealized losses (recorded as liabilities) on forward currency contracts, resulting in *de minimis* exposure to credit risk. At June 30, 2011, the counterparties' credit ratings for forward currency contracts that are subject to credit risk had a credit rating of no less than A1 using the Moody's rating scale.

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

Certain investment types in DRS' portfolio cannot be categorized within the guidelines established by GASB Statement Number 3. These investments total approximately \$59.3 billion in both carrying value and fair value.

OST – The OST did not engage in derivative transactions during Fiscal Year 2011.

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, 2011, total investment management fees were \$216.4 million. For a detailed disclosure, refer to the Schedule of Investment Expenses in the Supporting Schedules of the Financial Section of this report.

	Classification	Changes in Fair Value		Fair Value at June 30, 2011
		Amount	Amount	Notional
<i>(expressed in thousands)</i>				
Futures Contracts:				
Bond Index Futures	Investment	\$ 15,866	\$ (1,228)	\$ 6
Equity Index Futures	Investment	8,323	–	–
Total		<u>\$ 24,189</u>	<u>\$ (1,228)</u>	<u>\$ 6</u>
To Be Announced Securities:				
FNMA TBA	Investment	<u>\$ 7,978</u>	<u>\$ 328,112</u>	<u>\$ 311,257</u>
Forward Currency Contracts:				
Australian Dollar	Investment	\$40,232	\$ 374	\$(44,796)
Brazilian Real	Investment	112	–	–
Canadian Dollar	Investment	16,467	(8)	(201)
Czech Koruna	Investment	267	1	1,388
Danish Krone	Investment	1,115	(2)	(2,030)
Euro	Investment	51,803	(600)	29
HongKong Dollar	Investment	(91)	(1)	58,994
Hungarian Forint	Investment	(152)	–	–
Israeli Shekel	Investment	21	–	–
Japanese Yen	Investment	28,434	(77)	1,292,331
Mexican Peso	Investment	(23)	–	–
New Zealand Dollar	Investment	516	(5)	(148)
Norwegian Krone	Investment	759	(654)	(60,550)
Polish Zloty	Investment	(358)	–	–
Pound Sterling	Investment	13,820	352	(32,234)
Singapore Dollar	Investment	396	24	5,639
South African Rand	Investment	191	1	1,986
Swedish Krona	Investment	14,904	(285)	–
Swiss Franc	Investment	12,062	8	10,197
U.S. Dollar	Investment	(172,573)	–	69,864
Total		<u>\$ 7,902</u>	<u>\$ (872)</u>	<u>\$ 1,300,469</u>

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, 2011, the Retirement Funds had the following unfunded investment commitments in millions of dollars:

Innovation Portfolio	\$308.0
Private Equity Partnerships	\$6,855.1
Real Estate	\$6,880.2
Tangible Assets	\$605.1

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 is required to maintain 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, 2011 and 2010 are as follows:

	June 30, 2011	June 30, 2010
(expressed in thousands)		
PERS Plan 1	\$ 939,853	\$ 1,042,297
PERS Plan 2/3	5,179,208	4,887,822
PERS Plan 3 - WSIB	971,649	788,177
PERS Plan 3 - SELF	717,703	586,195
SERS Plan 2/3	349,185	324,085
SERS Plan 3 - WSIB	937,719	769,790
SERS Plan 3 - SELF	331,723	283,492
PSERS Plan 2	67,400	50,804
TRS Plan 1	636,213	708,757
TRS Plan 2/3	511,006	495,294
TRS Plan 3 - WSIB	3,028,153	2,434,038
TRS Plan 3 - SELF	2,004,219	1,591,269
LEOFF Plan 1	43,400	50,199
LEOFF Plan 2	1,849,759	1,704,680
WSPRS Plan 1/2	76,751	74,221
JRS	1,454	2,209
Judges	—	—
Total Member Reserves	\$ 17,645,395	\$ 15,793,329

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, 2011 and 2010 are as follows:

	June 30, 2011	June 30, 2010
(expressed in thousands)		
PERS Plan 1	\$ 7,237,927	\$ 6,581,534
PERS Plan 2/3	14,917,524	11,479,178
SERS Plan 2/3	2,397,186	1,913,246
PSERS Plan 2	75,672	41,840
TRS Plan 1	6,265,758	5,693,001
TRS Plan 2/3	6,328,203	5,051,396
LEOFF Plan 1	5,141,273	4,534,925
LEOFF Plan 2*	4,516,006	3,376,726
WSPRS Plan 1/2*	817,997	689,825
JRS	3,605	1,626
Judges	2,335	2,812
Total Benefit Reserves	\$ 47,703,486	\$ 39,366,109

*These balances at 6/30/11 contain immaterial employer medical contributions.

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 2011:

Assets	Beginning Balance	Acquisition/ Increase Depreciation	Disposal	Ending Balance
(expressed in thousands)				
Improvements				
Other Than Buildings	\$ 634	\$ -	\$ -	\$ 634
Furnishings & Equipment	2,275	96	(406)	1,965
Accumulated Depreciation	(2,448)	(165)	378	(2,235)
Total	\$ 461	\$ (69)	\$ (28)	\$ 364

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, 2011:

Operating Leases		
(expressed in thousands)		
By Fiscal Year:	2012	\$ 1,529
	2013	1,399
	2014	1,454
	2015	1,600
	2016	1,577
	2017 and beyond	4,129
	Total Future Minimum Payments	\$11,688

The total operating lease rental expenditure for Fiscal year 2011 was \$1.6 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 \$0.9 million as of June 30, 2011.

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, 2011.

Following is a summary of changes in compensated absences for the fiduciary funds for Fiscal Year 2011:

Compensated Absences	Beginning Balance	Additions	Deletions	Ending Balance
(amounts expressed in thousands)				
Annual Leave	\$ 987	\$ 947	\$ (1,027)	\$ 907
Sick Leave	400	128	(129)	399
Total	\$ 1,387	\$ 1,075	\$ (1,156)	\$ 1,306

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 2011, these transfers totaled \$11.5 million

and represented a decrease of \$8.4 million from the previous year.

Transfers to other funds totaled \$1.5 million in Fiscal Year 2011 and represented an operating budget transfer into the State General Fund (ESHB 1244, Laws of 2009).

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*, King County Superior Court No. 07-2-17203-3 SEA, plaintiffs challenge the 2007 Legislature's repeal of gainsharing and the repeal of replacement benefits if gainsharing is restored. Three cases were filed in King County Superior Court and have been consolidated into one case. The case is brought as a class action.

The trial court ruled in favor of plaintiffs and against the State of Washington and the Department of Retirement Systems in Phase 1 of this litigation which dealt with whether the Legislature had the authority to repeal gainsharing. The parties are proceeding to Phase 2 of the litigation which will deal with whether the plaintiffs may keep the benefits provided by the Legislature as a replacement for gainsharing.

The State will consider an appeal on Phase 1 after Phase 2 is decided. Plaintiffs do not request damages. Instead, they ask for the return of gainsharing and they ask that they retain the benefits that were enacted by the Legislature to replace gainsharing.

The management of DRS is unable to estimate the potential loss should the State defendants ultimately be unsuccessful in this litigation.

O. Subsequent Events

On August 5, 2011, the credit rating agency Standard & Poor's downgraded the United States' credit rating

for the first time in history from AAA to AA+. The Retirement Funds held \$2.1 billion in US Government securities at June 30, 2011, which was 3 percent of the net asset value of the fund. The WSIB uses a Moody's Equivalent credit rating scale. The downgrade of US Government securities is not expected to have a material adverse impact on DRS' financial position or results of operations.

NOTE 2: GENERAL DESCRIPTION OF THE RETIREMENT SYSTEMS

A. General

The Department of Retirement Systems (DRS) administers retirement systems covering eligible employees of the state and local governments. The state Legislature establishes laws pertaining to the creation and administration of all public retirement systems, and the Governor appoints the Director of DRS to manage the systems. Information pertinent to each system is provided later in this section.

Administration of the retirement systems and plans was funded by an employer rate of .16 percent of employee salaries.

As established in the Revised Code of Washington (RCW) chapter 41.50, DRS administers eight retirement systems comprising of 12 defined benefit pension plans and three combination defined benefit/defined contribution plans 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

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	53,742	1,979	8,409	598	64,728
PERS Plan 2	22,043	23,513	86,770	33,056	165,382
PERS Plan 3	1,114	3,368	10,342	17,351	32,175
SERS Plan 2	3,311	4,758	14,385	5,973	28,427
SERS Plan 3	2,073	4,942	17,856	14,125	38,996
PSERS Plan 2	7	–	–	4,210	4,217
TRS Plan 1	36,015	701	4,533	58	41,307
TRS Plan 2	2,320	2,467	5,973	3,469	14,229
TRS Plan 3	2,235	5,782	31,379	20,913	60,309
LEOFF Plan 1	8,008	1	301	–	8,310
LEOFF Plan 2	1,639	781	13,119	3,656	19,195
WSPRS Plan 1	851	119	806	–	1,776
WSPRS Plan 2	–	6	122	159	287
JRS	125	–	5	–	130
Judges	13	–	–	–	13
Total	133,496	48,417	194,000	103,568	479,481

The latest actuarial valuation date for all plans was June 30, 2010.
Source: Washington State Office of the State Actuary

Number of Participating Employers

Plan	State Agencies	School Districts	Counties/Municipalities	Other Political Subdivisions	Total
PERS Plan 1	144	227	158	180	709
PERS Plan 2	179	–	271	494	944
PERS Plan 3	166	–	205	302	673
SERS Plan 2	–	299	–	–	299
SERS Plan 3	–	300	–	–	300
PSERS Plan 2	11	–	65	1	77
TRS Plan 1	49	263	–	–	312
TRS Plan 2	25	288	–	–	313
TRS Plan 3	28	302	–	–	330
LEOFF Plan 1	–	–	48	14	62
LEOFF Plan 2	8	–	214	152	374
WSPRS Plan 1	1	–	–	–	1
WSPRS Plan 2	1	–	–	–	1
JRS	2	–	–	–	2
Total	614	1,679	961	1,143	4,397

Employers can participate in multiple systems and/or plans. The actual total number of participating employers as of June 30, 2011 is 1,325.
For a listing of the covered employers, refer to the Statistical Section of this report.

B. Plan Descriptions

Public Employees' Retirement System (PERS):

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in the Judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments. Approximately 50 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the state Legislature.

PERS 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. PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

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 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.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS Plan 3 defined benefits are financed by employer contributions and investment earnings. Employee contributions to the PERS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2011, the DRS-established rate on employee contributions was five and one-half percent compounded quarterly. Employees in PERS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings. Employees in PERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement 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. The monthly benefit is two percent of the average final compensation (AFC) per year of service. AFC is the monthly average of the 24 consecutive highest-paid service credit months. The retirement benefit may not exceed 60% of AFC.

The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living adjustment (COLA) was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is two percent of the AFC for each year of service reduced by two percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military, if such credit makes them eligible to retire. Members can

also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is two percent of the AFC per year of service. AFC is the monthly average of the 60 consecutive highest-paid service months.

PERS Plan 2 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 an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit 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.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions. Effective July 22, 2007, said refund (adjusted as needed for specified legal reductions) is increased from 100 to 200 percent of the accumulated contributions if the member's death occurs in the uniformed service to the United States while participating in *Operation Enduring Freedom* or *Persian Gulf*, *Operation Iraqi Freedom*.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is one percent of the AFC per year of service. AFC is the monthly average of the 60 consecutive highest-paid service months.

Effective June 7, 2006, PERS 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; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65;
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by three percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. See section E of Note 2 for a description of the defined contribution component of PERS Plan 3.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is two percent of the AFC per year of service. For Plan 3, the monthly benefit amount is one percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost, and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving in the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to

participate in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a three and one-half percent multiplier. The benefit would be capped at 75% of average final compensation. Judges in PERS Plan 3 could elect a one and six-tenths percent of pay per year of service benefit, capped at 37.5% of AFC.

Members who chose to participate would:

- Accrue service credit at the higher multiplier beginning with the date of their election.
- Be subject to the benefit cap of 75% of AFC.
- Stop contributing to the Judicial Retirement Account (JRA).
- Pay higher contributions.
- Be given the option to increase the multiplier on past judicial service.

Members who did not choose to participate would:

- Continue to accrue service credit at the regular multiplier (i.e., one, two or three percent).
- Continue to participate in JRA, if applicable.
- Never be a participant in the JBM Program.
- Continue to pay contributions at the regular PERS rate.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM program would:

- Return to prior PERS Plan if membership had previously been established.
- Be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member.
- Accrue the higher multiplier for all judicial service.
- Not contribute to JRA.

- Not have the option to increase the multiplier for past judicial service.

Changes to the PERS plans resulting from recent years' legislation can be found on the table immediately following this section on pages 67-69. Besides those included in the table, there were no other material changes in PERS benefit provisions for the Fiscal Year ended June 30, 2011.

School Employees' Retirement System (SERS): The Legislature created SERS in 1998 to be effective in 2000. Membership in the system includes classified employees of school districts and educational service districts. SERS is comprised principally of non-state-agency employees. SERS retirement benefit provisions are established in chapters 41.34 and 41.35 RCW and may be amended only by the state Legislature.

SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans for membership purposes: Plan 2 is a defined benefit plan and Plan 3 is a defined benefit plan with a defined contribution component. As of September 1, 2000, the membership of classified school employees in PERS Plan 2 was transferred to SERS Plan 2. Those who joined on or after October 1, 1977 and by August 31, 2000 are SERS Plan 2 members unless they exercised an option to transfer their membership to Plan 3. Until June 30, 2007, SERS members joining the system on or after September 1, 2000, and those who exercised their transfer option, became members of SERS Plan 3. Legislation passed in 2007 now gives SERS members hired on or after July 1, 2007 ninety days to make an irrevocable choice to become a member of either SERS Plan 2 or Plan 3. At the end of the ninety days, any member who has not chosen either Plan 2 or Plan 3 membership, becomes a member of Plan 3. Notwithstanding, SERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

SERS is comprised of and 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, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

SERS Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the SERS Plan 2 defined benefit plan accrue interest at a rate specified by DRS. During Fiscal Year 2011, the DRS-established rate on employee contributions was five and one-half percent compounded quarterly. Members in SERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from SERS-covered employment.

SERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is two percent of the average final compensation (AFC) per year of service. AFC is the monthly average of the 60 consecutive highest-paid service credit months.

SERS Plan 2 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 an early retirement factor (ERF) that varies according to age, for each year before age 65.

SERS Plan 2 members who have 30 service credit years 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.

SERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is one percent of the AFC per year of service. AFC is the monthly average of the 60 consecutive highest-paid service credit months.

SERS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings. Employees in SERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from SERS-covered employment.

Effective June 7, 2006, 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; or after five service credit years earned in PERS Plan 2 by September 1, 2000. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested SERS Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies according to age, for each year before age 65;

- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by three percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

SERS Plan 3 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. See section E of Note 2 for a description of the defined contribution component of SERS Plan 3.

SERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is two percent of the AFC per year of service. For Plan 3, the monthly benefit amount is one percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

SERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost, and five years that may be purchased by paying the required contributions. Additionally, SERS members who become totally incapacitated for continued employment while serving in the uniformed services, may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child(ren) may purchase service credit on behalf of the deceased member.

SERS members may purchase up to 24 consecutive months of service credit for each period of temporary duty disability. SERS members may also purchase up to five years of additional service credit once eligible for retirement. This latter credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

Beneficiaries of a SERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a SERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

Changes to the SERS plans resulting from recent years' legislation can be found on the table immediately following this section on pages 67-69. Besides those included in the table, there were no other material changes in SERS benefit provisions for the Fiscal Year ended June 30, 2011.

Public Safety Employees' Retirement System (PSERS): 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 and may be amended only by the state Legislature.

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS Plan 2 membership includes:

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

A “covered employer” is one that participates in PSERS. Covered employers include:

- State of Washington agencies: Department of Corrections, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, Washington State Patrol, and effective July 22, 2007, the Department of Natural Resources;
- Corrections departments of Washington State counties;
- Corrections departments of Washington State cities, except for Seattle, Tacoma and Spokane; and
- Interlocal corrections agencies.

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 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PSERS Plan 2 defined benefit plan accrue interest at a rate specified by DRS. During Fiscal Year 2011, the DRS established rate on employee contributions was five and one-half percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PSERS-covered employment.

PSERS Plan 2 members are vested after completing five years of eligible service. PSERS Plan 2 members may retire 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, with an allowance of two percent of the average final compensation (AFC) per year of service. The AFC is the monthly average of the member’s 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 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. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. Eligibility is based on the member being totally incapacitated for continued employment with a PSERS employer and leaving that employment as a result of the disability. The disability allowance is two percent of the average final compensation (AFC) for each year of service. AFC is based on the member’s 60 consecutive highest creditable months of service. Service credit is the total years and months of service credit at the time the member separates from employment. 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).

PSERS Plan 2 members can purchase service credit for military service that interrupts employment. Additionally, PSERS members who become totally incapacitated for continued employment while serving in the uniformed services, may apply for interruptive military service credit. Should any such member die during this active duty, the member’s surviving spouse or eligible child(ren) may purchase service credit on behalf of the deceased member.

PSERS members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a PSERS Plan 2 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PSERS member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

Changes to the PSERS plan resulting from recent years' legislation can be found on the table immediately following this section on pages 67-69. Besides those included in the table, there were no other material changes in PSERS benefit provisions for the Fiscal Year ended June 30, 2011.

Teachers' Retirement System (TRS): TRS was legislatively established in 1938. Eligibility for membership requires service as a certificated public school employee working in an instructional, administrative or supervisory capacity. TRS is comprised principally of non-state-agency employees. TRS retirement benefit provisions are established in chapters 41.32 and 41.34 RCW and may be amended only by the state Legislature.

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 members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by June 30, 1996 are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS members joining the system on or after July 1, 1996 through

June 30, 2007 and those who exercised their transfer option, became members of TRS Plan 3. Legislation passed in 2007 now gives TRS members hired on or after July 1, 2007 ninety days to make an irrevocable choice to become a member of either TRS Plan 2 or Plan 3. At the end of the ninety days, any member who has not chosen either Plan 2 or Plan 3 membership, becomes a member of Plan 3. Notwithstanding, TRS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

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 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the TRS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2011, the DRS-established rate on employee contributions was five and one-half percent compounded quarterly. Members in TRS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from TRS-covered employment.

TRS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings. Members in TRS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those

contributions upon separation from TRS-covered employment.

TRS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 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. The monthly benefit is two percent of the average final compensation (AFC), for each year of service credit, up to a maximum of 60 percent, divided by twelve. AFC is the total earnable compensation for the two consecutive highest-paid fiscal years, divided by two.

The monthly benefit is subject to a minimum for TRS Plan 1 retirees who have at least 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. A cost-of-living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

TRS Plan 1 provides death, as well as, permanent and temporary disability benefits. TRS Plan 1 members receive the following additional lump sum death benefits: retired members-\$400 (if retired with ten years of full-time membership), \$400 (if inactive with ten years of membership), active members-\$600 (if employed full-time at time of death). TRS Plan 1 members on temporary disability receive a monthly payment of \$180 payable for up to two years, for the same occurrence. After five years of service, members on a disability retirement receive an allowance based on their salary and service to date of disability. Members enrolled in TRS prior to April 25, 1973, may elect a benefit based on the formula in effect at that time.

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

eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is two percent of the average final compensation (AFC) per year of service. AFC is the monthly average of the 60 consecutive highest-paid service credit months.

TRS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older can retire with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

TRS Plan 2 members who have 30 or more years of service credit 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.

There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually. TRS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is one percent of the AFC per year of service. AFC is the monthly average of the 60 consecutive highest-paid service credit months.

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; or after five service credit years earned in TRS Plan 2 by July 1, 1996 and transferred to Plan 3. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies according to age, for each year before age 65;
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced three percent for each year before age 65, or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. TRS Plan 3 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. See section E of Note 2 for a description of the defined contribution component of TRS Plan 3.

TRS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is two percent of the AFC per year of service. For Plan 3, the monthly benefit amount is one percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

TRS members can purchase service credit for military service that interrupts employment. Additionally, TRS members who become totally incapacitated for continued employment may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child(ren) may purchase service credit on behalf of the deceased member.

TRS members may purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

TRS members may also purchase up to five years of additional service credit, once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

Additionally, TRS Plan 2 and Plan 3 members who have two years of earned service credit may purchase up to seven years of service credit for public education experience earned in another state or with the federal government.

Beneficiaries of TRS members killed in the course of employment receive survivor benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a TRS member who dies in the line of service as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of TRS were given the choice to participate in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in TRS Plan 1 were able to make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a three and one-half percent multiplier. The benefit is capped at 75% of average final compensation.

Members who chose to participate would:

- Accrue service credit at the higher multiplier beginning with the date of their election.
- Be subject to the benefit cap of 75% of AFC.
- Stop contributing to the Judicial Retirement Account (JRA).
- Pay higher contributions.

- Be given the option to increase the multiplier on past judicial service.

Members who did not choose to participate would:

- Continue to accrue service credit at the regular multiplier (i.e., two percent).
- Continue to participate in JRA, if applicable.
- Never be a participant in the JBM Program.
- Continue to pay contributions at the regular TRS rate.

Newly elected or appointed justices and judges who chose to become TRS members on or after January 1, 2007, or who had not previously opted into TRS Plan 1 membership, were required to participate in the JBM Program. Members required into the JBM program would:

- Return to prior TRS Plan if membership had previously been established.
- Accrue the higher multiplier for all judicial service.
- Not contribute to JRA.
- Not have the option to increase the multiplier for past judicial service.

Changes to the TRS plans resulting from recent years' legislation can be found on the table immediately following this section on pages 67-69. Besides those included in the table, there were no other material changes in TRS benefit provision for the Fiscal Year ended June 30, 2011.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF): LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers who were first included prospectively effective July 27, 2003, being an exception. LEOFF retirement benefit

provisions are established in chapter 41.26 RCW and may be amended only by the state Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2011, the DRS-established rate on employee contributions was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent 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. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus five percent of FAS for each eligible surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus ten percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus five percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's allowance.

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of two percent of the FAS per year of service (FAS is based on the highest consecutive 60 months). Plan 2 members who retire prior to the age of 53 receive reduced benefits. Benefits are

actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. 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. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is two percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, and to reflect the choice of a survivor option. 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. A catastrophic disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are severely disabled in the line of duty and incapable of future substantial gainful employment in any capacity.

Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement allowance of at least ten percent of final average salary and two percent per year of service beyond five years. The first ten percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit.

LEOFF Plan 2 members can purchase service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child(ren) may purchase service credit on behalf of the deceased member.

LEOFF Plan 2 members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of ongoing health care insurance premiums paid to the Washington state Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

Changes to the LEOFF plans resulting from recent years' legislation can be found on the table immediately following this section on pages 67-69. Besides those included in the table, there were no other material changes in LEOFF benefit provisions for the Fiscal Year ended June 30, 2011.

Washington State Patrol Retirement System (WSPRS): WSPRS was established by the Legislature in 1947. Any commissioned employee of the Washington State Patrol is eligible to participate. WSPRS retirement benefit provisions are established in chapter 43.43 RCW and may be amended only by the state Legislature.

WSPRS is a single-employer defined benefit retirement system. WSPRS members who joined the system by December 31, 2002 are Plan 1 members. Those who joined on or after January 1, 2003 are Plan 2 members. For financial reporting and investment purposes, however, both plans are accounted for in the same pension fund.

WSPRS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to WSPRS accrue interest at a rate specified by DRS. During Fiscal Year 2011 the DRS-established rate on employee contributions was 5.364 percent annually, compounded monthly. Members in WSPRS can elect to withdraw total employee contributions and interest earnings upon separation from WSPRS-covered employment.

There is no vesting requirement for active WSPRS members. Inactive WSPRS members are vested after the completion of five years of eligible service. Members are eligible for retirement at the age of 55 with five years of service, or after 25 years of service, and must retire at age 65. This mandatory requirement, however, does not apply to the chief of the Washington State Patrol.

The monthly allowance is two percent of the average final salary (AFS) per year of service, capped at 75 percent. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

For WSPRS Plan 1 members, AFS is based on the average of the 24 highest-paid service credit months and excludes voluntary overtime. Death benefits for these members, if on active duty, consist of the following: (1) If eligible spouse, 50 percent of the AFS, plus five percent of the AFS for each eligible surviving child, with a limitation on the combined allowances of 60 percent of the AFS; or (2) If no eligible spouse, 30 percent of AFS for the first child plus ten percent for each additional child, subject to a 60 percent limitation of AFS.

For WSPRS Plan 2 members, AFS is based on the average of the 60 consecutive highest-paid service credit months and excludes both voluntary overtime and cash-outs of annual and holiday leave. At retirement, these members also have the option of selecting an actuarially reduced benefit in order to provide for post-retirement survivor benefits. Death benefits for these members, if on active duty, consist of the following: (1) If the member is single or has less than ten years of service, the return of the member's accumulated contributions; or (2) If the member is married, has an eligible child, or has completed ten years of service, a reduced benefit allowance reflecting a joint and 100 percent survivor option or 150 percent of the member's accumulated contributions, at the survivor's option.

WSPRS Plan 2 members can purchase service credit for military service that interrupts employment. Additionally, WSPRS Plan 2 members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child(ren) may purchase service credit on behalf of the deceased member.

Beneficiaries of a WSPRS Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependents of WSPRS members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington state Health Care Authority.

WSPRS members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

WSPRS benefit provisions include death benefits; however, the system provides no disability benefits. Disability benefits may be available from the Washington State Patrol (WSP). If disability benefits are received, the member may be eligible to acquire service credit for the period of disability.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a WSPRS member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Director of the Department of Labor and Industries.

Changes to the WSPRS plans resulting from recent years' legislation can be found on the table immediately following this section on pages 67-69. Besides those included in the table, there were no other material changes in WSPRS benefit provisions for the Fiscal Year ended June 30, 2011.

Judicial Retirement System (JRS): JRS was established by the Legislature in 1971. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts on or after August 9, 1971. The system was closed to new entrants on July 1, 1988, with new judges joining PERS. JRS retirement benefit provisions are established in chapter 2.10 RCW and may be amended only by the state Legislature.

JRS is an agent multiple-employer retirement system comprised of a single defined benefit plan. JRS retirement benefits are financed on a pay-as-you-go basis from a combination of investment earnings, employer contributions, employee contributions, and a special funding situation in which the state pays the remaining contributions.

During Fiscal Year 2011, the DRS-established rate on employee contributions was five and one-half percent, compounded quarterly. JRS members who are vested in the plan may not elect to withdraw their contributions upon termination. However, any JRS member that left the system before July 1, 1988, or his/her spouse, who was ineligible to receive a benefit at that time, may apply and receive a refund of such contributions from DRS, if said contributions have not been already refunded via a sundry claims appropriation from the state Legislature.

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.

The benefit per year of service calculated as a percent of final average salary (FAS) is shown in the table below. This benefit is capped at 75% of FAS, exclusive of cost of living increases.

Term of Service	Percent of FAS
15+	3.5%
10 – 14	3.0%

Death and disability benefits are also provided. Eligibility for death benefits while on active duty requires ten or more years of service. A monthly spousal benefit is provided which is equal to 50 percent of the benefit that the member would have received if retired. If the member is retired, the surviving spouse receives the greater of 50 percent of the member's retirement benefit or 25 percent of the FAS. For members with ten or more years of service, a disability benefit of 50 percent of FAS is provided.

There were no material changes in JRS benefit provisions for the fiscal year ended June 30, 2011.

Judges' Retirement Fund: The Judges' Retirement Fund was created by the Legislature on March 22, 1937, pursuant to chapter 2.12 RCW, to provide retirement benefits to judges of the Supreme Court, Court of Appeals, or Superior Courts of the state of Washington. Subsequent legislation required that all judges first appointed or elected to office on or after August 9, 1971, enter the Judicial Retirement System. Judges' retirement benefit provisions are established in chapter 2.12 RCW and may be amended only by the state Legislature.

The Judges' Retirement Fund is an agent multiple-employer retirement system comprised of a single defined benefit plan. There are currently no active members in this plan. Retirement benefits are financed on a pay-as-you-go basis from a combination of past employee and employer contributions, and a special funding situation in which the state contributes to the plan. Members did not earn interest on their contributions, nor could they elect to withdraw their contributions upon termination.

Judges' members were eligible for retirement at the age of 70 with ten years of service, or at any age with 18 years of service. Members were eligible to receive a partial retirement allowance after 12 years of credited service as a judge. With the exception of a partial retirement allowance, the member receives a benefit equal to one-half of the monthly salary being received as a judge at the time of retirement, or at the end of the term immediately prior to retirement if retirement occurs after the expiration of the member's term in office. A partial retirement allowance is based on the proportion of the member's 12 or more years of service in relation to 18 years of service.

There were no material changes in Judges' benefit provisions for the fiscal year ended June 30, 2011.

Recent Legislation Affecting Pension Systems/Plans Administered by DRS During Fiscal Year 2011 (page 1 of 3)

(Arranged Chronologically by Effective Date)

Legal Reference	Effective Date	Systems/Plans Affected	Description
Chapter 561, Laws of 2009 (SSB 6161)	7/1/09	LEOFF 1, PERS, PSERS, SERS, TRS and WSPRS	The actuarial method of funding the unfunded liability of PERS 1 and TRS 1 is restructured. Changes are also made to the demographic assumptions for, and pension contribution rates of, the state retirement systems/plans (with the exception of LEOFF 2). Additionally, the implementation of minimum contribution rates for WSPRS and the Plans 2 and 3 (except LEOFF 2) is delayed until the beginning of the 2011-13 biennium.
Chapter 95, Laws of 2009 (HB 1678)	7/26/09	LEOFF 2	Eligible service and disability retirements are now classified as Occupational Disability retirements for the purpose of allowing affected retirees to take advantage of favorable tax treatment on their pension benefit based on the first 10% of the member's salary.
Chapter 111, Laws of 2009 (SB 5315)	7/26/09	PERS 1	The survivor of any PERS 1 member who qualifies for retirement but has not applied, or who has 10 years of service credit, now has the option of either a monthly survivor benefit or the lump sum of contributions plus interest, upon the member's death.
Chapter 157, Laws of 2009 (SHB 1953)	7/26/09	LEOFF 2	Department of Fish and Wildlife Enforcement Officers can transfer service credit earned as an enforcement officer in PERS 2 or PERS 3 to LEOFF 2. Member, employer and state contribution rates will increase to the extent necessary to fund the difference in the value of the service credit transferred between the plans and the member contributions transferred into LEOFF 2.
Chapter 205, Laws of 2009 (HB 1548)	7/26/09	LEOFF 2, PERS 2 and 3, PSERS, SERS 2 and 3, TRS 2 and 3, and WSPRS 2	Up to five years of no-cost service credit is available for members who can provide proof to DRS that their public employment was interrupted by military service that occurred during a period of war (as defined in statute), and that they initiated the process for re-employment with the same employer no later than 90 days from the date of their honorable discharge. Members who previously purchased military service credit are eligible to receive a refund of their contributions.
Chapter 209, Laws of 2009 (SB 5303)	7/26/09	PERS 2 and SERS 2	The automatic transfer of prior PERS 2 service credit to SERS 2 when the member becomes employed in an eligible SERS position on or after August 1, 2009 is ended. Current and inactive SERS 2 members who had prior PERS service credit transferred to SERS 2 can request, beginning September 1, 2009 through November 30, 2009, that their service credit be moved back to PERS 2.
Chapter 226, Laws of 2009 (HB 1551)	7/26/09	LEOFF, PERS, PSERS, SERS, TRS and WSPRS	The eligibility for an unreduced benefit to survivors of members who leave an employer and die while honorably serving in the National Guard or military reserves during a period of war (as defined in statute) is extended.
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 522, Laws of 2009 (ESHB 1445)	7/26/09	WSPRS 2	State-registered domestic partners of WSPRS members are granted the ability to receive the survivor and death benefits available to spouses.

Recent Legislation Affecting Pension Systems/Plans Administered by DRS During Fiscal Year 2011 (page 2 of 3)

(Arranged Chronologically by Effective Date)

Legal Reference	Effective Date	Systems/Plans Affected	Description
Chapter 523, Laws of 2009 (EHB 1616)	7/26/09	LEOFF 2	Registered domestic partners of LEOFF 2 members are granted the same pension rights and options as spouses.
Chapter 80, Laws of 2010 (SB 6546)	3/17/10	LEOFF 2	The Director of Fire Protection, if previously a member of LEOFF 2, now has the choice to continue membership in LEOFF 2 while employed in this role. This position is otherwise covered by PERS.
Chapter 21, Laws of 2010 (HB 1545)	6/10/10	PERS	Eligible employees of the Higher Education Coordinating Board now have the ability to participate in the Higher Education Retirement Plan instead of the Public Employees' Retirement System.
Chapter 50, Laws of 2010 (SB 6453)	6/10/10	LEOFF 2	Shared leave can now be treated as reportable compensation for LEOFF 2 members. Earnings can be used in the calculation of a member's benefit, and service credit will be earned according to hours reported.
Chapter 103, Laws of 2010 (HB 1541)	6/10/10	PERS 2 and 3, SERS 2 and 3	Half-time service credit is now granted to qualifying members who worked for an educational employer in school years prior to January 1, 1987.
Chapter 259, Laws of 2010 (SHB 1679)	6/10/10	LEOFF 2 and WSPRS	The payment of medical insurance premiums for qualifying LEOFF 2 and WSPRS members who are catastrophically disabled in the line of duty, and their spouses and dependent children will now be paid by DRS for LEOFF 2 members and for WSPRS members.
Chapter 260, Laws of 2010 (SHB 2196)	6/10/10	LEOFF 1 and PERS 1	PERS 1 members who retired on or after January 1, 1998, can use any service transferred from LEOFF 1 to qualify for non-interruptive military service credit at no cost.
Chapter 261, Laws of 2010 (EHB 2519)	6/10/10	LEOFF and WSPRS	Additional benefits are provided to survivors of police officers, fire fighters and State Patrol officers killed in the line of duty.
Chapter 7, Laws of 2010 (ESSHB 2617)	Varies per section from 6/30/10 to 6/30/11	DCP, PERS 3, SERS 3 and TRS 3	The Employee Retirement Benefits Board is abolished and its former duties are transferred to the DRS director. Said duties include providing recommendations to the WSIB on self-directed investment options for defined contribution plans, determining the payment options for Plan 3 members, ratifying administrative charges assessed to members who participate in self-directed investment options and providing recommendations on investment options for DCP.
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. Additionally, the minimum employer contribution rates for the unfunded liability of both of these plans are lowered, and the Adjusted Minimum Benefit limit is increased to \$1,545 per month.
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 that occurred during the 2011-2013 biennium in the benefits calculation of retiring government employees in LEOFF 2, PERS, PSERS, SERS, TRS and WSPRS.

Recent Legislation Affecting Pension Systems/Plans Administered by DRS During Fiscal Year 2011 (page 3 of 3)

(Arranged Chronologically by Effective Date)

Legal Reference	Effective Date	Systems/Plans Affected	Description
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: <ul style="list-style-type: none"> -Limits to 867 the post retirement hours that a PERS 1 or TRS 1 retiree may work prior to the suspension of his pension benefit, -Limits the ability of higher education institutions and entities to offer their Higher Education Retirement (HERPS) to only exempt employees, -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, -Discontinues, for all newly hired HERP participants, the guaranteed minimum retirement benefit provisions currently available to HERP participants, -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, -Assigns, to the Office of the State Actuary, the task of overseeing an actuarial valuation of the guaranteed minimum retirement benefit provisions, -Requires institutions to submit a percentage of their HERP-covered employees' salary to DRS to be invested by the WSIB. These funds are to be used to pay required supplemental benefits to eligible HERP retirees, -Authorizes the Select Committee on Pension Policy to review HERP benefits and make recommendations to the Legislature, and -Limits to 6% of salary the matching contribution payments to HERP participants funded by the General Fund.
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 Commingled Trust Fund to a Retirement Strategy Fund, based on the member's birth year and an assumed retirement at age 65.

C. Funding Policy

With the exception of LEOFF Plan 2, the Legislature provided for minimum contribution rates for the pension plans (Chapter 561, Laws of 2009). The LEOFF Plan 2 Retirement Board provided for minimum contribution rates for the LEOFF Plan 2. These minimum rates will go into effect beginning with the 2011-2013 biennium.

The table at the end of this section provides the required contribution rates for all plans (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2011.

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 six percent for state agencies and local government unit employees, and at seven and one-half percent for state government elected officials. 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. All employers are required to contribute at the level established by the Legislature. 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 five to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age.

As a result of the implementation of the Judicial Benefit Multiplier (JBM) Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. These new higher rates are also detailed in the table at the end of this section.

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. All employers are required to contribute at the level established by the Legislature. 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 five to 15 percent, based on member choice. Two of the options are graduated dependent on the employee's age.

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. All employers are required to contribute at the level established by the Legislature.

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 six percent for state agencies and local government unit employees, and at seven and one-half percent for state elected officials. 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. All employers are required to contribute at the level established by the Legislature. 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 five to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age.

As a result of the implementation of the Judicial Benefit Multiplier (JBM) Program in January 2007, a second tier of employee rates was developed to fund the increased retirement benefits of those judges that participate in the program. These higher rates are also detailed in the table at the end of this section.

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

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

The Legislature, by means of a special funding arrangement, appropriated 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 requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. For Fiscal Year 2011, the state contributed \$52.0 million to LEOFF Plan 2.

WSPRS: Each biennium, the state Pension Funding Council adopts the employee and the state contribution rates, subject to revision by the Legislature. The preliminary employee and the state contribution rates are developed by the Office of the State Actuary to fully fund the plan. State statute also requires employees to contribute at a rate of at least 4.85 percent.

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

JRS: Contributions made are based on rates set in chapter 2.10 RCW. By statute, employees are required to contribute seven and one-half percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the JRS on a pay-as-you-go basis. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2011, the state contributed \$10.9 million.

Judges: Past contributions were made based on rates set in chapter 2.12 RCW. By statute, employees were required to contribute six and one-half percent with an equal amount contributed by the state. As of June 30, 2011, however, there are no active members remaining in the Judges Retirement Fund and member contributions are no longer collected.

The state guarantees the solvency of the Judges' Retirement fund on a pay-as-you-go basis. Each biennium, therefore, the Legislature, through appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2011, however, no such appropriations or contributions were needed or made.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2011 were as follows:

Actual Contribution Rates:	Employer			Employee		
	Plan 1	Plan 2	Plan 3	Plan 1	Plan 2	Plan 3
PERS						
Members Not Participating in JBM:						
State agencies*	5.31%	5.31%	5.31%**	6.00%	3.90%	***
Local governmental units*	5.31%	5.31%	5.31%**	6.00%	3.90%	***
State government elected officials*	7.89%	5.31%	5.31%**	7.50%	3.90%	***
Members Participating in JBM:						
State agencies*	7.81%	7.81%	7.81%**	9.76%	7.25%	7.50%****
Local governmental units*	5.31%	5.31%	5.31%**	12.26%	9.75%	7.50%****
SERS						
State agencies*	n/a	5.45%	5.45%**	n/a	3.15%	***
Local governmental units*	n/a	5.45%	5.45%**	n/a	3.15%	***
PSERS						
State agencies*	n/a	7.85%	n/a	n/a	6.55%	n/a
Local governmental units*	n/a	7.85%	n/a	n/a	6.55%	n/a
TRS						
Members Not Participating in JBM:						
State agencies*	6.14%	6.14%	6.14%**	6.00%	3.36%	***
Local governmental units*	6.14%	6.14%	6.14%**	6.00%	3.36%	***
State government elected officials*	6.14%	6.14%	6.14%**	7.50%	3.36%	***
Members Participating in JBM:						
State agencies*	6.14%	n/a	n/a	9.76%	n/a	n/a
LEOFF						
Local governmental units*	0.16%	5.24%	n/a	n/a	8.46%	n/a
Ports and universities*	n/a	8.62%	n/a	n/a	8.46%	n/a
State of Washington	n/a	3.38%	n/a	n/a	n/a	n/a
WSPRS						
State agencies*	6.57%	6.57%	n/a	5.09%	5.09%	n/a
Judicial						
State agencies	7.50%	n/a	n/a	7.50%	n/a	n/a

*Employer rates include an administrative expense rate of 0.16%.

**Plan 3 defined benefit portion only.

***Variable from 5% to 15% based on rate selected by the member.

****Minimum rate.

D. Funded Status and Funding Progress

The funded status of each plan as of June 30, 2010, the most recent actuarial valuation date, is as follows:

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
PERS Plan 1	\$ 9,293.0	\$ 12,538.1	\$ 3,245.1	74%	\$ 507.3	640%
PERS Plan 2/3*	\$ 19,474.1	\$ 20,028.8	\$ 554.7	97%	\$ 8,206.2	7%
SEFS Plan 2/3*	\$ 2,664.1	\$ 2,705.5	\$ 41.4	98%	\$ 1,475.0	3%
PSERS Plan 2*	\$ 102.9	\$ 94.1	\$ (8.8)	109%	\$ 227.4	(4)%
TRS Plan 1	\$ 7,791.3	\$ 9,201.3	\$ 1,410.0	85%	\$ 344.0	410%
TRS Plan 2/3*	\$ 6,593.3	\$ 6,557.8	\$ (35.5)	101%	\$ 3,965.5	(1)%
LEOFF Plan 1	\$ 5,560.9	\$ 4,393.3	\$ (1,167.6)	127%	\$ 29.1	(4,012)%
LEOFF Plan 2*	\$ 6,042.7	\$ 5,163.6	\$ (879.1)	117%	\$ 1,490.1	(59)%
WSPRS 1/2*	\$ 919.6	\$ 812.1	\$ (107.5)	113%	\$ 82.5	(130)%
JRS	\$ 3.8	\$ 83.8	\$ 80.0	5%	\$ 0.7	11,565%
Judges	\$ 2.8	\$ 3.2	\$ 0.4	87%	\$ –	n/a

(dollar amounts in millions)

* These plans use the Aggregate actuarial cost method which does not separately amortize Unfunded Actuarial Accrued Liabilities (UAAL). Therefore, as required by GASB 50, the Entry Age Normal Actuarial Liability method was used to determine the UAAL. This method is intended to serve as a surrogate for the funded status and funding progress of these plans.

Note: Totals may not agree due to rounding. Percentages are calculated using unrounded totals.

Source: Washington State Office of the State Actuary

The Schedules of Funding Progress, presented as Required Supplementary information (RSI) following the Notes to the Financial Statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Additional information as of the latest actuarial valuation follows:

Additional information for the Defined Benefit Plans as of the latest valuation is shown below:

	PERS Plan 1	PERS Plan 2/3	TRS Plan 1	TRS Plan 2/3	SERS Plan 2/3
Valuation – Date	6/30/2010	6/30/2010	6/30/2010	6/30/2010	6/30/2010
Actuarial Cost Method	entry age normal ¹	aggregate ²	entry age normal ¹	aggregate ²	aggregate ²
Amortization Method:					
Funding	level % ⁴	n/a	level % ⁴	n/a	n/a
GASB	level \$	n/a	level \$	n/a	n/a
Remaining Amortization Years (Closed)	10-year rolling	open plan	10-year rolling	open plan	open plan
Remaining Amortization Period (Closed)	n/a	n/a	n/a	n/a	n/a
Asset Valuation Method	8-year graded smoothed fair value ⁶	8-year graded smoothed fair value ⁶	8-year graded smoothed fair value ⁶	8-year graded smoothed fair value ⁶	8-year graded smoothed fair value ⁶
Actuarial Assumptions:					
Investment Rate of Return ⁸	8.00%	8.00%	8.00%	8.00%	8.00%
Projected Salary Increases					
Salary Inflation at 4.00%, Plus the Merit Increases Described Below ⁵ :					
Initial Salary Merit (Grades Down to 0%)	6.1%	6.1%	5.8%	5.8%	6.9%
Merit period (Years of Service)	17 yrs	17 yrs	26 yrs	26 yrs	20 yrs
Includes Inflation at Cost of Living Adjustments	n/a Minimum COLA ⁷	3.50% CPI increase, maximum 3%	n/a Minimum COLA ⁷	3.50% CPI increase, maximum 3%	3.50% CPI increase, maximum 3%

N/A indicates data not applicable

¹ PERS and TRS Plans 1 use a variation of the Entry Age Normal (EAN) cost method, whereas LEOFF 1 uses a variation of the Frozen Initial Liability (FIL) cost method.

² The aggregate cost method does not identify or separately amortize unfunded actuarial accrued liabilities.

³ Pay As You Go basis for funding.

⁴ Level percent of system payroll, including system growth.

⁵ LEOFF Plan 2 assumes 4.5% salary inflation.

⁶ Asset Valuation Method – 8 year Smoothed Fair Value – The actuarial value of assets is calculated under an adjusted market value method by starting with the market value of assets. For subsequent years, the actuarial value of assets is determined by adjusting the market value of assets to reflect the difference between the actual investment return and the expected investment return during each of the last eight years or, if fewer, the completed years since adoption, at the following rates per year (annual recognition):

Annual Gain/Loss					
Rate of Return	Smoothing Period	Annual Recognition	Rate of Return	Smoothing Period	Annual Recognition
15% and up	8 years	12.50%	6-7%	2 years	50.00%
14-15%	7 years	14.29%	5-6%	3 years	33.33%
13-14%	6 years	16.67%	4-5%	4 years	25.00%
12-13%	5 years	20.00%	3-4%	5 years	20.00%
11-12%	4 years	25.00%	2-3%	6 years	16.67%
10-11%	3 years	33.33%	1-2%	7 years	14.29%
9-10%	2 years	50.00%	1% and lower	8 years	12.50%
7-9%	1 year	100.00%			

Source: Washington State Office of the State Actuary

Chart continued on page 75

Chart continued from page 74

PSERS Plan 2	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	Judicial	Judges
6/30/2010	6/30/2010	6/30/2010	6/30/2010	6/30/2010	6/30/2010
aggregate ²	frozen initial liability ¹	aggregate ²	aggregate ²	entry age ³	entry age ³
n/a	level % ⁴	n/a	n/a	n/a	n/a
n/a	level \$	n/a	n/a	level \$	level \$
open plan	14.00	open plan	open plan	5-year rolling	5-year rolling
n/a	6/30/2024	n/a	n/a	n/a	n/a
8-year graded smoothed fair value ⁶	8-year graded smoothed fair value ⁶	8-year graded smoothed fair value ⁶	8-year graded smoothed fair value ⁶	market	market
8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
6.1%	11.0%	11.0%	7.1%	0.0%	0.0%
17 yrs	21 yrs	21 yrs	26 yrs	n/a	n/a
3.50% CPI increase maximum 3%	3.50% CPI increase	3.50% CPI increase maximum 3%	3.50% CPI increase maximum 3%	3.50% CPI increase maximum 3%	3.50% none

⁷ The PERS 1 and TRS 1 COLA

Qualifying retirees receive an increase in their monthly benefit once a year. The minimum COLA amount is calculated as the last unrounded minimum COLA amount increased by 3%, rounded to the nearest penny. These are some historical monthly COLA amounts per year of service:

<u>Date</u>	<u>COLA Type</u>	<u>Amount</u>
7/1/2002	Uniform	\$1.14
7/1/2003	Uniform	\$1.18
7/1/2004	Uniform	\$1.21
7/1/2005	Uniform	\$1.25
7/1/2006	Uniform	\$1.29
7/1/2007	Uniform	\$1.33
7/1/2008	Uniform	\$1.73
7/1/2009	Uniform	\$1.83
7/1/2010	Uniform	\$1.88
7/1/2011	Minimum	\$1.94

⁸ The Legislature prescribes the assumed rate of investment return for all plans.

E. Defined Contribution Plans

Public Employees’ Retirement System Plan 3: The Public Employees’ Retirement System (PERS) Plan 3 is a defined benefit plan, with a defined contribution component, administered by the state through DRS. Eligible employees include: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in the Judicial retirement system); employees of legislative committees; employees of community and technical colleges; college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS members who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS members who joined the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. As of June 30, 2011, there are 673 participating employers in PERS Plan 3. See section B of Note 2 for PERS plan descriptions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from five percent to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

Membership in PERS Plan 3 consisted of the following as of the latest actuarial valuation date of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	1,114
Terminated Plan Members Entitled to but Not Yet Receiving Benefits	3,368
Active Plan Members Vested	10,342
Active Plan Members Nonvested	<u>17,351</u>
Total	32,175

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expense incurred in conjunction with self-directed investments are to be paid by members. Absent a member’s self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For Fiscal Year 2011, employee contributions were \$94.1 million, and plan refunds paid out were \$59.1 million.

School Employees’ Retirement System Plan 3: The School Employees’ Retirement System (SERS) Plan 3 is a defined benefit plan, with a defined contribution component, administered by the state through DRS. Eligible employees include classified employees of school districts and educational service districts who joined PERS Plan 2 on or after October 1, 1977 and by August 31, 2000, and were transferred to SERS Plan 2 on September 1, 2000. Members transferred from PERS Plan 2 to SERS Plan 2 may exercise an option to transfer their membership to SERS Plan 3. SERS members joining the system on or after September 1, 2000, and before July 1, 2007, are members of SERS Plan 3. SERS members hired on or after July 1, 2007 have 90 days to choose between SERS Plan 3 and SERS Plan 2. Individuals who fail to make a choice will default to SERS Plan 3. As of June 30, 2011 there are 300 participating employers

in SERS Plan 3. See section B of Note 2 for SERS plan descriptions.

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from five percent to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of SERS Plan 3.

Membership in SERS Plan 3 consisted of the following as of the latest actuarial valuation date of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	2,073
Terminated Plan Members Entitled to but Not Yet Receiving Benefits	4,942
Active Plan Members Vested	17,856
Active Plan Members Nonvested	14,125
Total	38,996

SERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, SERS Plan 3 investments are made in the same portfolio as that of the SERS 2/3 defined benefit plan.

For Fiscal Year 2011, employee contributions were \$60.3 million, and plan refunds paid out were \$53.2 million.

Teachers' Retirement System Plan 3: The Teachers' Retirement System (TRS) Plan 3 is a defined benefit plan, with a defined contribution component, administered by the state through DRS. Eligibility for membership requires service as a certificated public school employee working in an instructional, administrative or supervisory capacity. TRS members

who joined on or after October 1, 1977 and by June 30, 1996 are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS members joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3. TRS members hired on or after July 1, 2007 have 90 days to choose between TRS Plan 3 and TRS Plan 2. Individuals who fail to make a choice will default to TRS Plan 3. As of June 30, 2011, there are 330 participating employers in TRS Plan 3. See section B of Note 2 for TRS plan descriptions.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from five percent to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of TRS Plan 3.

Membership in TRS Plan 3 consisted of the following as of the latest actuarial valuation date of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	2,235
Terminated Plan Members Entitled to but Not Yet Receiving Benefits	5,782
Active Plan Members Vested	31,379
Active Plan Members Nonvested	20,913
Total	60,309

TRS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, TRS Plan 3 investments are made in the same portfolio as that of the TRS 2/3 defined benefit plan.

For Fiscal Year 2011, employee contributions were \$257.7 million and plan refunds paid out were \$115.6 million.

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, 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, and who are members of the PERS for their services as a judge. Vesting is full and immediate. At June 30, 2011, there were 10 active members and 184 inactive members in JRA. There are three participating employers in JRA.

From January 1, 2007 through December 31, 2007 any judicial members of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) eligible to participate in JRA were able to make a one-time irrevocable election to discontinue future contributions to JRA, in lieu of prospective contributions to the Judicial Benefit Multiplier Program (JBM). 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 and would be enrolled in the JBM Program enacted in 2006.

JRA plan members are required to contribute two and one-half 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 per 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 with DRS for accounting and reporting services, and with the Washington State Investment Board (WSIB) for investment services. 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.

F. Employer Contributions Required and Paid

The following table presents DRS' required contributions in thousands of dollars to cost-sharing plans in accordance with the funding policy. All contributions required by the funding method were paid.

	2011	2010	2009
(expressed in thousands)			
PERS Plan 1	\$ 48.4	\$ 66.7	\$ 111.7
PERS Plan 2/3	614.8	632.3	981.2
Total	<u>\$ 663.2</u>	<u>\$ 699.0</u>	<u>\$ 1,092.9</u>

G. Deferred Compensation Plan

The state of Washington offers its employees and employees of those political subdivisions that elect to participate, a deferred compensation plan pursuant to RCW 41.50.770, in accordance with Internal Revenue Code Section 457. Under the plan, eligible employees elect to defer a portion of their salary until future time periods. The deferred compensation is not available to employees until termination, retirement, disability, death or unforeseeable financial emergency.

This deferred compensation plan is administered by DRS.

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 Washington State Investment Board (WSIB), as set forth under RCW 43.33A.030, for the exclusive benefit of the state deferred compensation plan's 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 nonassignable and nontransferable.

Employees participating in the state Deferred Compensation Plan self-direct the investment of the deferred portion of their income through the selection of investment options. These options are provided by the WSIB after consultation with the director of DRS. The WSIB has the full power to invest moneys in the state Deferred Compensation Plan in accordance with RCW 43.84.150, 43.33A.140, and 41.50.770. Pursuant to RCW 41.50.770, no state board, commission, agency, or any officer, employee or member thereof is liable for any loss or deficiency resulting from participant investments selected, or from reasonable efforts to implement investment directions.

The Deferred Compensation Plan offers a stable principal Savings Pool and twenty other investment options. The investment options consist of the following:

- Active U.S. Core Stock Fund
- Active U.S. Value Stock Fund
- Fidelity Growth Company Fund
- International Stock Fund
- Savings Pool
- U.S. Small Stock Index Fund
- U.S. Stock Market Index Fund

- Washington State Bond Fund
- Washington State Socially Responsible Balanced Fund
- 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

More detailed information and discussion regarding investment strategies and an overview of investments in general can be obtained by contacting DRS.

Required Supplementary Information

Schedule of Funding Progress: PERS Plan 1

	(dollars in millions)					
	2010	2009	2008	2007	2006	2005
Actuarial Valuation Date	6/30/10	6/30/09	6/30/08	6/30/07	9/30/06	9/30/05
Actuarial Value of Plan Assets	\$9,293	\$9,776	\$9,853	\$9,715	\$9,591	\$9,707
Actuarial Accrued Liability	\$12,538	\$13,984	\$13,901	\$13,740	\$13,129	\$13,704
Unfunded Actuarial Liability	\$3,245	\$4,209	\$4,048	\$4,025	\$3,538	\$3,997
Funded Ratio	74%	70%	71%	71%	73%	71%
Covered Payroll	\$507	\$580	\$638	\$676	\$725	\$786
Unfunded Actuarial Liability as a Percentage of Covered Payroll	640%	725%	634%	595%	488%	509%

Source: Washington State Office of the State Actuary

Schedule of Funding Progress: PERS Plan 2/3

	(dollars in millions)					
	2010	2009	2008	2007	2006	2005
Actuarial Valuation Date	6/30/10	6/30/09	6/30/08	6/30/07	9/30/06	9/30/05
Actuarial Value of Plan Assets	\$19,474	\$18,260	\$16,693	\$14,888	\$13,529	\$12,274
Actuarial Accrued Liability	\$20,029	\$18,398	\$16,508	\$14,661	\$12,770	\$11,495
Unfunded Actuarial Liability	\$555	\$137	\$(185)	\$(227)	\$(759)	\$(779)
Funded Ratio	97%	99%	101%	102%	106%	107%
Covered Payroll	\$8,206	\$8,132	\$7,869	\$7,157	\$6,771	\$6,444
Unfunded Actuarial Liability as a Percentage of Covered Payroll	7%	2%	(2)%	(3)%	(11)%	(12)%

Source: Washington State Office of the State Actuary

Schedule of Funding Progress: SERS Plan 2/3

	(dollars in millions)					
	2010	2009	2008	2007	2006	2005
Actuarial Valuation Date	6/30/10	6/30/09	6/30/08	9/30/07	9/30/06	9/30/05
Actuarial Value of Plan Assets	\$2,664	\$2,503	\$2,303	\$2,133	\$1,934	\$1,747
Actuarial Accrued Liability	\$2,706	\$2,493	\$2,207	\$1,998	\$1,787	\$1,601
Unfunded Actuarial Liability	\$41	\$(10)	\$(95)	\$(136)	\$(147)	\$(146)
Funded Ratio	98%	100%	104%	107%	108%	109%
Covered Payroll	\$1,475	\$1,467	\$1,379	\$1,283	\$1,243	\$1,201
Unfunded Actuarial Liability as a Percentage of Covered Payroll	3%	(1)%	(7)%	(11)%	(12)%	(12)%

Source: Washington State Office of the State Actuary

Schedule of Funding Progress: PSERS Plan 2

	(dollars in millions)					
	2010	2009	2008	2007	2006	2005
Actuarial Valuation Date	6/30/10	6/30/09	6/30/08	6/30/07	9/30/06	9/30/05
Actuarial Value of Plan Assets	\$103	\$69	\$39	\$14	*	*
Actuarial Accrued Liability	\$94	\$64	\$37	\$19	*	*
Unfunded Actuarial Liability	\$(9)	\$(5)	\$(2)	\$6	*	*
Funded Ratio	109%	108%	106%	71%	*	*
Covered Payroll	\$227	\$223	\$200	\$134	*	*
Unfunded Actuarial Liability as a Percentage of Covered Payroll	(4)%	(2)%	(1)%	4%	*	*

*Data not available

Source: Washington State Office of the State Actuary

Schedule of Funding Progress: TRS Plan 1

	(dollars in millions)					
	2010	2009	2008	2007	2006	2005
Actuarial Valuation Date	6/30/10	6/30/09	6/30/08	6/30/07	9/30/06	9/30/05
Actuarial Value of Plan Assets	\$7,791	\$8,146	\$8,262	\$8,302	\$8,275	\$8,450
Actuarial Accrued Liability	\$9,201	\$10,820	\$10,754	\$10,826	\$10,359	\$10,894
Unfunded Actuarial Liability	\$1,410	\$2,674	\$2,492	\$2,524	\$2,084	\$2,444
Funded Ratio	85%	75%	77%	77%	80%	78%
Covered Payroll	\$344	\$389	\$432	\$426	\$478	\$546
Unfunded Actuarial Liability as a Percentage of Covered Payroll	410%	688%	576%	592%	436%	448%

Source: Washington State Office of the State Actuary

Schedule of Funding Progress: TRS Plan 2/3

	(dollars in millions)					
	2010	2009	2008	2007	2006	2005
Actuarial Valuation Date	6/30/10	6/30/09	6/30/08	6/30/07	9/30/06	9/30/05
Actuarial Value of Plan Assets	\$6,593	\$6,160	\$5,681	\$5,277	\$4,835	\$4,411
Actuarial Accrued Liability	\$6,558	\$6,048	\$5,264	\$4,682	\$4,030	\$3,594
Unfunded Actuarial Liability	\$(36)	\$(112)	\$(417)	\$(594)	\$(806)	\$(818)
Funded Ratio	101%	102%	108%	113%	120%	123%
Covered Payroll	\$3,966	\$3,957	\$3,621	\$3,318	\$3,225	\$3,058
Unfunded Actuarial Liability as a Percentage of Covered Payroll	(1)%	(3)%	(12)%	(18)%	(25)%	(27)%

Source: Washington State Office of the State Actuary

Schedule of Funding Progress: LEOFF Plan 1

	(dollars in millions)					
	2010	2009	2008	2007	2006	2005
Actuarial Valuation Date	6/30/10	6/30/09	6/30/08	6/30/07	9/30/06	9/30/05
Actuarial Value of Plan Assets	\$5,561	\$5,612	\$5,592	\$5,298	\$5,018	\$4,800
Actuarial Accrued Liability	\$4,393	\$4,492	\$4,368	\$4,340	\$4,309	\$4,243
Unfunded Actuarial Liability	\$(1,168)	\$(1,120)	\$(1,225)	\$(958)	\$(709)	\$(557)
Funded Ratio	127%	125%	128%	122%	116%	113%
Covered Payroll	\$29	\$33	\$37	\$43	\$48	\$56
Unfunded Actuarial Liability as a Percentage of Covered Payroll	(4,012)%	(3,360)%	(3,303)%	(2,243)%	(1,475)%	(995)%

Source: Washington State Office of the State Actuary

Schedule of Funding Progress: LEOFF Plan 2

	(dollars in millions)					
	2010	2009	2008	2007	2006	2005
Actuarial Valuation Date	6/30/10	6/30/09	6/30/08	6/30/07	9/30/06	9/30/05
Actuarial Value of Plan Assets	\$6,043	\$5,564	\$5,053	\$4,360	\$3,844	\$3,329
Actuarial Accrued Liability	\$5,164	\$4,641	\$3,998	\$3,626	\$3,486	\$3,074
Unfunded Actuarial Liability	\$(879)	\$(923)	\$(1,054)	\$(734)	\$(358)	\$(255)
Funded Ratio	117%	120%	126%	120%	110%	108%
Covered Payroll	\$1,490	\$1,442	\$1,345	\$1,234	\$1,172	\$1,092
Unfunded Actuarial Liability as a Percentage of Covered Payroll	(59)%	(64)%	(78)%	(59)%	(31)%	(23)%

Source: Washington State Office of the State Actuary

Schedule of Funding Progress: WSPRS Plan 1/2

	(dollars in millions)					
	2010	2009	2008	2007	2006	2005
Actuarial Valuation Date	6/30/10	6/30/09	6/30/08	6/30/07	9/30/06	9/30/05
Actuarial Value of Plan Assets	\$920	\$900	\$870	\$800	\$743	\$694
Actuarial Accrued Liability	\$812	\$790	\$745	\$702	\$671	\$621
Unfunded Actuarial Liability	\$(107)	\$(110)	\$(124)	\$(98)	\$(72)	\$(73)
Funded Ratio	113%	114%	117%	114%	111%	112%
Covered Payroll	\$83	\$83	\$79	\$72	\$69	\$65
Unfunded Actuarial Liability as a Percentage of Covered Payroll	(130)%	(133)%	(158)%	(136)%	(105)%	(112)%

Source: Washington State Office of the State Actuary

Schedule of Funding Progress: JRS

	(dollars in millions)					
	2010	2009	2008	2007	2006	2005
Actuarial Valuation Date	6/30/10	6/30/09	6/30/08	6/30/07	9/30/06	9/30/05
Actuarial Value of Plan Assets	\$4	\$2	\$1	\$1	\$-	\$2
Actuarial Accrued Liability	\$84	\$89	\$92	\$85	\$88	\$89
Unfunded Actuarial Liability	\$80	\$87	\$91	\$85	\$88	\$87
Funded Ratio	5%	2%	1%	1%	0%	2%
Covered Payroll	\$0.7	\$0.9	\$1.3	\$1.3	\$1.4	\$1.7
Unfunded Actuarial Liability as a Percentage of Covered Payroll	11,565%	9,216%	7,141%	6,374%	6,071%	5,118%

Source: Washington State Office of the State Actuary

Schedule of Funding Progress: Judges

	(dollars in millions)					
	2010	2009	2008	2007	2006	2005
Actuarial Valuation Date	6/30/10	6/30/09	6/30/08	6/30/07	9/30/06	9/30/05
Actuarial Value of Plan Assets	\$2.8	\$3.3	\$3.6	\$4.0	\$4.1	\$4.2
Actuarial Accrued Liability	\$3.2	\$3.4	\$3.5	\$3.9	\$4.0	\$4.5
Unfunded Actuarial Liability	\$0.4	\$0.1	\$(0.1)	\$(0.1)	\$(0.1)	\$0.3
Funded Ratio	87%	97%	104%	103%	103%	93%
Covered Payroll	\$-	\$-	\$-	\$-	\$-	\$-
Unfunded Actuarial Liability as a Percentage of Covered Payroll	n/a	n/a	n/a	n/a	n/a	n/a

Source: Washington State Office of the State Actuary

Note on PERS Plan 2/3, SERS Plan 2/3, PSERS Plan 2, TRS Plan 2/3, LEOFF Plan 2, and WSPRS Plan 1/2: These plans all use the Aggregate actuarial cost method which does not identify or separately amortize unfunded actuarial accrued liabilities. For this reason, the information about funded status and funding progress shown above for these plans has been prepared using the Entry Age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of these plans, as required by GASB 50.

Note for all plan schedules: Liability amounts and ratios/percentages are based on actual not rounded figures.

Schedule of Contributions from Employers and Other Contributing Entities

The following schedule covers the fiscal years ended 2006-2011.

	(dollars in millions)											
	Annual Required Contribution*						Percentage Contributed					
	2011	2010	2009	2008	2007	2006	2011	2010	2009	2008	2007	2006
PERS Plan 1	\$439.3	\$627.8	\$620.2	\$453.1	\$397.3	\$438.5	33%	25%	52%	49%	30%	7%
PERS Plan 2/3	408.6	383.1	369.7	363.3	331.3	307.6	80%	85%	119%	88%	73%	49%
SERS Plan 2/3	88.6	82.3	71.5	75.8	71.5	81.4	70%	75%	89%	69%	64%	37%
PSERS Plan 2**	14.7	14.8	14.3	12.4	7.1	n/a	106%	103%	101%	94%	93%	n/a
TRS Plan 1	205.9	406.1	391.0	294.7	249.8	287.5	47%	28%	46%	38%	24%	5%
TRS Plan 2/3	232.3	221.1	186.9	208.9	167.7	166.4	72%	75%	86%	52%	61%	45%
LEOFF Plan 1	0.0	0.0	0.0	0.0	0.1	0.0	n/a	n/a	n/a	n/a	n/a	n/a
LEOFF Plan 2	84.0	112.2	105.3	102.1	94.9	101.3	157%	114%	122%	117%	101%	79%
WSPRS Plan 1/2	2.3	6.6	5.0	6.8	5.3	6.1	228%	80%	127%	89%	62%	48%
JRS	18.6	20.4	21.2	26.6	37.3	27.7	59%	57%	49%	36%	26%	24%
Judges	0.1	0.0	0.0	0.0	0.0	0.1	n/a	n/a	n/a	n/a	n/a	300%

* The Annual Required Contribution (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 experience gains and losses. The methods used to derive the ARC for this accounting disclosure are different from the methods used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation) and different actuarial cost methods. For these reasons, the actual contributions will not match the Annual Required Contributions. Starting in 2009, we calculated the ARC for PERS and TRS Plans 1 under the Entry Age Normal Cost method with a rolling 10-year amortization (excluding the temporary rate ceilings). Starting in 2011, the calculation of the ARC reflects the underlying actuarial cost method (excluding minimum contribution rates).

** PSERS Plan 2 became effective on July 1, 2006.

Source: Washington State Office of the State Actuary

Supporting Schedules

Schedule of Administrative Expenses For the Year Ended June 30, 2011 (expressed in thousands)

	Retirement Pension Trust Funds	Deferred Compensation Pension Trust Fund	Totals	
			June 30, 2011	June 30, 2010
Current				
Personnel:				
Salaries and Wages	\$ 11,344	\$ 902	\$ 12,246	\$ 12,870
Employee Benefits	3,885	307	4,192	4,027
Personal Service Contracts	1,285	243	1,528	1,065
Total Personnel Expenses	16,514	1,452	17,966	17,962
Goods and Services:				
Supplies and Materials	49	12	61	58
Communications	477	11	488	581
Utilities	135	9	144	156
Rental and Leases	1,495	98	1,593	1,612
Repairs and Alterations	190	12	202	193
Printing and Reproduction	276	10	286	220
Employee Professional Development and Training	82	2	84	91
Subscriptions	9	–	9	7
Facilities and Services	374	20	394	466
Data Processing Services	1,530	21	1,551	2,210
Attorney General Services	50	20	70	55
Personnel Services	36	2	38	62
Medical Consultant Services	66	–	66	69
Insurance	14	1	15	16
Other Contractual Services	468	3	471	501
Vehicle Maintenance	1	1	2	15
Actuary Services	1,522	–	1,522	1,417
LEOFF 2 Board Governance	876	–	876	919
Pension Funding Council Services	84	–	84	66
Audit Services	80	2	82	143
Archives and Records Management	40	3	43	53
Legal Fees	1,391	–	1,391	1,400
Bad Debts Expense	208	–	208	164
Collections	79	–	79	104
Office of Minority and Women's Business Enterprises Services	1	–	1	1
Other Goods and Services	94	1	95	34
Total Goods and Services	9,627	228	9,855	10,613
Miscellaneous Expenses:				
Travel	42	25	67	63
Noncapitalized Equipment	74	1	75	36
Total Miscellaneous Expenses	116	26	142	99
Total Current Expenses	26,257	1,706	27,963	28,674
Capital Outlays:				
Furnishings, Equipment and Software	450	29	479	565
Total Capital Outlays	450	29	479	565
Depreciation – Capital Assets	165	–	165	221
Total Administrative Expenses	\$ 26,872	\$ 1,735	\$ 28,607	\$ 29,460

Schedule of Investment Expenses
Pension Trust Funds
For the Year Ended June 30, 2011
(expressed in thousands)

	Fees Paid	Netted Fees*	Total Fees and Expenses
Equity Securities			
Active Equity Manager Emerging Markets	\$ 2,590	\$ —	\$ 2,590
Active Equity Manager Global	24,432	—	24,432
Passive Equity Manager Developed Markets	312	—	312
Active Management Innovation Portfolio	769	—	769
Commingled Funds Emerging Market	—	10,904	10,904
Commingled Funds Developed Markets	—	556	556
Alternative Investments			
Private Equity	120,135	—	120,135
Real Estate	34,338	—	34,338
Tangible Assets	6,376	—	6,376
Cash Management	3,986	—	3,986
Securities Lending	1,090	—	1,090
Other Fees:			
Consultants Accounting	1,230	—	1,230
DCP Management Fees	3,918	—	3,918
JRA Management Fees	18	—	18
Legal Fees	300	—	300
PERS Plan 3 – SELF Management Fees	767	—	767
Research Services	1,991	—	1,991
SERS Plan 3 Management Fees	360	—	360
TRS Plan 3 Management Fees	2,108	—	2,108
WSIB Operating Costs	11,578	—	11,578
Miscellaneous Fees	144	—	144
Total Investment Expenses	<u>\$ 216,442</u>	<u>\$ 11,460</u>	<u>\$ 227,902</u>

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

Schedule of Payments to Consultants
For the Year Ended June 30, 2011
(expressed in thousands)

	Commissions/Fees
Computer/Technology	
Aetea Information Technology, Inc.	\$ 164
Martin Analysis and Programming, Inc.	266
Total Computer/Technology	430
Legal	
Buell Realtime Reporting, LLC	1
Danielson Harrigan Leyh & Tollefson, LLP	92
Foster Pepper & Shefelman, PLLC	37
Ice Miller, LLP	92
Libey, Ensley & Nelson, PLLC	13
Total Legal	235
Management	
Actuarial Consulting Group, Inc.	33
CEM Benchmarking, Inc.	35
Cheiron, Inc.	84
Peterson Sullivan, LLP	57
Total Management	209
Recordkeeping	
Great West Retirement Services	239
ICMA Retirement Corporation	1,250
Total Recordkeeping	1,489
Total Payments to Consultants	\$ 2,363

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

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