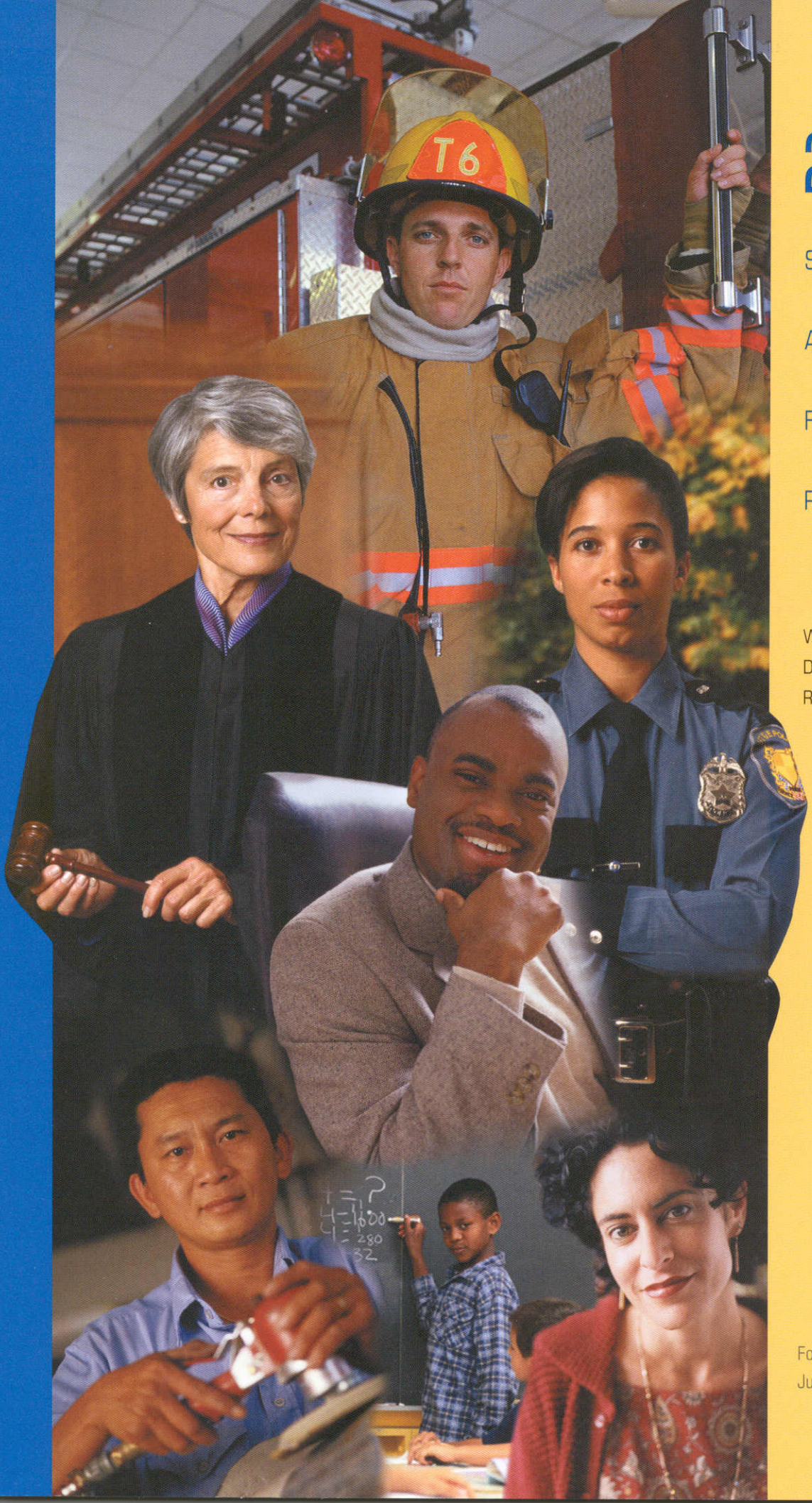


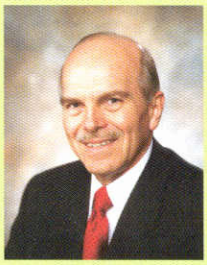
2001

SUMMARY ANNUAL FINANCIAL REPORT

Washington State
Department of
Retirement Systems

For the year ended
June 30, 2001

Message From the Director



John F. Charles, Director

This year, 2001, marks the 25th anniversary of the Department of Retirement Systems (DRS). Through recent and historic events we have recovered, endured and thrived. Today DRS stands as a model retirement system – one of the most cost-effective, customer focused and financially secure in the nation.

We're also celebrating a new millennium, which brings with it the opportunities and challenges that would have been considered science fiction a quarter century ago. The recent explosion of Internet and information technologies has made it possible to conduct business at the speed of light. The capability to access that technology is within easy reach of nearly everyone across our beautiful state. And the increased capability has ushered in a heightening of customer expectations.

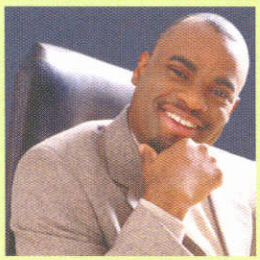
DRS is poised, ready and able to take full advantage of the opportunities and meet the challenges of the 21st century. We have assembled the finest group of employees to serve our customers' needs and shape the agency's future. We have a solid foundation to deliver state-of-the-art services to delight our customers in the coming years.

It is with great pride that I present you with this *2001 Summary Annual Financial Report.* This provides you with an overview of DRS and the retirement plans it administers, explains who makes decisions about your retirement plans and also provides you with the funding status of the plans. If you have questions, would like additional information, or a copy of the Department of Retirement Systems' *Comprehensive Annual Financial Report*, please contact the agency at P.O. Box 48380, Olympia WA 98504-8380. Or call toll-free at 1-800-547-6657. In the greater Olympia area, call 664-7000, or visit the DRS Web site at: www.wa.gov/DRS/drs.htm.

Sincerely,

John F. Charles
Director

DRS celebrates 25 years of service in 2001.



Membership

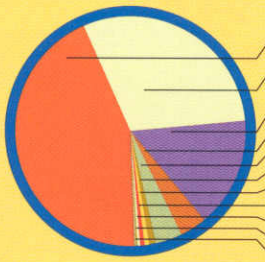
Washington state's retirement systems provide high quality, secure retirement plans to state and local government, and to education employees across the state.

The 12 statewide retirement plans managed by DRS serve almost 500,000 current, past and retired public employees from state and local governments, kindergarten through grade 12 and higher education systems, fire, law enforcement and judicial agencies.

Active members, who currently work and pay contributions toward retirement, comprise 57 percent of the public pension participation. The remaining members are either retired or have separated from public service.

The charts below illustrate the number of active and inactive/retired employees participating in Washington state's retirement systems.

Inactive and Retired Members by System and Plan*

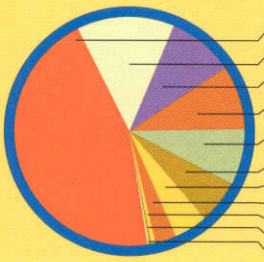


PERS 2	44.02%	93,351
PERS 1	30.22%	64,085
TRS 1	15.46%	32,789
TRS 2	3.83%	8,122
LEOFF 1	3.73%	7,903
SERS 2	.96%	2,025
TRS 3	.63%	1,334
LEOFF 2	.63%	1,331
WSPRS	.36%	756
SERS 3	.09%	196
Judges/JRS	.07%	151
Total		**212,043**

As of December 31, 2000

*Includes vested and non-vested inactive members

Active Members by System and Plan



PERS 2	45.23%	126,428
TRS 3	13.70%	38,280
PERS 1	9.24%	25,833
SERS 2	9.20%	25,714
SERS 3	7.88%	22,011
TRS 1	6.16%	17,222
LEOFF 2	4.70%	13,133
TRS 2	2.99%	8,356
LEOFF 1	.54%	1,499
WSPRS	.36%	1,013
Judges/JRS	.00%	33
Total		**279,522**

As of December 31, 2000

Investment Summary

The State Investment Board manages retirement fund assets with the statutory requirement to maximize investment returns at a prudent level of risk. The defined benefit retirement funds, collectively called the Commingled Trust Fund (CTF), decreased in value by $3.7 billion during Fiscal Year 2001 to $42.9 billion. The CTF investment return was a negative 5.96 percent for the fiscal year. This was the first year since 1984 that the retirement funds posted negative returns. Strong declines in worldwide equity markets contributed largely to the negative returns.

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

CTF Investment Returns
Performance as of June 30, 2001

Percentage	1 YEAR	3 YEAR	5 YEAR
TOTAL FUND	-5.96	6.23	11.08
U.S. EQUITY	-14.48	4.29	13.34
NON-U.S. EQUITY	-21.58	1.89	2.36
FIXED INCOME	12.41	6.45	7.74
REAL ESTATE	13.31	11.10	17.43
PRIVATE EQUITY	-6.90	10.93	18.30
CASH	0.95	4.11	4.72

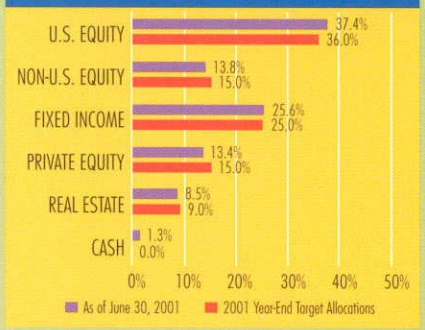
Investment performance is a result of two primary factors: individual asset selection and the allocation of the portfolio among the asset classes (e.g., stocks, fixed income and real estate).

Accordingly, the board sets specific long-term and year-end target asset mixes, and adopts tight ranges around the year-end targets to control the overall risk and return of the CTF. On a monthly basis, the board reviews the asset allocation in

relation to the established ranges. The staff shifts assets whenever the allocation range for assets exceeds the approved range. The board reviews changes to the overall asset mix every three to four years.

The chart below shows the CTF's asset allocation as of June 30, 2001, and the 2001 year-end target allocations.

Current Asset Allocation and 2001 Year-End Target Allocations



The table below shows the retirement fund's 10 largest U.S. Equity Holdings as of June 30, 2001. The board purchases domestic stocks as part of an equity index portfolio and not as individual stock purchases.

Largest Equity Holdings as of June 30, 2001

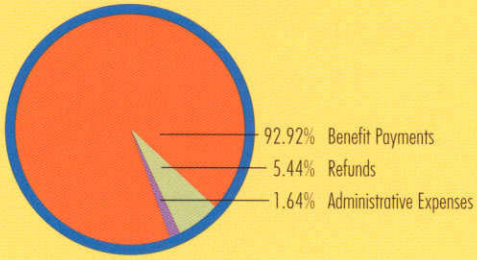
Name	Shares	Market Value
General Electric Co.	19,012,691	$926,868,680
Microsoft Corp.	10,301,777	$752,029,748
Exxon Corp.	6,603,350	$576,802,597
Citigroup Inc.	9,625,102	$508,590,401
Pfizer Inc.	12,083,330	$483,937,379
AOL Time Warner Inc.	8,480,531	$449,468,125
Wal-Mart Stores Inc.	8,557,800	$417,620,648
American Int'l Group Inc.	4,461,773	$383,712,443
Intel Corp.	12,872,241	$376,513,036
Int'l Business Machines Corp.	3,325,570	$375,789,437

Financial Statement

Pension Trust Fund Revenues (dollars in millions)

	Fiscal Year 2001	Fiscal Year 2000	Increased (Decreased) Amount	Increased (Decreased) Percentage
Employer Contributions	$559.9	$593.6	$(33.7)	(6)%
Member Contributions	467.1	420.0	47.1	11%
State General Fund	28.7	24.8	3.9	16%
Net Investment Income	(2,827.3)	5,456.8	(8,284.1)	(152)%
Charges for Services	25.8	21.0	4.8	23%
Miscellaneous	1.3	1.4	(0.1)	(7)%
Total	$(1,744.5)	$6,517.6	$(8,262.1)	(127)%

Pension Trust Fund Expenses



Statement of Plan Net Assets

Pension Trust Funds and Other Benefit Funds by Plan

As of June 30, 2001 and 2000 (expressed in thousands)

ASSETS	PERS Plan 1	PERS Plan 2	SERS Plan 2/3	SERS Plan 3 Defined Contribution
Cash & Pooled Investments	$7,528	$2,785	$715	$250
Deposits - Certificates of Deposit	115,507	114,641	14,796	3,785
Investments, Noncurrent	10,532,620	10,464,875	1,340,945	501,657
Other	69,061	78,387	14,704	1,903
TOTAL ASSETS	10,724,716	10,660,688	1,371,160	507,595
TOTAL LIABILITIES	508,006	498,360	66,982	17,123
Net Assets Held in Trust for Pension and Other Benefits	$10,216,710	$10,162,328	$1,304,178	$490,472

This is a summary of the Comprehensive Annual Financial Report and is presented consistent with generally accepted acc
trust fund is presented using the flow of current financial resources measurement focus and the modified accrual basis of
in the following respects: financial data for the dependent care special revenue fund is not included, only selected financi

Pension Trust Fund Revenues

The primary sources of revenue for the retirement trust funds include contributions from employers, active system members and net investment income. Total trust fund revenues for Fiscal Year 2001 amounted to a negative $1,744.5 million, a decrease of $8,262.1 million from Fiscal Year 2000. The reduction in revenues was due primarily to a decrease in net investment income - from a gain of $5,456.8 million in Fiscal Year 2000 to a loss of $2,827.3 million in Fiscal Year 2001. Fiscal Year 2001 member contributions and restorations totaled $467.1 million, employer contributions totaled $559.9 million, state General Fund contributions for the Law Enforcement Officers' and Fire Fighters' Plan 2, Judicial and Judges Retirement Systems totaled $28.7 million, charges for services totaled $25.8 million and other income totaled $1.3 million. Revenue sources and their totals are listed to the left.

Pension Trust Fund Expenses

The retirement systems' primary trust fund expenses include the payment of benefits to retirees and beneficiaries, the refund of contributions to former members and the cost of administering the retirement systems. Trust fund expenses for Fiscal Year 2001 totaled $1,754.5 million, an increase of $133 million over Fiscal Year 2000. Benefit payments to members including pension and annuity benefits totaled $1,630.2 million. Refunds totaled $95.5 million. Administrative expenses for Fiscal Year 2001, which includes the Offices of the State Actuary and Attorney General and DRS, totaled $28.8 million. Expenses for the management of the trust funds are incurred by the State Investment Board and funded from earnings on investments. Trust fund expenses and their totals are listed to the left.

Funding

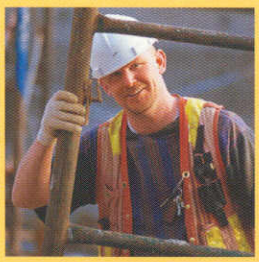
Valuations are performed for most DRS-administered retirement systems on a calendar year (January 1 – December 31) basis. Teachers' Retirement System valuations are performed on a fiscal year (July 1 – June 30) basis.

The actuarial value of assets available as of the latest actuarial date for all systems was $44,959 million. The accrued liability is $44,384 million. The net actuarial value of assets available for benefits exceeds the accrued liability by $575 million.

Current contribution rates remain in keeping with the goal of attaining a funding ratio of 100 percent for all plans by the amortization dates applicable to each plan (June 30, 2024, or earlier) as required by the Revised Code of Washington, Chapter 41.45.

PENSION TRUST									EXPENDABLE TRUST	AGENCY	TOTALS (memorandum only)	
TRS Plan 1	TRS Plan 2/3	TRS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS	JRS	JUDGES	JRA Defined Contribution	Deferred Compensation	Dependent Care	June 30, 2001	June 30, 2000
$6,590	$1,958	$911	$2,836	$803	$604	$349	$4,951	$6	$5,389	$400	$36,075	$51,885
99,395	36,655	9,265	56,415	26,517	7,450	0	0	0	0	0	484,426	152,448
9,070,754	3,355,995	1,656,531	5,144,654	2,426,240	679,633	9,581	741	9,361	1,464,728	0	46,658,315	50,427,803
59,138	31,327	4,407	27,876	20,489	3,747	77	20	0	81	0	311,217	331,610
9,235,877	3,425,935	1,671,114	5,231,781	2,474,049	691,434	10,007	5,712	9,367	1,470,198	400	47,490,033	50,963,746
436,127	159,832	39,064	244,555	114,420	32,444	214	754	1	902	400	2,119,184	2,077,200
$8,799,750	$3,266,103	$1,632,050	$4,987,226	$2,359,629	$658,990	$9,793	$4,958	$9,366	$1,469,296	0	$45,370,849	$48,886,546

unting principles (GAAP). The pension trust funds are presented using the flow of economic resources measurement focus and the accrual basis of accounting. The expendable accounting. The agency fund does not have a measurement focus and is presented using the modified accrual basis of accounting. However, this presentation differs from GAAP data rather than financial statements are included, and this report only contains abbreviated note disclosures.



Summary of Plan Provisions

A brief summary of retirement plans administered by DRS is provided below. For more details, refer to your member handbook or the DRS Web site at www.wa.gov/DRS/drs.htm

Plan	Membership Eligibility	Vesting	Service Retirement Eligibility	Benefit
PERS Plan 1 (Until 10/1/77)	State employees, elected officials, employees of local governments, legislative committees, community/technical colleges, classified employees of school districts, district/ municipal court judges, and some employees of the Supreme, Appeals, and Superior Courts	After five years of eligible service	After 30 years of service, or at age 60 with 5 years of service, or at age 55 with 25 years of service	2% of average final compensation per year of service
PERS Plan 2 (On or after 10/1/77)	State employees, elected officials, employees of local governments, legislative committees, community/technical colleges, district/ municipal court judges, and some employees of the Supreme, Appeals, and Superior Courts	Same as PERS Plan 1	At age 65 or older with 5 years of service or age 55 or older with 20 years of service actuarially reduced for each year under age 65, or age 55 or older with 30 years of service, benefit reduced 3% for each year under age 65	2% of average final compensation per year of service
TRS Plan 1 (Until 10/1/77)	All certificated public school employees	After five years of eligible service	After 30 years of service, or at age 60 with 5 years of service, or at age 55 with 25 years of service	2% of average final compensation per year of service
TRS Plan 2 (Between 10/1/77 and 6/30/96)	Same as TRS Plan 1	Same as TRS Plan 1	At age 65 or older with 5 years of service or age 55 or older with 20 years of service actuarially reduced for each year under age 65, or age 55 or older with 30 years of service, benefit reduced 3% for each year under age 65	2% of average final compensation per year of service
TRS Plan 3 (On or after 7/1/96)	Same as TRS Plan 1	Varies	At age 65 or older with 5 years of service or age 55 or older with 20 years of service actuarially reduced for each year under age 65, or age 55 or older with 30 years of service, benefit reduced 3% for each year under age 65	1% of average final compensation per year of service(defined benefit portion)*
SERS Plan 2 (On or after 9/1/00)	All classified employees of school districts and educational service districts	After five years of eligible service	At age 65 or older with 5 years of service or age 55 or older with 20 years of service actuarially reduced for each year under age 65, or age 55 or older with 30 years of service, benefit reduced 3% for each year under age 65	2% of average final compensation per year of service
SERS Plan 3 (On or after 9/1/00)	All classified employees of school districts or educational service districts hired on or after 9/1/00, or SERS 2 transfer members	Varies	Eligibility criteria for SERS Plan 3 defined benefit is the same as SERS Plan 2	1% of average final compensation per year of service(defined benefit portion)*
LEOFF Plan 1 (Until 10/1/77)	All full-time, fully compensated law enforcement officers and fire fighters	After five years of eligible service	At age 50 with 5 years of service	20 years of service, 2% of final average salary per year of service; 10-19, 1.5% final average salary per year of service; 5-9, 1% final average salary per year of service
LEOFF Plan 2 (On or after 10/1/77)	Same as LEOFF Plan 1	Same as LEOFF Plan 1	At age 53 with 5 years of service or a benefit at age 50 with 20 years of service reduced 3% for each year under age 65	2% of final average salary per year of service
WSPRS (On or after 8/1/47)	Commissioned employees of the Washington State Patrol	Same as LEOFF Plan 1	At age 55 or after 25 years of service	2% of average final salary per year of service
JRS (On or after 8/9/71 to 7/1/88 - New judges after 7/1/88 join PERS)	Judges elected or appointed to the Supreme Court, the Court of Appeals and Superior Courts	After 15 years of service	At age 60	15+ years of service, 3.5% of average final compensation per year of service; 10-15, 3% of average final compensation per year of service
Judges (Until 8/9/71)	Same as JRS	After 12 years of service	At age 70 with 10 or more years or any age with 18 years of service	1/2 of the monthly salary

*TRS and SERS Plan 3 are defined benefit and defined contribution plans. Employers contribute to the defined benefit portion of the plan. Employee contributions are determined by the individual employee. Gain sharing payments are applied on even numbered years, when the four-year return on investments exceed 10 percent.

DRS publishes handbooks describing the rights and benefits for each system and plan, including disability and survivor benefits. The handbooks are provided to members by their employers. They are also available from DRS and are on the DRS Web site at www.wa.gov/DRS/drs.htm

For more information, contact DRS at 1-800-547-6657 or to receive this publication in an alternate format, call (360) 664-7097.

DRS participates in benchmarking analysis

For the past two years, DRS has participated in the most extensive, independently conducted public pension administration benchmarking study available. Results of the Fiscal Year 2000 study show that DRS' administrative costs were 48 percent lower than its peer systems, given complexity, volume, service levels and cost environment. The analysis was conducted by Cost Effectiveness Measurement Incorporated of Toronto, Canada.

Quality initiatives

In step with Governor Gary Locke's Quality Initiative, DRS successfully completed numerous projects to improve the quality of its customer service and to streamline its operations. DRS saved $107,000 and 22,000 staff hours through its quality efforts during the past fiscal year. DRS was also the recipient of two Governor's Awards for Service and Quality Improvements.

Customer satisfaction

DRS continues to receive high marks from customers that participate in the agency's annual customer survey. On a scale of 5 to 1 – with 5 being "very satisfied" and 1 being "very dissatisfied" – 88.3 percent of members rated DRS a 4.0 or above for the services it provides.

Streamlining services

Based on customer feedback and a strategic plan that focused on enhancing customer services, DRS staff continued to streamline services.

During the past fiscal year, DRS reduced customer calls to voice mail by 90 percent – with only 12.19 percent going to voice mail. DRS customers continue to receive better direct access to knowledgeable staff who can answer their questions.

Walk-in customers who arrive at DRS without an appointment to see a retirement services analyst (RSA) receive prompt service. Customers wait less than five minutes to meet with an RSA for personal retirement counseling.

DRS reduced the average number of days to process retirement estimates to five days – compared to the prior average of 15 days.

Electronic Document Image Management System

DRS successfully implemented a new state-of-the-art imaging system to better serve its customers. The Electronic Document Image Management System is used by all DRS retirement services analysts (RSA) to instantly access account information and documents when serving members. RSAs can also send and receive faxes, import Windows documents into imaged files and perform advanced searches for member information. The new system also provides, for the first time, member file backup in the event of a disaster.

School Employees' Retirement System

DRS successfully implemented the School Employees' Retirement System (SERS) on September 1, 2000, for classified employees working for school districts and Educational Service Districts. SERS offers two plans. Plan 2 is a defined benefit plan, and Plan 3 is both a defined benefit and defined contribution plan.

Public Employees' Retirement System Plan 3

DRS continued project work, which is on schedule and within budget, for the new Public Employees' Retirement System (PERS) Plan 3. Starting in 2002, both current and future members of PERS Plan 2 will have the opportunity to join PERS Plan 3. The new plan offers both a defined benefit and defined contribution component. Governor Gary Locke signed PERS Plan 3 into law in 2000.

Deferred Compensation Program

Thanks to a new record-keeping system implemented in July 2000 by the Deferred Compensation Program (DCP), participants can access their account information online and through the telephone 24 hours a day, seven days a week. DCP participants can request fund transfers, and change their deferral amount and how it is invested. During the last fiscal year, 70 percent of transactions were conducted electronically. DCP participants now have 11 different investment options, expanded from eight. Five of the funds have total administrative and management fees below 18.16 basis points.

DRS has enhanced its customer service center, making it even easier for you to get information about retirement and savings plans. To reach us, call 1-800-547-6657 or visit our Web site at www.wa.gov/DRS/drs.htm
You can also schedule an in-person consultation with one of our retirement specialists in our Tumwater headquarters, located at 6835 Capitol Boulevard.

Pension System Roles and Responsibilities

Organization	Responsibility	Membership and Contact Information
Department of Retirement Systems	Collects and accounts for employer and employee contributions; adopts pension contribution rates for PERS, TRS, SERS and LEOFF Plan 2 employees and Plan 2 and 3 employers; maintains retirement records; pays benefits; communicates pension information; and administers the Deferred Compensation and Dependent Care Programs.	The Governor appoints the director of DRS. P.O. Box 48380, Olympia WA 98504-8380 (360) 664-7000, in Olympia, or 1-800-547-6657 www.wa.gov/DRS/drs.htm
Legislative Fiscal Committees	Review and report on retirement bills to the full Legislature.	House Appropriations Committee Members Senate Ways and Means Committee Members House Appropriations Committee P.O. Box 40600, Olympia, WA 98504-0600 (360) 786-7573 or 1-800-562-6000 (Legislative Hotline) www.leg.wa.gov Senate Ways and Means Committee P.O. Box 40482, Olympia, WA 98504-0482 (360) 786-7715 or 1-800-562-6000 (Legislative Hotline) www.leg.wa.gov
Joint Committee on Pension Policy	Studies pension issues and retirement finances. Develops pension policies and recommends pension legislation.	A bipartisan standing legislative committee composed of eight senators and eight representatives. P.O. Box 40914, Olympia, WA 98504-0914 (360) 753-9144
Pension Funding Council	Adopts economic assumptions for pension funding and employer pension contribution rates for PERS and TRS Plan 1, LEOFF Plan 1 (state) and WSPRS.	Directors of DRS and Office of Financial Management, Chairs and Ranking Minority Members of the Senate Ways and Means Committee and House Appropriations Committees. Can be contacted through DRS.
Office of Financial Management	Advises the Governor on pension and funding policies and issues.	The Governor appoints the director of OFM. P. O. Box 43113, Olympia, WA 98504-3113 (360) 902-0555 www.ofm.wa.gov
State Investment Board	Invests and accounts for pension funds.	Director of DRS; director of Department of Labor and Industries; a state senator; a state representative; an active member of PERS and LEOFF, and a retired member of a state retirement system appointed by the Governor; and an active TRS member appointed by the superintendent of public instruction. P.O. Box 40916, Olympia WA 98504-0916 (360) 664-8900 www.wa.gov/SIB
Office of the State Actuary	Acts as an advisory agency to the Legislature and director of DRS. Performs actuarial studies and reports on retirement bills. Creates formulas used to compute benefit payment adjustments that are based on early retirement, cost of living or long-term survivor benefits.	State actuary appointed by the Joint Committee on Pension Policy. P.O. Box 40914, Olympia, WA 98504-0914 (360) 753-9144
Employee Retirement Benefits Board	Provides advice to the State Investment Board on self-directed investment options for Plan 3; determines the payment options available for Plan 3 members; approves administrative charges assessed to members who participate in self-directed investment options; and provides advice on investment options for the Deferred Compensation Program.	Nine active and retired representatives of TRS, PERS and SERS, and two investment professionals appointed by the Governor. The board is chaired by the DRS director. Can be contacted through DRS.
DRS Advisory Committee	Serves in an advisory role to the director of DRS on retirement administrative issues.	Twelve members representing active and retired members of the retirement systems administered by DRS. Can be contacted through DRS.

Department of Retirement Systems
PO Box 48380
Olympia WA 98504-8380