ERFC 2009

For the Fiscal Year Ended June 30, 2009

Comprehensive Annual Financial Report

Keeping the ball in your court

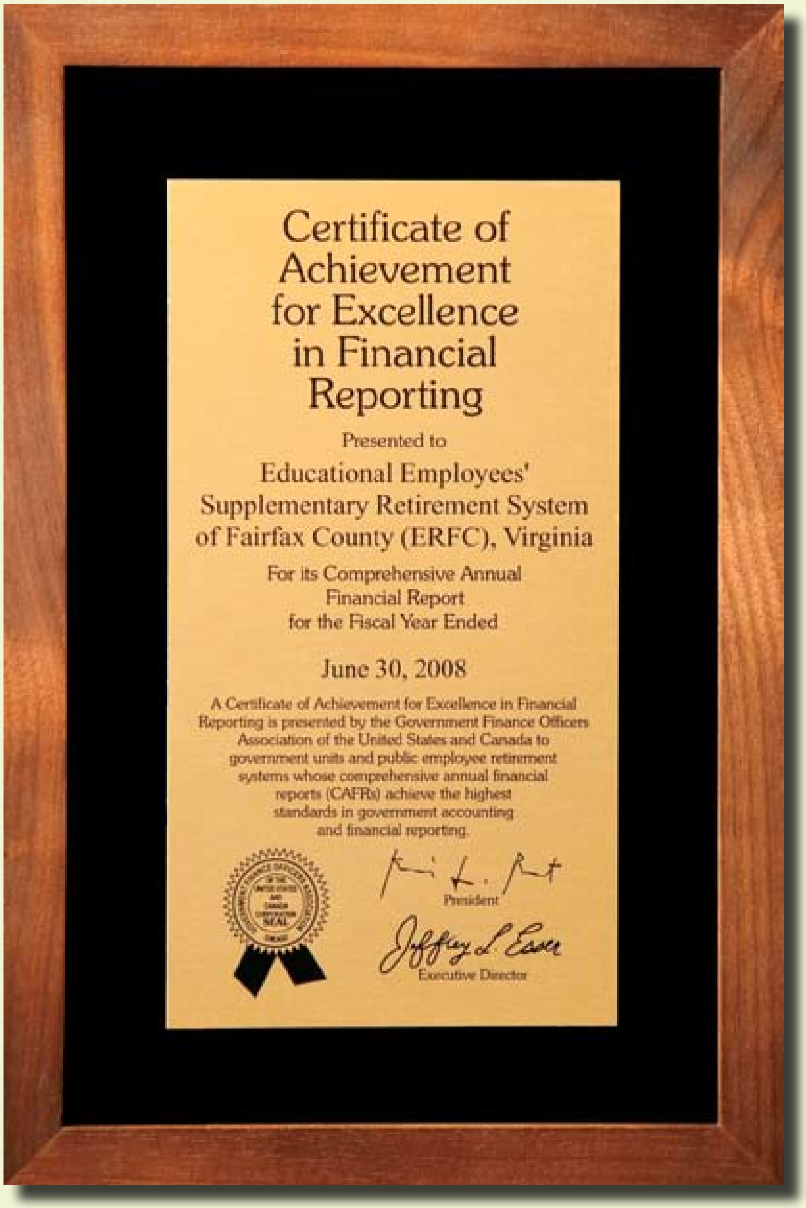
The Educational Employees' Supplementary Retirement System of Fairfax County

A Component Unit of Fairfax County Public Schools Fairfax, Virginia

Achievements

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

This plaque was awarded to the ERFC for excellence in financial reporting for their presentation of the fiscal year *2008 Comprehensive Annual Financial Report*. This is the highest form of recognition in the area of public employee retirement system accounting and financial reporting. It is a prestigious national award recognizing excellence and represents a significant achievement by the school system. The award reflects the commitment of the ERFC Board of Trustees, School Board, and ERFC staff to achieve and maintain the highest standards of financial reporting.



Educational Employees' Supplementary Retirement System of Fairfax County

2009 ERFC
Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2009

Educational Employees' Supplementary
Retirement System of Fairfax County

A Component Unit of the
Fairfax County Public Schools, Fairfax, Virginia

ADMINISTRATION

Alan Belstock, Executive Director
Jeanne Carr, Deputy Executive Director
Michael Lunter, Finance Coordinator

PREPARED BY

ERFC Staff
8001 Forbes Place, Suite 300
Springfield, VA 22151-2205

DESIGNED BY

Fairfax County Public Schools
Information Technology
Multimedia Design

ERFC
THE EDUCATIONAL EMPLOYEES'
SUPPLEMENTARY RETIREMENT SYSTEM
of Fairfax County

Mission Statement and Principles

The mission of the Educational Employees' Supplementary Retirement System of Fairfax County (ERFC) is to enhance the financial well-being and security of its members and beneficiaries, while maintaining the stability and longevity of the fund through prudent financial stewardship of a defined benefit retirement plan. It is also to provide members with responsive, professional and personalized services, consistent with practices that ensure the promises made are soundly financed by assets administered in the interests of the plan participants.

PHILOSOPHY

Courteous Service

To give members prompt and courteous service and to provide complete and accurate information.

Exclusive Benefit

To act as fiduciaries entrusted with the management of plan assets and payment of retirement benefits for the exclusive benefit of members.

Ethical Conduct

To adhere to the highest standards of conduct set out in the terms of the trust, state statute, or other law.

PRUDENT MANAGEMENT

Adequate Funding

To maintain adequate funding of all promised benefits and to ensure the financial integrity of the System.

Prudent Investments

To adopt comprehensive objectives, methods for evaluation of performance, and policies that ensure the highest possible investment return consistent with the prudent investment of plan assets.

Independence of Retirement System

To maintain a retirement system that functions as an independent retirement trust, separate from state and local government; such independence includes the power of trustees to set actuarial assumptions, to appoint professionals such as actuaries and attorneys on whom they must rely to carry out their responsibilities, and to establish a budget for the System that ensures the delivery of high quality, cost-effective services to members.

Actuarial Studies

To have an annual actuarial valuation performed by an enrolled actuary in accordance with actuarial standards and an actuarial experience study at least every five years.

Annual Reports

To keep, as part of the public record, annual financial, actuarial, and investment information that will be available for members and elected officers.

Financial Audits

To prepare an annual financial statement in accordance with generally accepted accounting principles and to have an annual audit of the System's financial statement in accordance with generally accepted auditing standards.

Table of Contents

Achievements

PUBLIC PENSION STANDARDS *2009 AWARD*

This award has been presented to ERFC in recognition of instituting professional standards for public employee retirement systems as established by the Public Pension Coordinating Council. This award represents an exceptionally high level of administration and reporting in the public pension industry.

Introduction

Letter of Transmittal

ERFC
8001 Forbes Place, Suite 300
Springfield, VA 22151

December 21, 2009

The Board of Trustees
Educational Employees' Supplementary Retirement System of Fairfax County (ERFC)
Springfield, VA 22151

Dear Chairperson and Members of the Board of Trustees:

It is our privilege to submit the Comprehensive Annual Financial Report (CAFR) for the Educational Employees' Supplementary Retirement System of Fairfax County ("ERFC" or "System") for the fiscal year ended June 30, 2009. ERFC management holds responsibility for the financial information presented in this report. Proper internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and the fair presentation of the financial statements. This CAFR reflects the careful stewardship of the System's assets and dedicated service provided by the Board and staff. For financial reporting purposes, ERFC is considered a component unit of the Fairfax County Public Schools, Fairfax County, Virginia. As such, this report is designed to comply with the reporting requirements of Sections 3-4-6(a)(8) of the Fairfax County Code and the Virginia Code. We believe this report also conforms to Government Finance Officers Association (GFOA) requirements.

The following provides a summary of the System's historical background and summarizes significant Board and management achievements for the fiscal year. In addition, the management discussion and analysis (MD&A) narrative can be found in the Financial Section, immediately following the independent auditors' report.

Plan History

The ERFC was established on July 1, 1973, through negotiations conducted between the Fairfax County School Board and the Fairfax Education Association (FEA). The terms under which ERFC operates were later incorporated in a Fairfax County ordinance and the ERFC Plan Document. Historically, ERFC benefits have been designed to supplement the benefits of two other retirement plans: the Virginia Retirement System (VRS) and the Federal Social Security System. In 1987, the VRS introduced major increases in its early retirement benefits, which prompted ERFC to conduct a thorough re-examination of its complementary supplemental benefits plan. Effective July 1, 1988, the *ERFC* legacy benefit structure was changed significantly to re-balance the ERFC benefit amounts payable to future members, while protecting and maintaining the rights of current members. The School Board approved further refinements to the retirement program in 2001, and introduced *ERFC 2001* as a second benefit structure for new and future ERFC Plan members. Eligible FCPS employees hired on or after July 1, 2001 are now enrolled in *ERFC 2001,* which is a more streamlined, stand-alone retirement benefit plan. Together, the *ERFC* legacy and *ERFC 2001* plan structures provide a valuable defined benefit

Letter of Transmittal

retirement program for thousands of full-time educational and support service employees of Fairfax County Public Schools.

Strategic Plan

We note the significant additions and new directives of the 2009 Strategic Plan, as updated by the ERFC Board early in Fiscal Year 2010. Consistent with the 2007 plan it updates, the 2009 Strategic Plan comprises seven sections, which include:

I. Achieving and Maintaining Best Practices for ERFC; II. Member Communication/ Education; III. Accountability, Disclosure, and Advocacy; IV. ERFC Governance and Fiduciary Responsibilities; V. Funding Policy/Investment Management; VI. ERFC Administration and Management; and, VII. Long-Term Automation. Per Section II, we will advance the applications of ERFC's newly automated member services. Per Section V, we will support the trustees in developing a new policy that considers employer and employee contribution rates, actuarial methods, and benefit reductions when addressing any corrective action steps that may needed in response to the portfolio's losses in FY 2009. And finally, we will proceed with the final stages of our full system automation, pursuing the successfully diminished list of action steps remaining within Section VII.

Technology Initiatives

ERFC achieved significant progress in the development of its new fully-integrated Retirement Benefit Administration and Payroll computer system during the fiscal year. In November 2009, we replaced several outdated computer applications for Benefits Administration. Full implementation of the Payroll system will follow in early 2010. In the first half of calendar year 2010, ERFC will introduce a web-enabled portal that will provide members direct access to their individual retirement information, allow production of customized benefit estimates, and offer other self-service functions.

Plan Financial Condition

Dramatic declines in the capital markets during the second half of calendar year 2008 prompted a parallel drop in the Plan's funded ratio, which ERFC's independent actuary reported at 76.9 percent for the valuation period ending December 31, 2008. This compares to the 88.0 percent funded ratio reported in the prior year valuation The current funded ratio reflects two funding policy changes approved by the trustees earlier this year, in concurrence with the actuary: (1) the amortization period for Unfunded Actuarial Accrued Liabilities (AAUL) was reset from 25 years on December 31, 2007 to 30 years effective December 31, 2008; and, (2) as established within Plan Regulations, the corridor that determines the maximum difference between the funding value of assets and the actuarial value of assets was reset from 15 percent to 25 percent. We note that ERFC's funded ratio would have declined further without these changes in the funding policy. However, it should also be noted that the capital markets have recovered significantly during calendar year 2009, propelling the ERFC portfolio up almost 20 percent for the first ten months. We anticipate that the funded ratio will continue a slide downward over the next few years. As the losses of calendar year 2008 are fully recognized over time in the funding value of assets, 2009 returns that exceed ERFC's 7.5 percent assumption rate, will mitigate the decline.

Letter of Transmittal

The Schedule of Funding Progress contained in the Financial Section of this report presents historical information for ERFC's funded ratio. Information regarding the overall financial condition of the pension trust fund is also detailed in the Financial, Actuarial, and Statistical Sections of this report.

Investment Activity

Consistent with the performance of almost all institutional portfolios, the devastation that began in the capital markets late last year and continued through February 2009 resulted in poor performance for the ERFC portfolio in Fiscal Year 2009. ERFC's (19.2) percent return ranked slightly below median among peer funds with at least $1 billion in assets. However, ERFC's longer-term return rates (5-year, 7-year, and 10-year) continued to rank above the median.

Active management, which constitutes approximately 80 percent of the ERFC portfolio, struggled during Fiscal Year 2009. It was a period in which relative performance was not a function of fundamental asset management and selection of high quality securities, but rather a time in which extraneous factors ruled. As a result, uncharacteristic of the Fund's long-term results, ERFC's active managers were the main driver of its sub-median performance. As the markets began to stabilize and rebound beginning in March 2009, quality asset management proved its value. Most active managers outperformed their respective benchmarks in the final months, as ERFC ended the fiscal year with a 13.2 percent quarterly performance for the period ending June 30, 2009, ranking in the top 20 percent of public funds greater than $1 billion. The positive turnaround that closed Fiscal Year 2009 continued into the first quarter of Fiscal Year 2010, as ERFC's portfolio performance for all periods (1-year, 3-years, 5-years, and 10-years) ending September 30, 2009 ranked in the top third of similar public funds with assets in excess of $1 billion.

The Investment Section of this report provides further details regarding the Fund's performance.

ERFC's target allocations remained unchanged during Fiscal Year 2009, and included 14.0 percent to international equities, 32.5 percent to domestic equities, 15.0 percent to Global Asset Allocation, 23.5 percent to fixed income, 7.5 percent to real estate, and 7.5 percent to Absolute Return Strategies (Hedge Fund of Funds). However, ERFC has funded only one-third of its allocation to Absolute Return Strategies, and is currently revisiting that target allocation based on a review of the total allocation to "alternatives."

ERFC implemented several minor changes to the portfolio lineup in Fiscal Year 2009. Early in the fiscal year, ERFC hired the Permal Group to manage $25 million of its absolute return strategy allocation. Last winter, ERFC hired Epoch Investment Partners to manage a small capitalization domestic equity portfolio, transitioning funds held previously in a Russell 2000 Index portfolio managed by Mellon Capital. In an effort to consolidate its domestic large capitalization holdings, ERFC hired Turner Investment Partners (Turner) in June 2009 to manage a growth portfolio. Coincident with the hiring of Turner, the Board of Trustees terminated its relationships with AllianceBernstein (large cap growth), Dodge and Cox (large cap value), and a growth index portfolio managed by Mellon Capital.

Letter of Transmittal

Professional Services

The Board of Trustees appoints professional services to provide aid in the efficient management of the System. New England Pension Consultants (NEPC), based in Cambridge, Massachusetts, provides investment consulting services, and Gabriel, Roeder, Smith & Company, of Southfield, Michigan, provides actuarial services. In accordance with county code, the Fairfax County Board of Supervisors appointed KPMG LLP, Certified Public Accountants, Washington, D.C., to audit the System's financial statements.

Awards

The System proudly announces that the Government Finance Officers Association of the United States and Canada (GFOA) recently awarded ERFC the **Certificate of Achievement for Excellence in Financial Reporting** for the FY 2008 Comprehensive Annual Financial Report (CAFR). This is the 12th consecutive year ERFC has earned the award. The GFOA certification remains valid for a period of one year, and requires, at a minimum, that each CAFR satisfy both generally accepted accounting principles and legal requirements.

The Public Pension Coordinating Council also honored the ERFC recently, granting the System the **Public Pension Standards' 2009 Award.** The ERFC earned the award in recognition for meeting or exceeding professional standards for plan design and administration, as set forth in the Public Pension Standards.

Conclusion

This report is produced through the combined efforts of the ERFC staff and advisors functioning under your leadership. It is intended to provide complete and reliable information that will advance the management decision process, serve as a means for determining compliance with legal requirements, and allow for an assessment of the stewardship of the System's funds.

We extend our sincere appreciation to all those who contributed to the production of this document.

ERFC distributes this annual report to the members of the Fairfax County School Board, the Fairfax County Public Schools' Leadership Team, the Fairfax County Government Finance Office, the Fairfax County Public Libraries, and other interested parties. We hope that all recipients find the report informative and useful.

Respectfully submitted,

Alan Belstock, PhD
Executive Director

Jeanne Carr, CFA
Deputy Executive Director

Michael Lunter
Finance Coordinator

Letter from the Chairperson

ERFC
8001 Forbes Place, Suite 300
Springfield, VA 22151

December 21, 2009

Dear ERFC Members,

On behalf of the Board of Trustees of the Educational Employees' Supplementary Retirement System of Fairfax County (ERFC), it is a privilege to present the Comprehensive Annual Financial Report for fiscal year ending June 30, 2009. The ERFC Board and staff commit ourselves to maintaining the financial integrity of the fund, and adhering to best practices in all areas of customer service. As participants and stakeholders in ERFC, you can be assured that the Board of Trustees works collectively on your behalf to build, preserve, and protect the System's assets, while monitoring financial trends and striving to generate investment income to provide the supplemental retirement benefits promised by Fairfax County Public Schools.

The fiscal and calendar year periods of 2009 introduced several key changes to the composition of ERFC's Board and staff. After serving 7 terms as an ERFC trustee, **Tom Bowen** retired from his 20-year career with the FCPS Department of Human Resources. Mr. Bowen joined FCPS in 1988, following his "first 20-year career" with the Fairfax County Police Department. The ERFC Board and staff extend our appreciation to Mr. Bowen for his dedicated years of service to ERFC, FCPS and the entire Fairfax County community.

Upon Mr. Bowen's retirement, the School Board appointed FCPS' Assistant Superintendent for the Department of Human Resources, **Kevin North,** to the ERFC Board. Mr. North assumed his responsibilities with ERFC in July, at which time the trustees also elected the Board officers for FY 2010. FCPS Assistant Superintendent of Financial Services, **Susan Quinn,** was elected Board Treasurer, and **Jeannine Maynard** and I were re-elected as Vice Chairperson and Chairperson, respectively. The balance of the Fiscal Year 2010 ERFC Board of Trustees includes **Leonard Bumbaca, Nitin Chittal,** and **Richard Moniuszko.**

In September, ERFC announced the promotion of **Michael Lunter** to Finance Coordinator. Lunter, who served six years as an ERFC Financial Analyst, was named to replace Bob Lausier, who departed the System late last spring. Mr. Lunter brings considerable financial experience to his new position, and is a welcome addition to the executive team.

And finally, a most significant change occurred among ERFC's very valuable 'human capital' earlier this month, when **Alan Belstock** retired after 8 years as Executive Director of the ERFC. Dr. Belstock was hired as ERFC's first executive director in December 2001, when the School Board established the retirement system as a separate entity from the FCPS Department of Human Resources. Under Dr. Belstock's leadership, ERFC has developed into a model plan, benefiting from his keen focus on best practices, process efficiencies, and fiscal responsibility. The trustees each join me in expressing our sincere gratitude to Dr. Belstock, with our very best wishes for his retirement.

Upon notification of Dr. Belstock's intentions to retire earlier this summer, the trustees formed an ad hoc search committee to determine his replacement. Following a comprehensive search process, the ERFC Board unanimously approved the appointment of **Jeanne M. Carr** as the System's new Executive Director and Chief Investment Officer, effective December 1, 2009. In addition to serving as ERFC's Deputy Executive Director

Letter from the Chairperson

since 2005, Ms. Carr has extensive career experience, including 8 years as the Executive Director of the Fairfax County Employees' Retirement System (FCERS). Over the past five years, Ms. Carr has worked closely with Dr. Belstock and the Board in managing all aspects of the System's administration and investment concerns. She has proven herself as a highly intelligent and capable administrator, uniquely prepared to assume leadership of the System. We welcome Ms. Carr in her new position, and look forward to supporting her through a smooth transition.

In early 2010, ERFC looks forward to launching its new, fully-integrated Retirement Benefit Administration and Payroll computer system, which will streamline and upgrade all aspects of member services. The Board gratefully acknowledges the tremendous efforts of the entire ERFC staff in their ongoing work with the transition to this new system.

The portfolio activities outlined in this annual report, address details specific to the 2009 fiscal year period, which ended June 30th. However, upon the press deadline for this report, we are cautiously heartened by the significant recovery in the capital markets that has occurred within the 2009 calendar year, helping the ERFC portfolio to surge nearly 20 percent in the first ten months. Historically, periods of market downturns, like those experienced worldwide in 2008, have been followed by a strong recovery offering renewed market opportunities. While such indicators lend encouragement, the ERFC Board and staff remain dedicated to protecting the System's assets with careful focus on the long-term horizon.

ERFC's defined benefit plan provides a valuable supplement to FCPS' employee members. In these tough economic times, this benefit becomes increasingly important, to both retirees and active employee members planning for their future. ERFC was designed specifically to reward educational professionals with a pension to supplement the primary benefits they earn and receive separately from the Virginia Retirement System (VRS) and Social Security. Accordingly, FCPS partners with ERFC members by contributing pre-tax dollars to the retirement system. However, ERFC's investment income remains the integral component necessary to fulfill the guarantee of defined member benefits. While no one can fully anticipate every turn in the marketplace, ERFC will continue to hold steady with prudent long term strategies designed to spread pension costs over the employees' careers, while maintaining fiscal balance during strong and weak investment periods.

The ERFC Board and staff value your opinions and welcome your feedback. We encourage you to visit the website at: www.fcps.edu/ERFC or contact us directly with any questions regarding your pension fund or payable retirement benefits.

Yours sincerely,

Michael Hairston
Chairperson
ERFC Board of Trustees

Board of Trustees

The Board of Trustees is the governing body of the Educational Employees' Supplementary Retirement System of Fairfax County. The Board is composed of seven members: three appointed by the School Board, three elected by the membership of the System, and one not affiliated with or employed by Fairfax County, the Fairfax County School Board, or any union or similar organization that represents teachers or other Fairfax County employees. The "individual" trustee is chosen by unanimous vote or consent by the other six trustees and approved by the Fairfax County School Board.

The Board of Trustees appoints an executive director, an actuary, an investment consultant, and legal counsel for the transaction of business. The Board meets monthly and receives no compensation but is reimbursed for business-related expenses. The Board's executive committee is comprised of the chairperson and treasurer.

Michael A. Hairston
Chairperson/Trustee
Elected Member

Jeannine Maynard
Vice Chairperson/
Trustee
Elected Member

Susan Quinn
Treasurer/Trustee
Appointed Member

Leonard Bumbaca
Trustee
Elected Member

Richard Moniuszko
Trustee
Appointed Member

Nitin M. Chittal
individual Trustee
Appointed Member

Kevin North
Trustee
Appointed Member

ERFC Administrative Organization

- **BOARD OF TRUSTEES** ········ **SCHOOL BOARD**
  - **Alan Belstock**, Executive Director
    - **Janet Kohler Dueweke**, Communications Specialist
    - **Dina Boulette**, Administrative Assistant
    - **Mussie Hagos**, Program Assistant
    - **Jeanne Carr**, Deputy Executive Director
      - **Evelyn Morgan**, Business Operations Assistant
      - **INFORMATION SYSTEMS**
        - **Lana Caulfield**, Technology Coordinator
          - **Robert Baden**, Software Developer
          - **Francisco Tavarez**, Functional Applications Specialist
      - **RETIREMENT ADMINISTRATION**
        - **Joyce Cosby**, Retirement Coordinator
          - **Vicki Gowin**, Retirement Specialist
          - **Jeff Franklin**, **Marilyn Lavery**, **Jason Mohler**, **Lisa Ray**, Retirement Assistants
          - **Pat Church**, **Joanna Coles**, **Sethe Eckstein**, **Helen Fussell**, **Tammy Martin**, Retirement Counselors
    - **FINANCE ADMINISTRATION**
      - **Michael Lunter**, Finance Coordinator
        - **Joy Russom**, Investment Accounting Analyst
        - **Kevin McCarty**, **Helen Shiflett**, Financial Analysts
        - **Lisa Grigsby**, Accounting Technician
        - **Thelma Francis**, **Lauren Kirkman**, Business Operations Assistants

Professional Services

Investment Managers

DOMESTIC EQUITY

Aronson+Johnson+Ortiz, LP
Philadelphia, Pennsylvania

Epoch Investment Partners, Inc.[1]
New York, New York

Lazard Asset Management
New York, New York

Mellon Capital Management Corporation
San Francisco, California

Turner Investment Partners, Inc.[1]
Berwyn, Pennsylvania

Westfield Capital Management
Boston, Massachusetts

FIXED INCOME

Loomis-Sayles & Company
Boston, Massachusetts

Mellon Capital Management Corporation
San Francisco, California

Pacific Investment Management Company
Newport Beach, California

GLOBAL ASSET ALLOCATION

Bridgewater Associates, Inc.
Westport, Connecticut

Mellon Capital Management Corporation
San Francisco, California

Pacific Investment Managment Company
Newport Beach, California

HEDGE FUND

Grosvenor Institutional Partners, L.P.
Chicago, Illinois

Permal Investment Management Services, Ltd.[1]
London, England

INTERNATIONAL EQUITY

Acadian Asset Management
Boston, Massachusetts

AllianceBernstein
New York, New York

William Blair and Company, LLC
Chicago, Illinois

REAL ESTATE

JP Morgan Asset Management
New York, New York

Prudential Investment Management
Parsippany, New Jersey

Urdang Investment Management
Plymouth Meeting, Pennsylvania

UBS Global Asset Management
Hartford, Connecticut

Other Service Providers

ACTUARY

Gabriel, Roeder, Smith & Company
Southfield, Michigan

AUDITOR

KPMG LLP
Certified Public Accountants
Washington, D.C.

INVESTMENT CONSULTANT

New England Pension Consultants
Cambridge, Massachusetts

LEGAL COUNSEL

Bredhoff & Kaiser, P.L.L.C.
Washington, D.C.

Groom Law Group, Chartered
Washington, D.C.

MASTER CUSTODIAN

BNY Mellon
Pittsburgh, Pennsylvania

TECHNOLOGY CONSULTANT

Leon Wechsler, LTD
Fairfax, Virginia

[1] Hired in fiscal year 2009

Financial Section

- Independent Auditors' Report
- Management Discussion and Analysis
- Statement of Plan Net Assets
- Statement of Changes in Plan Net Assets
- Notes to the Financial Statements
- Required Supplementary Information
- Notes to the Schedules of Required Supplementary Information
- Other Supplementary Information

Independent Auditors' Report

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia

The School Board
Fairfax County Public Schools

The Board of Trustees
of the Educational Employees' Supplementary
Retirement System of Fairfax County:

We have audited the statement of plan net assets of the Educational Employees' Supplementary Retirement System of Fairfax County (the System), a pension trust fund of Fairfax County Public Schools, as of June 30, 2009, and the related statement of changes in plan net assets for the year then ended. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2009, and the respective changes in plan net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management Discussion and Analysis on pages 14 through 16, Schedule of Employer Contributions on page 28, and Schedule of Funding Progress on page 29 are not required parts of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. 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.

Independent Auditors' Report

KPMG

The Board of Supervisors
Fairfax County, Virginia

The School Board
Fairfax County Public Schools

The Board of Trustees
of the Educational Employees' Supplementary
Retirement System of Fairfax County

December 8, 2009
Page 2 of 2

Our audit was conducted for the purpose of forming an opinion on the System's basic financial statements. The supplementary information on pages 32 through 34 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the 2009 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2009 basic financial statements taken as a whole. The information included in the introduction, investment, actuarial, and statistical sections has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

KPMG LLP

December 8, 2009

FINANCIAL

Management Discussion and Analysis

This discussion and analysis of the Educational Employees' Supplementary Retirement System of Fairfax County (ERFC) financial performance provides an overview of the financial activities for the fiscal year ended June 30, 2009. The information contained in this section should be reviewed in conjunction with the letter of transmittal provided in the Introduction Section of this document.

Financial Overview

For fiscal year 2009, the return on ERFC's assets was (19.2) percent[1]. This resulted in a total asset value of $1.44 billion which reflects a decrease of $417.1 million over fiscal year 2008's year end total (as reflected in the accompanying chart). Additional detail on this net decrease in fund value is outlined in the Summary of Additions and Deductions table contained within this Financial Section. As shown, it is comprised of four major components. They include a ($357.7) million investment loss and $88 million in employee and employer contributions. The additions are offset by $139.6 million in retiree benefit payments and $7.9 million in member refunds and administrative expenses.

Fiscal year ending June 30, 2009 produced a return of (19.2) percent. However, ERFC's return was slightly under the policy benchmark return of (17.4) percent[2]. Three, five, and ten year returns are (–3.1) percent, 2.4 percent, and 3.1 percent, respectively.

The System's investments are exposed to various risks such as interest rate, market, and credit risks. Such risks, and the resulting investment security values, may be influenced by changes in economic conditions and market perceptions and expectations. Accordingly, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements. Additional detail regarding investment results can be found in the Investment Section of this report.

ERFC Fund Balances ($ in millions)

Fiscal Year	Ending Balance	Net Change Dollars	Net Change Percent
2005	$ 1,647.7	$ 119.6	7.8 %
2006	1,766.5	118.8	7.2
2007	2,015.7	249.2	14.1
2008	1,858.6	(157.1)	(7.8)
2009	1,441.5	(417.1)	(22.4)

At December 31, 2009, the actuarial value of assets totaled $1.734 billion while liabilities totaled $2.255 billion. This resulted in a funding ratio of 76.9 percent. ERFC's funding level is consistent with the funding levels of similar plans nationwide and as addressed in the Actuary's Certification Letter contained within this report, ERFC remains in sound financial condition. The Schedule of Funding Progress contained in this section provides additional historical information.

1 As calculated by New England Pension Consultants

2 Policy Index benchmark is 28.5% Russell 1000, 7.5% Russell 2000, 16% MSCI/ACWI Ex-US, 3.75% NAREIT, 3.75% NCREIF, 18% Barclays Aggregate Bond Index, 3.75% LB Credit, 3.75% LB Long Credit, 7.5% MS World Net, 7.5% Citi World Gov't Bond

3 New England Pension Consultants Universe (Public Funds in excess of $1 billion)

Management Discussion and Analysis

In addition, detailed information regarding actuarial assumptions and methods can be found in the Actuarial Section of this report.

Using this Annual Report

ERFC financial statements are comprised of the Statement of Plan Net Assets, Statement of Changes in Plan Net Assets, and Notes to the Financial Statements. Also contained in the Financial Section is other supplementary information in addition to the basic financial statements.

The Statement of Plan Net Assets provides information on all of the System's assets and liabilities, with the difference between the assets and liabilities shown as net assets. Ultimately, increases or decreases in net assets may be used to measure the financial condition of ERFC as a going-concern over time.

The Statement of Changes in Plan Net Assets describes how ERFC's net assets changed during the current fiscal year. Additions and deductions represent revenues and expenses, respectively. Additions minus deductions represent the change in net assets. For the current fiscal year, ERFC received positive revenues from contributions only. Investments generated a loss. Also detracting from revenue were expenses, or deductions, which consisted of benefit payments, refunds, and administrative costs.

The Notes to the Financial Statements provide additional data, which is crucial in understanding the information included in the financial statements. The Notes to the Financial Statements immediately follow the basic financial statements.

In addition to the basic financial statements and accompanying notes, the annual report also provides required supplementary information regarding the ERFC schedule of employer contributions and funding progress which is intended to assess ERFC's ability to accumulate assets to pay retirement benefits when due.

MD & A, *continued on next page*

Summary of Plan Net Assets

	June 30, 2009	June 30, 2008	Difference
Assets			
Total cash and investments	$ 1,488,742,769	$ 1,981,259,899	$ (492,517,130)
Total receivables	63,420,401	11,246,587	52,173,814
Other assets	93.080	118,078	(24,998)
Total assets	1,552,256,250	1,992,624,564	(440,368,314)
Liabilities			
Accounts payable	1,419,793	2,336,956	(917,163)
Securities purchased	49,896,094	8,058,678	41,837,416
Securities lending collateral	59,505,933	123,656,957	(64,151,024)
Total liabilities	110,821,820	134,052,591	(23,230,771)
Total Net assets held in trust for pension benefits	**$ 1,441,434,430**	**$ 1,858,571,973**	**$ (417,137,543)**

Management Discussion and Analysis

Financial Statements

As indicated in the Summary of Plan Net Assets, the System's net asset value decreased $417.1 million or 22.4 percent in fiscal year 2009. This total decrease in net assets is due primarily to a decrease of $492.5 million in the value of investments, an increase in receivables of $52.2 million, a $41.8 million increase in the value of payables along with a reduction of $64.2 million in securities lending collateral liabilities.

As presented in the Summary of Additions and Deductions (below), additional information is provided regarding the differences between the fiscal year 2008 and 2009 results. These differing results are due mainly to a significant decline in investment income of $260.8 million and an increase in member and employer contributions of only $3.5 million. Also, contributing to the decline over last year is the increase in the benefit payments of $3.7 million.

Requests for Information

This financial information is intended to provide a general overview of the System's finances. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to either the Executive Director or the Finance Coordinator of the Educational Employees' Supplementary Retirement System of Fairfax County, 8001 Forbes Place, Suite 300, Springfield, Virginia 22151.

Summary of Additions and Deductions

	June 30, 2009	June 30, 2008	Difference
Additions			
Contributions			
Employer	$ 40,012,480	$ 38,334,140	$ 1,678,340
Member	47,996,408	46,143,803	1,852,605
Net Investment Income/(Loss)	(357,672,266)	(96,855,060)	(260,817,206)
Other Income/Loss	(5,494)	—	(5,494)
Total	(269,668,872)	(12,377,117)	(257,291,755)
Deductions			
Benefits	139,594,144	135,927,308	3,666,836
Refunds	3,975,907	4,229,850	(253,943)
Admin. Expenses	3,898,620	4,631,844	(733,224)
Total	147,468,671	144,789,002	2,679,669
Net Change	**$ (417,137,543)**	**$ (157,166,119)**	**$ (259,971,424)**

Statement of Plan Net Assets

(As of June 30, 2009)

ASSETS	
Cash and short-term investments	
Cash	$ 740,450
Cash with fiscal agent	1,280,586
Cash collateral for securities on loan	59,505,933
Short-term investments	16,300,070
Total cash and short-term investments	**77,827,039**
Receivables	
Member contributions	73,034
Interest and dividends	3,836,091
Securities sold	59,510,785
Miscellaneous accounts receivable	491
Total receivables	**63,420,401**
Investments, at fair value	
Mortgage-backed securities	2,823,441
Domestic corporate bonds	91,464,447
Convertible bonds	523,532
International bonds	35,143,080
Common stock	497,534,258
Real estate	51,843,546
Preferred stock	2,141,515
Global asset allocation	136,329,577
Better beta	74,679,656
Hedge fund of funds	43,715,548
Mutual funds	474,717,130
Total investments	**1,410,915,730**
Prepaid assets	
Prepaid expenses	24,792
Other assets	
Furniture and equipment, net	68,288
Total assets	**1,552,256,250**
LIABILITIES	
Accounts payable	1,419,793
Securities purchased	49,896,094
Securities lending collateral	59,505,933
Total liabilities	**110,821,820**
Net assets held in trust for pension benefits	**$ 1,441,434,430**

See accompanying Notes to the Financial Statements

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Statement of Changes in Plan Net Assets

(for the Fiscal Year Ended June 30, 2009)

ADDITIONS	
Contributions	
Employer	$ 40,012,480
Plan members	47,996,408
Total contributions	**88,008,888**
Investment income	
Net depreciation in fair value of investments	(399,232,172)
Interest and dividends	44,297,555
Real estate income	3,769,945
Other	70,815
Total investment income	**(351,093,857)**
Less investment expenses	
Investment management fees	6,572,750
Investment consulting fees	209,567
Investment custodial fees	219,012
Investment salaries	188,941
Total investment expenses	**7,190,270**
Income from securities lending activities	
Securities lending	1,320,138
Securities lending borrower rebates	(504,352)
Securities lending management fees	(203,925)
Net securities lending income	**611,861**
Net investment income	**(357,672,266)**
Other income/loss	
Loss on disposal of fixed asset	(5,494)
Total additions	**(269,668,872)**
DEDUCTIONS	
Benefits	139,594,144
Refunds	3,975,907
Administrative expense	3,898,620
Total deductions	**147,468,671**
Net decrease	**(417,137,543)**
Net assets held in trust for pension benefits	
Beginning of year	**1,858,571,973**
End of year	**$ 1,441,434,430**

See accompanying Notes to the Financial Statements

Notes to the Financial Statements

INTRODUCTION

The Educational Employees' Supplementary Retirement System of Fairfax County ("ERFC", "System") is a legally separate single-employer retirement system and fund established under Virginia code to provide pension benefits to all full-time educational and administrative support employees who are employed by the Fairfax County Public Schools (Schools) and who are not covered by another Fairfax County, Virginia (County) plan. As such, and as a fund under the financial control of the School Board, the System's financial statements are included in the Schools' basic financial statements as a pension trust fund.

The System contains two primary benefit structures, *ERFC* and *ERFC 2001*. Both are defined benefit structures. The original structure, *ERFC*, became effective July 1, 1973, and is coordinated with the benefits members expect to receive from the Virginia Retirement System (VRS) and Social Security. It remains in effect; however, it is closed to new members. Effective July 1, 2001, all new-hire full-time educational and administrative support employees are enrolled in *ERFC 2001*. This new component incorporates a streamlined stand-alone retirement benefit structure.

1. Summary of Significant Accounting and Other Policies

Basis of Accounting

The System's financial statements have been prepared under the accrual basis of accounting in accordance with accounting principles applicable to governmental units in the United States of America. Member contributions are recognized in the period in which the contributions are due. Employer contributions 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 the System. The costs of administering the System are paid for by the use of investment income and employer and employee contributions.

Investment Policy and Valuation

Short-term investments are reported at cost, which approximates fair value. All other investments are reported at fair value or estimated fair value. Securities which are traded on national or international exchanges are reported at fair value based on the last reported sales price at current exchange rates. The System records these investment purchases and sales as of the trade date but are not finalized until settlement date, which is approximately three business days for domestic securities and five to seven business days for foreign securities. Until finalized, these investment purchases and sales are recorded as payables and receivables, respectively.

The values of the commingled funds are provided to ERFC's master custodian by the managers. These commingled funds include private real estate, global asset allocation, better beta, and hedge fund of funds. The fair value of these investments is determined in different ways. For private real estate, the values of the actual property holdings are determined periodically but usually annually and subject to independent appraisal. However, since these holdings are relatively illiquid, there is not a ready market for these assets and it's possible that fair value can differ from the assessed value. For global asset allocation, better beta, and hedge funds of funds and depending on the actual contents of these separate portfolios, the assets are either reported at fair value as determined by the markets for those assets, or, if market quotes are not readily available, they are determined by the manager, subject to annual audits.

Cash received as collateral on securities lending transactions and investments with such cash are reported as assets along with the related liability for collateral received.

Cash

ERFC maintains its cash with the County, which invests cash and allocates interest earned net of a management fee, on a daily basis to the System based on the System's average daily balance of equity in pooled cash. For the fiscal year ended

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FINANCIAL

Notes to the Financial Statements

June 30, 2009, the cash balance of $740,450 represents funds that could not be invested in the County's enhanced cash fund until July 1, 2009.

The bank balance of the County's public deposits was either insured by the Federal Deposit Insurance Corporation or through the State Treasury Board pursuant to the provisions of the Security for Public Deposit Act. As of June 30, 2009, cash with fiscal agent totaled $1,280,586. This cash is insured and represents receipts from investment sales occurring on the last day of the month.

2. Plan Distribution and Contribution Information

Benefit Structure Descriptions

Benefit provisions for *ERFC* and *ERFC 2001* are established and may be amended by the System's Board of Trustees subject to approval by the School Board. All members are vested for benefits after five years of service. The *ERFC* benefit formula was revised effective July 1, 1988, following changes to the Virginia Retirement System (VRS), which the *ERFC* has historically supplemented. The benefit structure is designed to supplement VRS and Social Security benefits to provide a level retirement benefit throughout retirement. *ERFC 2001* has a stand-alone structure. Member contributions for *ERFC* and *ERFC 2001* are made through an arrangement that results in a deferral of taxes on the contributions. Further details of member contributions may be found in Article III of both Benefit Structure Documents.

ERFC and *ERFC 2001* provide for a variety of benefit payment types. ERFC's payment types include Service Retirement, Reduced Service, Disability, Death-in-Service, and Deferred Retirement. *ERFC 2001's* payment types include Service Retirement, Death-in-Service, and Deferred Retirement. Minimum eligibility requirements for full service benefits for *ERFC* is either (a) age 65 with 5 years of service or (b) age 55 with 25 years of service. Minimum eligibility requirements for full service benefits for *ERFC 2001* is either (a) age 60 with 5 years of service or (b) any age with 30 years of service. Annual post-retirement cost-of-living increases of 3 percent are effective each March 31.

At December 31, 2008, the date of the most recent actuarial valuation, the System's membership consisted of:

Retirees and beneficiaries currently receiving benefits	8,595
Terminated employees entitled to benefits but not yet receiving them	2,560
Active plan members	19,731
Total	**30,886**

Participants in their first full year of retirement receive a 1.49 percent increase. Participants who retire on or after January 1 receive no cost-of-living increase that first March. Additional detail regarding all benefit payment types can be found in the actuarial valuation and/or the System Document. ERFC also issues a publicly available financial report which includes financial statements and required supplementary information. That report may be obtained by writing to ERFC, 8001 Forbes Place, Suite 300, Springfield, VA 22151 or by calling 800-426-4208.

Contributions

The contribution requirements for *ERFC* and *ERFC 2001* members are established and may be amended by the System's Board of Trustees with the approval of the School Board. The requirements are based upon a fundamental financial objective of having rates of contribution that remain relatively level from generation to generation of employees. To determine the appropriate employer contribution rates and to assess the extent to which the fundamental financial objective is being achieved, the System has actuarial valuations prepared annually.

Funding Policy

The contribution requirements of members and the employer are established and may be amended by the ERFC Board of Trustees, subject to School Board approval. Members are required to contribute 4 percent of their annual salary. The employer is required to contribute at an actuarially determined rate which presently is 3.37 percent.

Notes to the Financial Statements

The actuarial valuations as of odd numbered years are used to set the employer contribution rate for the two-year period beginning 18 months after the valuation date. As such, the December 31, 2007 valuation recommended that the contribution rate for the two-year period beginning July 1, 2009 to June 30, 2011 be reduced to 3.2 percent.

Annual Pension Cost

ERFC's annual required contribution (ARC) for fiscal year 2009 was $40 million, of which 100% was contributed, resulting in no net pension obligation in the current fiscal year.

Funded Status and Funding Progress

As of December 31, 2008, the most recent actuarial valuation date, ERFC was 76.9 percent funded. The actuarial accrued liability for benefits was $2.3 billion and the actuarial value of assets was $1.7 billion, resulting in an unfunded actuarial accrued liability (UAAL) of $0.6 billion. The covered payroll (annual payroll of active employees covered by the plan) was $1.2 billion, and the ratio of the UAAL to the covered payroll was 43.1 percent.

The Schedule of Funding Progress, presented as RSI following the Notes to the Financial Statements, presents multi-year trend information about whether the actuarial value of Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

In the December 31, 2008 actuarial valuation, the entry age actuarial cost method was used in preparing the valuation. The actuarial assumptions include a 7.5 percent investment rate of return and projected annual wage increases ranging from 4.0 percent to 8.2 percent. There is no legal maximum requirement on the employer contribution rate. The individual entry age actuarial cost method of valuation was used for determining actuarial accrued liabilities and normal cost. The UAAL are amortized to produce contribution amounts which are a level percent of payroll contributions.

3. Investment Securities

Investments

The authority to establish pension funds is set forth in sections 51.1-800 of the Code of Virginia (Code) which provides that the County may purchase investments for pension funds (including common and preferred stocks and corporate bonds) that meet the standard of judgment and care set forth in Section 51.1-124 of the Code. The Board of Trustees makes all investment decisions which are based on information and/or recommendations provided by ERFC's investment consultant and ERFC staff.

The System does not have investments (other than U.S. government and U.S. government guaranteed obligations) in any one organization that represents 5 percent or more of net assets held in trust for pension benefits.

As permitted by the Code described above, ERFC invests in derivative instruments on a limited basis in accordance with the Board of Trustees' investment policy. Investment in derivatives allows the System to increase earnings and/or hedge against potential losses. The risks associated with derivative investments include market risk resulting from fluctuations in interest and currency rates, the credit worthiness of counter parties to any contracts entered into, and the credit worthiness of mortgages related to collateralized mortgage obligations (CMOs). Specific authorization by the Trustees is required should investment managers seek to purchase securities on margin or leverage.

During the fiscal year, consistent with standard accounting principle guidelines, the System invested in stock index future derivatives that were not reported on the financial statements as of June 30, 2009. These index futures are used to equitize temporary and transactional cash balances. The risk associated with these securities is equivalent to equity risk. At June 30, 2009 the market value of these stock index futures was $0.4 million. Throughout the fiscal year, the exposure to off-balance sheet derivatives was insignificant and ranged from .03 percent to .67 percent of the total portfolio.

In addition, the System had indirect investments in derivatives through its ownership interest in the Better Beta portfolio plus with one of the Private Real Estate managers. These portfolios are commingled funds in which ERFC has a percentage

Notes, *continued on next page*

Notes to the Financial Statements

ownership. Derivatives in these portfolios consisted of interest rate swaps which reduce the effect of interest rate fluctuations by converting floating rate financings into fixed rate loans for real estate investments. Other derivative instruments included futures and forward currency contracts and margin cash balances. These derivatives are used to hedge away foreign currency risks, and to equalize risk in other areas as well. They are also a cost-effective means of managing the portfolio since they tend to be liquid and have lower transaction costs. At June 30, 2009, the exposure to interest rate swaps, and futures was $449,607, while the exposure to forward currency contracts and margin cash balances was $(812,381).

Regarding certain risk factors, the Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures,* requires that state and local governments report their exposure to investment risks in four categories: interest rate risk, credit risk, concentration of credit risk, and foreign currency risk.

Interest Rate Risk

All three of ERFC's fixed income managers use the modified duration method to control interest rate risk. Regarding maturity, ERFC does not place limits on it's fixed income managers. However, it does expect the average duration to be within 25 percent of the portfolio's benchmark.

Credit Risk

The System's policy on credit quality states that the average credit quality of the portfolio must be at least AA. Up to 10 percent of the portfolio may be invested in below investment grade (that is, Moody's Baa or Standard & Poor's BBB ratings). If a security has a split rating, the lower rating will be considered in meeting the minimum quality standard.

As of June 30, 2009, the System had two active fixed income managers and one passive fixed income manager. The schedule on the following page lists the ratings of all of ERFC's fixed income investments according to Moody's Investment Services and Standard & Poor's.

Concentration of Credit Risk

The System's policy limits the securities of any one issue to 10% at cost and 15% at market of each fixed income portfolio. The policy allows an exception for government securities and its agencies.

Notes, *continued on page 24*

Investment Combined Duration as of June 30, 2009

Investment Category	Amount	Modified Duration
U.S. Treasuries	$ 51,946,358	7.98
Agencies	39,636,405	3.09
Corporate Bonds	142,641,453	7.69
Municipals	6,182,902	13.44
Mortgages	96,127,556	3.10
Foreign bonds	52,478,874	3.95
Convertible and preferred	836,450	7.39
Cash	9,024,838	—
Other	15,229	—
Total	$ 398,890,065	5.60 *

* *Duration in years*

Notes to the Financial Statements

CREDIT QUALITY SUMMARY (As of June 30, 2009)

Rating	Category	Percent	Amount	Total	Percent
AAA	Domestic corporate bonds	0.8%	$ 3,106,177		
	International bonds	6.1%	24,416,375		
	U.S. Government obligations	12.8%	51,210,088		
	Mortgage-backed securities	31.8%	126,888,430	$205,621,070	51.5%
AA	Cash & short-term investments	1.0%	3,945,922		
	Domestic corporate bonds	0.7%	2,929,716		
	International bonds	0.1%	203,059		
	Domestic bonds—municipal	1.6%	6,182,902		
	Mortgage—backed securities	0.7%	2,924,757	16,186,356	4.1%
A	Mortgage backed securities	0.0%	145,019		
	Domestic corporate bonds	13.1%	52,223,850		
	International bonds	0.1%	590,124	52,958,993	13.2%
BAA	Domestic corporate bonds	0.4%	1,800,081		
	International bonds	0.4%	1,697,901	3,497,982	0.8%
BA	International bonds	1.1%	4,276,746		
	Domestic corporate bonds	0.7%	2,745,872	7,022,618	1.8%
BBB	Domestic corporate bonds	10.9%	43,450,982		
	Convertible bonds	0.0%	79,288		
	International bonds	3.1%	12,335,428		
	Mortgage—backed securities	0.2%	975,979		
	Preferred stocks	0.0%	105,700	56,947,377	14.2%
BB	Domestic corporate bonds	3.5%	13,792,922	13,792,922	3.5%
B	International bonds	0.3%	1,070,320		
	Domestic corporate bonds	3.0%	12,187,456	13,257,776	3.3%
Below B	Domestic corporate bonds	1.2%	4,863,980		
	International bonds	0.1%	454,408		
	Preferred stocks	0.1%	207,219	5,525,607	1.4%
Not Rated	Cash & short-term investments	1.3%	5,078,916		
	Domestic common stock	0.0%	15,229		
	Convertible bonds	0.1%	225,213		
	Domestic corporate bonds	1.3%	5,070,423		
	International bonds	2.8%	11,006,744		
	Mortgage-backed securities	0.3%	1,361,928	22,758,453	5.8%
Withdrawn Rating	Convertible bonds	0.1%	219,031		
	Domestic corporate bonds	0.2%	628,102		
	Mortgage backed securities	0.1%	473,778	1,320,911	0.4%
	Total	**100.0%**	**$ 398,890,065**	**$398,890,065**	**100.0%**

Notes to the Financial Statements

At June 30, 2009, and as addressed previously, the System had two active fixed income managers and one passive fixed income manager. The active manager portfolios had values of $184.6 million and $131.5 million. The indexed portfolio had a value of $82.8 million. The market value of the largest issue other than the U.S. Government in the portfolios of the active managers was only 4.8 percent of that portfolio. Since the passive manager's portfolio is an index mutual fund, it is excluded from the Concentration of Credit Risk measurement.

Deposits

At June 30, 2009, short-term investments with the custodial bank totaled $16,300,070. These investments are collateralized with securities held by the agent in the System's name or are in a short-term investment pool.

Securities Lending

The System's Board of Trustees' policy permits the fund to participate in a securities lending program. The securities lending program is administered by the System's custodian. Certain securities of the System are loaned to approved broker/dealers who borrow the securities and provide collateral in the form of cash, U.S. Treasury or Government Agency Securities, letters of credit issued by approved banks, or other securities of a quality specified in the securities lending agreement. Collateral must be provided in the amount of 102 percent of market value for domestic securities and 105 percent for international securities. The System did not impose any restrictions during the period on the amount of loans the custodian made on its behalf. The custodian provides for full indemnification to the System for any losses that might occur in the program due to the failure of a broker/dealer to return a borrowed security or failure to pay the System for income of the securities while on loan. The market value of collateral is monitored daily by the custodian.

Cash collateral is invested in a fund maintained by the custodian or its affiliate. Per stated custodian policy, the maximum weighted average maturity of the fund is 90 days. Investment income from the securities lending program is shared 75/25 by ERFC and the custodian, respectively. At year-end, the System had no overall credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System. However, the System could experience a loss of as much as $875,598 due to the default of an investment vehicle that was held in the collateral pool. The actual loss will be determined at the time this investment vehicle is liquidated.

At June 30, 2009, securities on loan for cash and non-cash collateral are as follows:

Securities	Cash Market Value	Cash Collateral	Non-Cash Market Value	Non-Cash Collateral
U.S. Government obligations	$ 687,723	$ 700,050	$ —	$ —
Mortgage-backed securities	350,595	359,188	—	—
Domestic corporate bonds	3,904,771	4,080,690	—	—
Common stocks	52,556,143	54,366,005	142,780	143,000
Total collateral	**$ 57,499,232**	**$ 59,505,933**	**$ 142,780**	**$ 143,000**

Notes to the Financial Statements

Cash received as collateral and the related liability of $59,505,933 as of June 30, 2009, are shown on the Statement of Plan Net Assets. As of June 30, 2009, the market value of securities on loan for cash collateral was $57,499,232. Securities received as collateral are not reported as assets since ERFC does not have the ability to pledge or sell the collateral securities absent borrower default.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the system's funds will be lost. However, the System's investments and deposits are not exposed to custodial credit risk since they are insured and are held by the agent in the System's name. Other investments such as mutual funds, a short-term investment pool and a cash collateral investment pool which invests cash collateral for securities on loan, are not exposed to custodial risk due to their non-physical form. As such, the System does not have a custodial credit risk policy.

Foreign Currency Risk

The System's Investment Guidelines on active fixed income holdings are limited to debt instruments of U.S. entities denominated in U.S. dollars which includes U.S. denominated sovereign bonds. However, with Trustee approval, ERFC's two active fixed income managers have been granted exceptions that allow investments in non-U.S. bonds—one at a maximum of 25% and the other at 20%.

At the present time, there are no specific foreign currency guidelines for equities, however, the equity managers are all measured against specific benchmarks and are expected to adhere to the performance standard and risk guidelines identified in ERFC's Investment Policy. The chart on the following page provides a summary of ERFC's foreign currency risk.

Notes, *continued on next page*

FINANCIAL

Investments with the custodian as of June 30, 2009, included the following:

Investment Type	Market Value
Mortgage-backed securities	$ 2,823,441
Domestic corporate bonds	91,464,447
Convertible bonds	523,532
International bonds	35,143,080
Common stock	497,534,258
Real Estate	51,843,546
Preferred stock	2,141,515
Global asset allocation	136,329,577
Better beta	74,679,656
Hedge Funds	43,715,548
Mutual funds	474,717,130
Sub-total investments	**$ 1,410,915,730**
Cash collateral for securities on loan	59,505,933
Total	**$ 1,470,421,663**

Notes to the Financial Statements

Market Value of Foreign Currency Risk
(As of June 30, 2009)

Currency	Cash & Cash Equivalents	Equity	Convertible & Fixed Income	Preferred Stocks	Futures	Total U.S. Dollar
Australian Dollar	$ 10,458,359	$ 7,364,614	$ 2,933,031	$ —	—	$ 20,756,004
Brazil Real	14,251	1,653,050	735,157	599,459	—	3,001,917
British Pound Sterling	(10,749,765)	31,583,482	—	27,675	—	20,861,392
Canadian Dollar	(1,506,836)	6,204,888	3,632,271	—	—	8,330,323
Czechoslovakia Koruna	5,253	716,067	—	—	—	721,320
Danish Krone	8,988	2,322,966	—	—	—	2,331,954
EURO Currency Unit	2,334,581	56,521,625	—	—	(3,390)	58,852,816
Hong Kong Dollar	151,066	6,156,208	—	—	—	6,307,274
Hungarian Forint	101	273,153	—	—	—	273,254
Indonesian Rupian	6,290	12,188	—	—	—	18,478
Israeli Shekel	8,825	44,889	—	—	—	53,714
Japanese Yen	(3,454,836)	25,242,197	—	—	—	21,787,361
Malaysian Ringgit	68,727	1,053,982	—	—	—	1,122,709
Mexican New Peso	119,069	1,206,680	2,213,427	—	—	3,539,176
New Turkish Lira	21,310	2,987,147	—	—	—	3,008,457
New Zealand Dollar	3,652,606	117,077	5,185,900	—	—	8,955,583
Norwegian Krone	2,814,454	1,246,662	2,024,226	—	—	6,085,342
Philippines Peso	794	—	—	—	—	794
Polish Zloty	67	1,346,293	—	—	—	1,346,360
S. African Common Rand	18,548	1,420,052	—	—	—	1,438,600
Singapore Dollar	13	4,793,090	3,807,278	—	—	8,600,381
South Korean Won	2,028	4,942,672	—	—	—	4,944,700
Swedish Krona	(1,397,464)	4,784,134	—	—	—	3,386,670
Swiss Franc	(1,091,618)	8,535,732	—	—	—	7,444,114
Thailand Baht	7,387	797,920	1,105,418	—	—	1,910,725
	$ 1,492,198	**$ 171,326,768**	**$ 21,636,708**	**$ 627,134**	**$ (3,390)**	**$ 195,079,418**

Notes to the Financial Statements

4. Income Taxes

The Internal Revenue Service (IRS) issued a determination letter on October 2, 2001, which stated that the System and its underlying trust qualify under the applicable provisions of the Internal Revenue Code and therefore are exempt from federal income taxes. In the opinion of the plan administrator, the System and its underlying trust have operated within the terms of the IRS regulations and are qualified under the applicable provisions of the Internal Revenue Code.

Required Supplementary Information

Historical information is presented herein for the most recent six fiscal years as required supplementary information (RSI). This information is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

Schedule of Employer Contributions

Year ended June 30	Annual Required Contribution	Percentage Contributed
2004	$ 37,331,203	100%
2005	32,198,596	100%
2006	34,648,918	100%
2007	36,644,001	100%
2008	38,334,140	100%
2009	40,012,480	100%

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of the System's funding status. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system.

Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids in the analysis of the System's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller the percentage, the stronger the system.

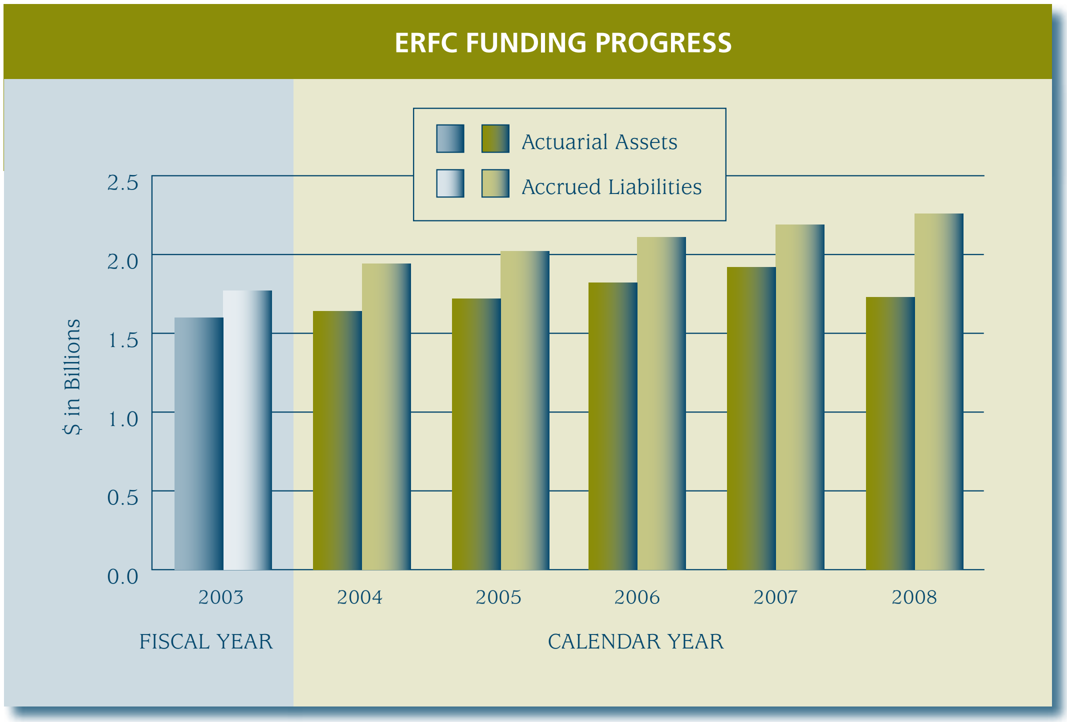
The following Schedule of Funding Progress, presented as RSI, shows multiyear trend information which illustrates whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. As addressed previously and as noted on the Schedule of Funding Progress, ERFC has transitioned to calendar year valuations. The most recent valuation was effective December 31, 2008. This transition to calendar year valuation was done in order to provide a more current contribution rate which could be included in the school system's Superintendent's proposed budget and to provide more accurate information to the actuary for the annual valuation.

Required Supplementary Information

SCHEDULE OF FUNDING PROGRESS ($ in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	[Excess of Assets] Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	[Excess of Assets] UAAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/03	1,597,459	1,772,418	174,959	90.13%	866,502	20.19%
12/31/04	1,643,020[1]	1,935,582	292,562	84.89%	977,817	29.92%
12/31/05	1,718,399	2,022,962	304,563	84.94%	1,050,217	29.00%
12/31/06	1,818,930	2,105,552	286,622	86.39%	1,111,828	25.78%
12/31/07	1,924,886	2,186,801	261,915	88.02%	1,161,432	22.55%
12/31/08	1,733,946	2,255,298	521,352	76.88%	1,211,140	43.05%

[1] At the recommendation of the ERFC's actuary and due to the fact that these values were very similar, the actuarial value of assets was reset to the market value of assets for this valuation period only.



FINANCIAL

Notes to the Schedules of Required Supplementary Information

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation is as follows:

Valuation date	December 31, 2008
Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market which recognizes asset values should be between 75% and 125% of the market value
Actuarial assumptions:	
Investment rate of return	7.5%*
Projected active member salary increases	4.0-8.2%*
Retiree cost-of-living adjustments	3%
	* Includes inflation at 3.75%

Reserves

There are no legally required actuarial or investment reserves for the pension system nor are there any incorporated. However, there is a budgetary reserve of $3 million. This is a budget line item that is subject to the annual review and recommendation of the Board of Trustees and approval by the School Board.

Notes to the Schedules of Required Supplementary Information

SUMMARY OF SIGNIFICANT CHANGES TO THE PENSION SYSTEM

The following provides a summary of the composite employer and employee contribution rates and other significant changes to the pension system during the past six fiscal years.

- July 1, 2009 — The employer contribution rate is decreased from 3.37 percent to 3.2 percent.
- July 1, 2006 — The implementation of a Benefit Restoration Plan in order to make benefit payments in excess of the limits established by Section 415 of the Internal Revenue Code.
- July 1, 2004 — The employer rate increases from 2.53 to 3.37 percent of salaries.
- June 1, 2004 — The employer contribution rate is decreased from 4.29 to 2.53 percent of salaries and the employee rate is increased from 2 to 4 percent of salaries. This is done to facilitate the school system's assumption of the 5 percent employee contribution to the Virginia Retirement System.

Contribution Rates (as a percent of salary)

Fiscal Year	Composite Employer	Employee	Total
2003	4.00%	2.00%	6.00%
Jul 1–May 31 2004	4.29	2.00	6.29
June 2004	2.53	4.00	6.53
2005	3.37	4.00	7.37
2006	3.37	4.00	7.37
2007	3.37	4.00	7.37
2008	3.37	4.00	7.37
2009	3.37	4.00	7.37

- April 29, 2004 – The Board of Trustees agreed to transition to calendar year actuarial valuations.
- December 18, 2003 — Effective July 1, 2004, members hired prior to July 1, 2001 (ERFC Benefit Structure), are eligible for a Level Lifetime Benefit (LLB) that is calculated by determining the annuitized value of the greater of their accumulated contribution balance or the present value of the currently provided defined benefit. The following changes apply to members hired on or after July 1, 2001 (ERFC 2001 Benefit Structure):
  - The defined contribution component of the benefit structure that was to be offered as an option to members on July 1, 2006, was eliminated.
  - The matching contribution provisions of the benefit structure were eliminated effective July 1, 2004. Members who met the requirements for a contribution match as of June 30, 2004, had the match credited to their accounts on June 30, 2004.
  - Beginning July 1, 2004, members who retire are eligible for a minimum benefit that is calculated by determining the annuitized value of their accumulated contribution balance.
- July 24, 2003 – The Working After Retirement (WAR) program is closed to new entrants, effective June 30, 2004, which is two years earlier than originally planned.

Other Supplementary Information

SCHEDULE OF ADMINISTRATIVE EXPENSES

(Year Ended June 30, 2009)

Personnel services	
Salaries and wages	$ 1,914,218
Retirement contributions	342,724
Insurance	218,406
Social security	152,418
Total personnel services	**2,627,766**
Professional services	
Actuarial	116,950
Legal	31,013
Payroll disbursement	152,923
Plan automation	392,114
Audit	39,392
Total professional services	**732,392**
Communications	
Printing	24,136
Postage	23,925
Total communications	**48,061**
Supplies	
Office supplies	16,587
Dues and subscriptions	6,465
Total supplies	**23,052**
Other services and charges	
Board travel and staff development	57,063
Equipment	36,260
Building rent	339,222
Depreciation expense and asset disposal	19,504
Miscellaneous	15,300
Total other services and charges	**467,349**
Total administrative expenses	**$ 3,898,620**

Other Supplementary Information

SCHEDULE OF INVESTMENT EXPENSES

(Year Ended June 30, 2009)

Investment management fees	
Fixed income managers	
Loomis-Sayles and Company, L.P.	$ 390,312
Mellon Capital Management Corporation	41,229
Pacific Investment Management Company	563,938
Equity managers	
Alliance Bernstein, L.P.	371,735
Aronson + Johnson + Ortiz, LLC	130,111
Dodge & Cox	212,606
Epoch Investment Partners, Inc.	63,667
Lazard Asset Management	261,237
Mellon Capital Management Corporation	78,395
Westfield Capital Management	282,281
International managers	
Acadian Asset Management, Inc.	377,772
AllianceBernstein, L.P.	427,207
William Blair & Company	352,670
Real estate managers	
J.P. Morgan Asset Management	334,799
Prudential Financial	208,710
UBS Realty Investors, LLC	201,920
Urdang Investment Management	229,794
Global asset allocation managers	
Mellon Capital Management Corporation	466,501
Pacific Investment Management Company	722,802
Better beta	
Bridgewater Associates	390,975
Hedge fund of funds	
Grosvenor Capital Management, L.P.	286,536
Permal Investment Management Services, Ltd.	177,553
Total investment management fees	**6,572,750**
Other investment service fees	
Securities lending borrower rebates	504,352
Securities lending management fees	203,925
Custodial fees—Mellon Trust	219,012
Investment consultant fees—	
New England Pension Consultanting, Inc.	209,567
Investment salaries	188,941
Total other investment service fees	**1,325,797**
Total investment expenses	**$ 7,898,547**

FINANCIAL

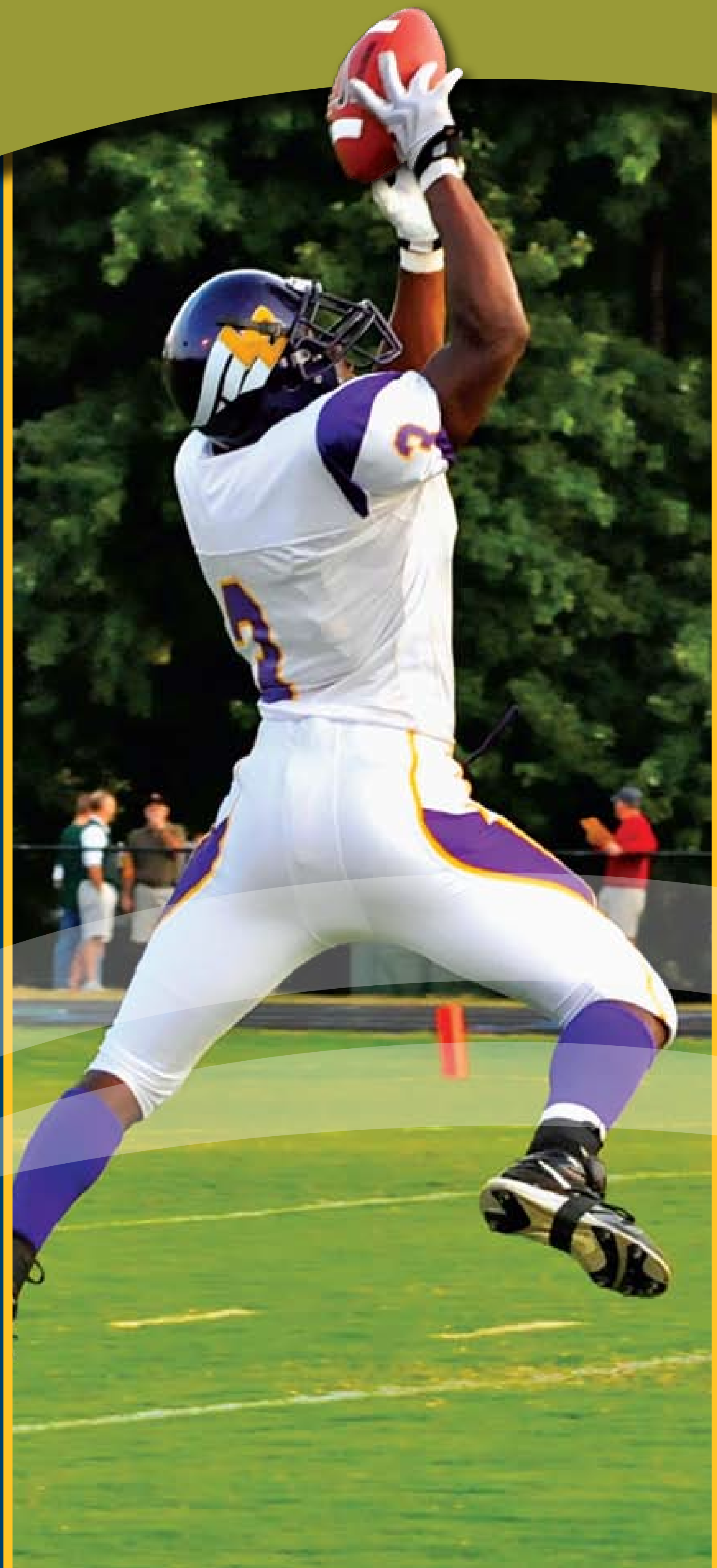
Other Supplementary Information

SCHEDULE OF PROFESSIONAL SERVICE FEES

(Year Ended June 30, 2009)

Service Provider	Nature of Service	
Gabriel, Roeder, Smith & Company	Actuary and plan automation	$ 116,950
Mary Ann Swanson	Plan automation	27,000
Bredhoff & Kaiser, P.L.L.C.	Legal counsel	31,013
Mellon Trust	Pension disbursement	152,923
KPMG LLP	Audit	39,392
Levi, Ray & Shoup, Inc.	Plan automation	147,395
Leon Wechsler, LTD	Plan automation	214,113
Various	Miscellaneous	3,606
Total professional service fees		**$ 732,392**

Investment Section



- Consultant Report on Investment Activity
- Strategic Review and Investment Policy
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- Ten Largest Equity and Fixed Income Holdings
- Brokerage Commissions
- Investment Summary
- Investment Management Fees

Consultant Report on Investment Activity

NEPC

"Advancing Your Investments"

November 9, 2009

The Board of Trustees
The Educational Employees' Supplementary Retirement System of Fairfax County
8001 Forbes Place, Suite 300
Springfield, Virginia 22151

Dear Board Members:

This letter summarizes the structure and performance of the Educational Employees' Supplementary Retirement System of Fairfax County (ERFC) Fund through the Fiscal Year Ending June 30, 2009.

As of the June 30th fiscal year-end, the Fund was in compliance with policy, and had 47.4 percent in equities, 6.3 percent in real estate equity, 27.7 percent in bonds, 3.1 percent in absolute return strategies, 15.4 percent in global asset allocation/better beta strategies, and 0.1 percent for cash. Over the past year, the Fund has maintained public equity levels slightly higher than the median equity allocation when measured against peers in the Independent Consultants Cooperative (ICC) Universe.

The Fund earned -19.2%[1] in the year ending June 30, 2009, which ranked in the top 60% of public funds over $1 billion within the ICC Universe. Over the last 12 months ending June 30, 2009, ERFC underperformed its assumed actuarial return target of 7.5% by 26.7 percentage points. Assets decreased by $417.1 million in fiscal 2009 to approximately $1.44 billion as of June 30, 2009.

The fiscal year starting July 1, 2008 marked the beginning of a long and tumultuous year for investors. What began as a sub-prime mortgage fueled housing bubble in the United States quickly led to a restructuring of the financial industry around the world. The past year has seen the demise, bankruptcy or government take-over of Fannie Mae, Freddie Mac, Lehman Brothers, AIG, Washington Mutual and many others.

US Equity returns over the fiscal year were starkly negative, despite a sharp reversal in the quarter ended June 30th. Large cap stocks (S&P 500 down 26.2%) underperformed

[1] Return data for the Fund was reconciled from manager provided time-weighted returns that were calculated in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).® Valuations, where available, are based on published national securities exchange prices, as provided by ERFC's custodian, BNY Mellon.

NEPC, LLC
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CAMBRIDGE | CHARLOTTE | DETROIT | LAS VEGAS | SAN FRANCISCO

Consultant Report on Investment Activity

small cap (Russell 2000 down 25.0%) while growth stocks generally fared better than value stocks (Russell 1000 Growth down 24.5% versus Russell 1000 Value down 29.0%; Russell 2000 Growth down 24.8% versus Russell 2000 Value down 25.2%).

Over the past year US Fixed Income returns were volatile. The Barclays Aggregate Bond Index (formerly Lehman) returned 6.1%, but there was a wide disparity in the performance of many of the bond market sectors and sub-sectors. The best and worst performing sectors were Agency mortgage backed bonds (9.38%) and high yield bonds (-2.4%), respectively. However, after a rush to the safety of Treasuries from October through December, the most recent six months saw a significant run-up in high-yield bonds (up 30.4%) after a jump back into risk-oriented assets.

International developed market equities measured by the MSCI EAFE Index, a broad index of the international developed market equities returned -31.4% for the year ended 6/30/2009. Emerging markets equities, as measured by the MSCI Emerging Index returned -28.1%. However, both of these indices were beneficiaries of the strong spring rally, posting 6 month returns of 8.0% and 36.0%, respectively. Global bonds posted very modest returns over the fiscal year, their 4.0% return reflective of the global flight to the safety of government issued debt.

The investment manager changes in fiscal year 2009 occurred in the Domestic Equity and Absolute Return allocations. Equity manager changes favored moving from passive strategies into actively managed portfolios and consolidating from five to three large cap managers. Turner, a large cap growth manager, was hired in the second quarter of calendar 2009, Epoch, a small cap value manager, was hired in the first quarter of calendar 2009, while Permal was hired in the third quarter of calendar 2008 for the Absolute Return space.

Fiscal Year 2009 performance reflected the challenging market environment. In uncertain markets such as these, diversification can help protect portfolios from experiencing significant declines. Diversification aims to reduce volatility and better equalize the contribution to overall plan risk across a variety of asset classes with unrelated return patterns. Moving forward, our goal is to continue to implement our plan to diversify the Fund's assets across a broader variety of traditional and non-traditional asset classes to reduce its volatility and better protect the portfolio against difficult market environments.

Sincerely,

Douglas W. Moseley

Douglas W. Moseley
Partner

INVESTMENT

Strategic Review and Investment Policy

Introduction

The members of the ERFC Board of Trustees have jurisdiction over and ultimate fiduciary responsibility for the investment of the System's assets. In carrying out their responsibilities, they must adhere to applicable laws, regulations, and rulings with respect to the duties of investment fiduciaries. Accordingly, they are required to "discharge their duties in the interest of plan participants" and "act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims." The Board of Trustees has established a Statement of Investment Policy that identifies a set of investment objectives, guidelines, and performance standards for the assets of the fund. The objectives are formulated in response to the following:

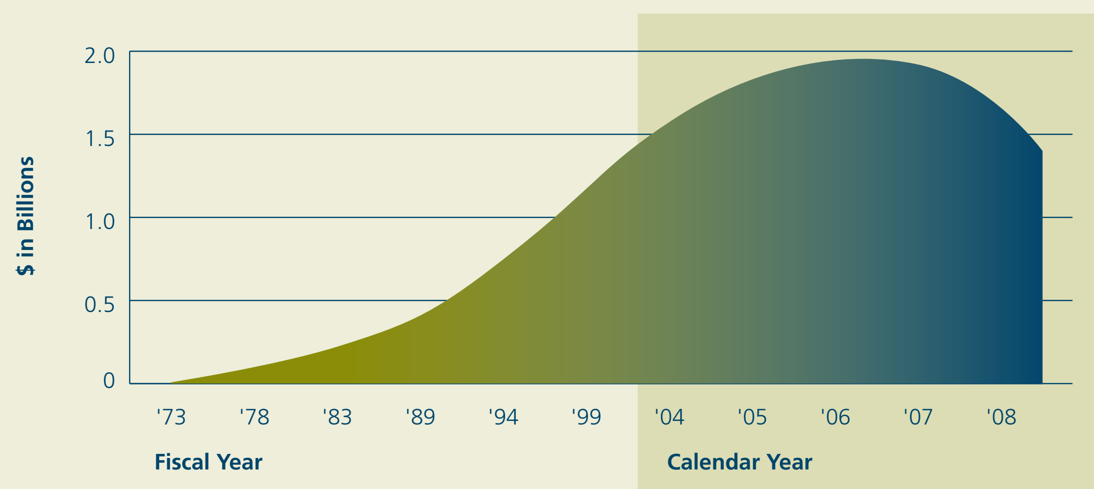
- the anticipated financial needs of the ERFC
- consideration of risk tolerance; and
- the need to document and communicate objectives, guidelines and standards to the investment managers.

Investment Objectives

The investment objective of the ERFC is to ensure, over the long-term life of the fund, an adequate level of assets to fund the benefits for ERFC members and their beneficiaries at the time they are payable. The Trustees seek to achieve a high level of total investment return consistent with a prudent level of portfolio risk. Since the preservation of principle is a component of the long-term objective, it is expected that no manager will incur a negative rate of return over any rolling five-year period. The fund's actuary uses an investment return assumption of 7.5 percent, compounded annually, of which 3.75 percent constitutes an assumed rate of inflation and 3.75 percent reflects an assumed real rate of return on investments. The fund's objective is to meet or exceed the assumed real rate of return over time, while preserving the fund's principal.

ERFC TOTAL FUND GROWTH — VALUATION ASSETS SINCE INCEPTION

(As reflected in the December 31, 2008 actuarial valuation)



Investment Managers

ASSETS UNDER MANAGEMENT

As of June 30, 2009 (Dollars in millions)

Investment Manager	Investment Type	Amount
Equities		
Large Capitalization		
Aronson + Johnson + Ortiz	Value	$ 88.1
Mellon Capital Management Corp.	Core Index (Russell 1000)	191.9
Turner Investment Partners	Growth	89.0
Small/Mid Capitalization		
Epoch Investment Partners, Inc.	Value	32.4
Lazard Asset Management	Core	35.3
Westfield Capital Management	Growth	37.5
International		
Acadian Asset Management	Core	66.6
AllianceBernstein L.P.	Value	69.9
William Blair & Company	Growth	71.6
Fixed Income		
Loomis-Sayles & Company	Core Plus	131.5
Mellon Capital Management Corp.	Core Index	82.8
Pacific Investment Management Co.	Core Plus	184.6
Global Asset Allocation/Better Beta		
Bridgewater Associates, Inc.	Better Beta	74.7
Mellon Capital Management Corp.	Global Asset Allocation	57.3
Pacific Investment Management Co.	Global Asset Allocation	89.0
Hedge fund of funds		
Grosvenor Institutional Partners, L.P.	Hedge Fund of Funds	21.3
Permal Group of Funds	Hedge Fund of Funds	22.4
Real Estate		
JP Morgan Asset Management	Private	12.6
Prudential Financial	Private	17.3
UBS Realty Investors, LLC	Private	20.0
Urdang Investment Management	Public	44.9
Cash		1.3
Total		**$ 1,442.0**

Asset Structure

Interim Strategic Target Allocation*

The asset structure shown below represents the Trustees' assessment of their optimal asset allocation as of June 30, 2009. This interim strategic allocation provides a reasonable expectation that the fund's investment objective can be achieved based on historic relationships of asset class performance.

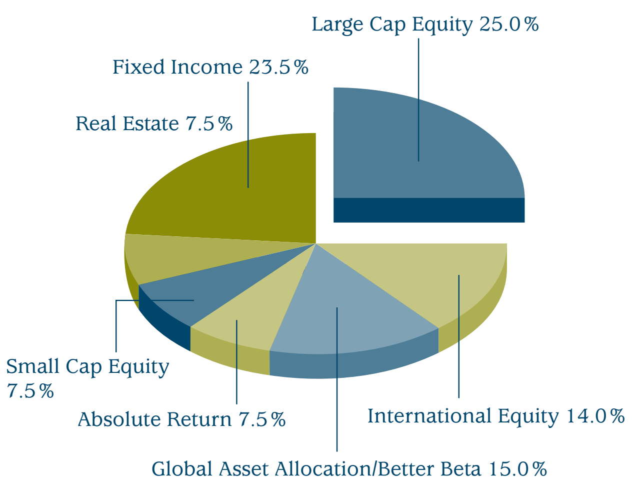
The table below provides a comparison between the target asset mix, consistent with the achievement of the long-term objective of the fund, and the actual asset allocation as of June 30, 2009.

* These are referred to as interim targets because the approved target of 7.5% for the Absolute Return asset class is being funded incrementally.

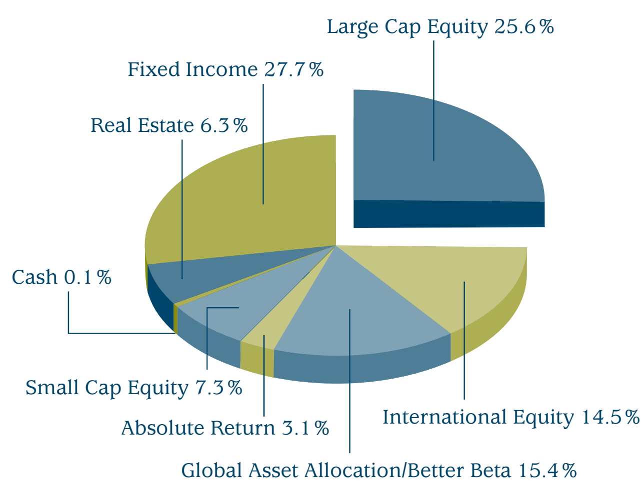
Actual Asset Allocation as of June 30, 2009

The asset structure of ERFC has historically reflected a proper balance of the fund's needs for liquidity, growth of assets, and risk tolerance. The fund's investment policy is designed to continue to meet its long-term investment objectives while, at the same time, provide increased flexibility to meet short-term funding requirements.

INTERIM STRATEGIC TARGETS



ACTUAL ASSET ALLOCATION



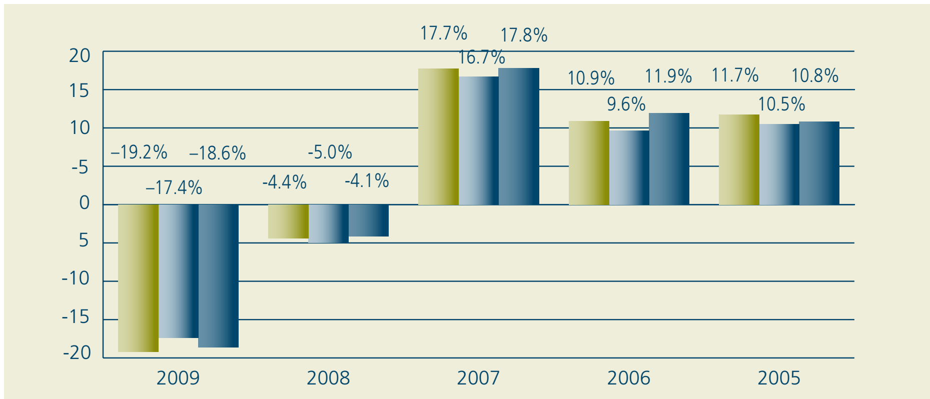
Security Class	Interim Strategic Targets as of June 30, 2009	Actual Asset Allocation as of June 30, 2009
Domestic Large Cap Equity	25.0 %	25.6 %
Domestic Small Cap Equity	7.5	7.3
International Equity	14.0	14.5
Real Estate	7.5	6.3
Fixed Income	23.5	27.7
Global Asset Allocation/Better Beta	15.0	15.4
Absolute Return	7.5	3.1
Cash	—	0.1
Total	100.0%	100.0%

Investment Results

Fiscal Years Ending June 30

TOTAL FUND RETURNS

- ERFC
- Benchmark*
- Public Funds**



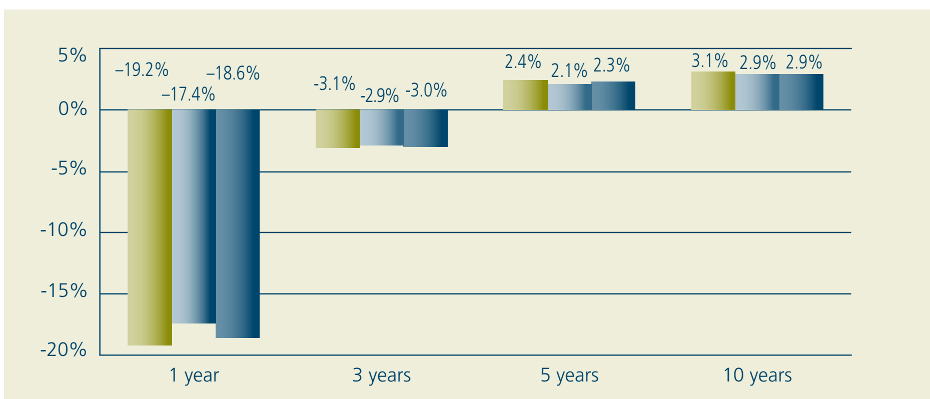
* Diversified benchmark is 28.5% Russell 1000, 7.5% Russell 2000, 16% MSCI ACWI Ex-US, 3.75% NAREIT, 3.75% NCREIF, 18.0% Barclays Aggregate Bond Index, 3.75% LB Credit, 3.75% LB Long Credit, 7.5% MS World Net, 7.5% CitiWorld Govt Bond

** New England Pension Consultants Universe (Funds in excess of $1 billion)

For the Periods Ending June 30, 2009

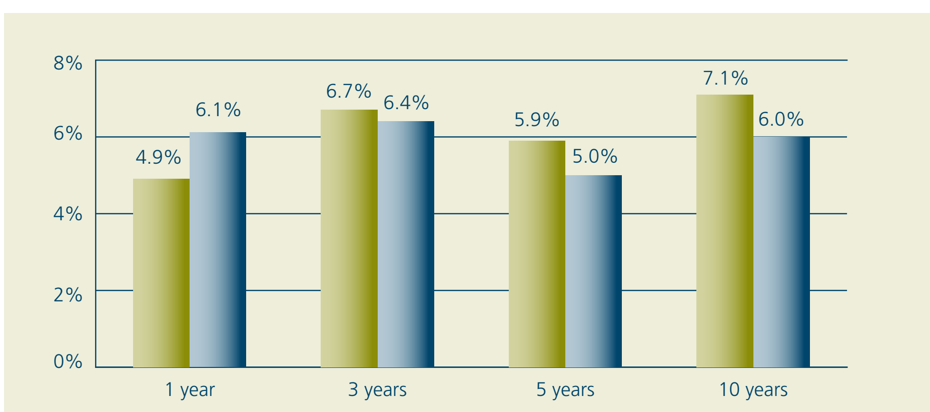
TOTAL FUND

- ERFC
- Benchmark*
- Public Funds**



FIXED INCOME

- Fixed Income
- Benchmark: Barclays Capital Aggregate Bond



INVESTMENT

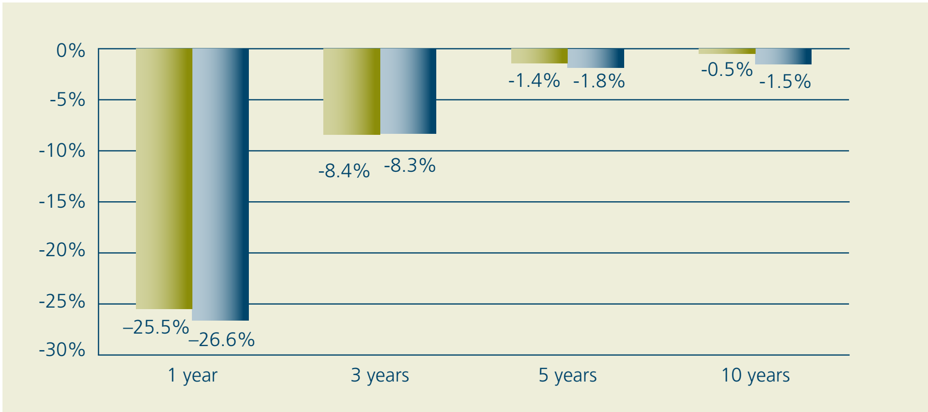
Investment Results

(For the Periods Ending June 30, 2009)

DOMESTIC EQUITY

Domestic Equity

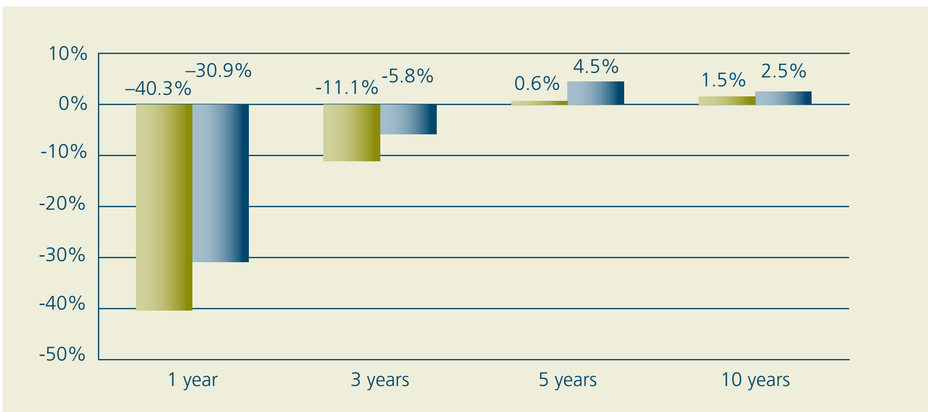
Benchmark: Russell 3000 Index



INTERNATIONAL EQUITY

International Equity

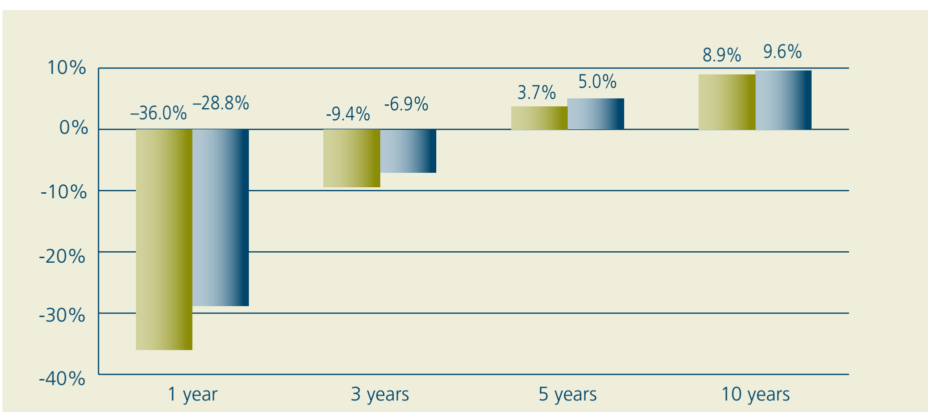
Benchmark: MSCI/ACWI Ex-USA Index



REAL ESTATE

Real Estate

Benchmark: 50% NAREIT 50% NCREIF



Note: All investment performance figures were calculated using a time-weighted rate of return based on market values.

Schedules of Ten Largest Equity & Fixed Income Holdings

(As of June 30, 2009)

TEN LARGEST EQUITY HOLDINGS*

No. Shares	Description	Cost	Fair Value	% of Total Portfolio
86,100	EXXON MOBIL CORP	$ 5,329,771	$ 6,019,251	0.42%
54,400	CHEVRON CORPORATION	3,795,620	3,604,000	0.25%
64,380	SIMON PPTY GROUP INC	3,490,529	3,311,081	0.23%
131,800	AT & T INC	2,868,151	3,273,912	0.23%
22,920	APPLE INC	3,207,116	3,264,496	0.23%
30,900	IBM CORP	3,277,254	3,226,578	0.22%
65,510	GILEAD SCIENCES INC	3,136,425	3,068,488	0.21%
111,438	ROYAL DUTCH SHELL	3,424,249	2,782,291	0.19%
61,210	QUALCOMM INC	2,836,209	2,766,692	0.19%
47,780	PEPSICO INC	2,579,642	2,625,989	0.18%
	Total	**$ 33,944,966**	**$ 33,942,778**	**2.35%**

TEN LARGEST FIXED INCOME HOLDINGS*

Par Value	Security	Coupon	Maturity	Cost	Fair Value	% of Total Portfolio
5,177,000	BRAZIL FEDERATIVE REP BD	8.250%	01/20/2034	$ 5,559,892	$ 6,338,698	0.44%
7,255,000	INTER-AMERICAN DEVELOPMENT BK	6.000%	12/15/2017	4,980,586	4,543,159	0.32%
5,500,000	INTL BK RECON & DEVELOP	1.430%	03/05/2014	3,581,312	3,685,393	0.26%
2,800,000	BMC SOFTWARE INC NT	7.250%	06/01/2018	2,783,368	2,868,017	0.20%
3,070,000	GEORGIA PAC CORP DEB	7.750%	11/15/2029	2,713,566	2,432,676	0.17%
12,205,000	NORWAY (KINGDON OF)	4.250%	05/19/2017	1,841,944	1,942,388	0.13%
2,055,000	GOVERNMENT OF CANADA	2.750%	12/01/2010	1,958,034	1,822,339	0.13%
1,795,000	SOUTHERN NAT GAS CO NT	7.350%	02/15/2031	1,670,662	1,794,958	0.12%
1,815,000	ILLINOIS PWR CO SECD SR NT	6.250%	04/01/2018	1,810,771	1,747,218	0.12%
1,800,000	QUESTAR MKT RES INC NT	6.800%	04/01/2018	1,798,902	1,736,814	0.12%
	Total			**$ 28,699,037**	**$ 28,911,660**	**2.01%**

* A detailed list of the portfolio's equity and fixed income holdings are available upon request.

Schedule of Brokerage Commissions

(Year Ended June 30, 2009)

Broker Name	Base Volume	Total Shares	Base Commission	Commission Percentage
STATE STREET GLOBAL MARKETS LLC, BOSTON	$ 169,520,316	9,167,261	$ 103,312	0.06%
CREDIT SUISSE, NEW YORK (CSFBUS33XXX)	107,017,524	8,264,700	77,315	0.07
GOLDMAN SACHS & CO, NY	45,250,706	3,989,340	44,370	0.10
INVESTMENT TECHNOLOGY GROUP, NEW YORK	44,441,429	1,926,618	25,677	0.06
DEUTSCHE BK SECS INC, NY (NWSCUS33)	42,450,296	3,005,942	35,559	0.08
MORGAN STANLEY & CO INC, NY	37,494,517	5,907,272	46,606	0.12
MERRILL LYNCH PIERCE FENNER SMITH INC NY	34,275,482	1,436,539	45,675	0.13
CITIGROUP GBL MKTS INC, NEW YORK	33,317,718	1,019,534	30,630	0.09
UBS SECURITIES LLC, STAMFORD	32,480,336	1,509,944	51,533	0.16
MORGAN J P SECS INC, NEW YORK	26,685,233	939,069	35,578	0.13
BROADCOURT CAP CORP/SUB OF MLPF&S,NY	22,206,380	1,133,315	44,855	0.20
LIQUIDNET INC, BROOKLYN	20,896,959	1,212,585	26,206	0.13
INSTINET EUROPE LIMITED, LONDON	18,354,569	6,188,925	22,770	0.12
CITIGROUP GBL MKTS/SALOMON, NEW YORK	16,459,586	7,980,702	14,600	0.09
GOLDMAN SACHS EXECUTION & CLEARING, NY	16,125,282	442,735	5,950	0.04
UBS EQUITIES, LONDON	14,893,079	2,260,260	9,737	0.07
LEHMAN BROS INC, NEW YORK	13,730,711	383,519	9,306	0.07
CREDIT SUISSE (EUROPE), LONDON	13,081,741	2,399,212	9,243	0.07
BARCLAYS CAPITAL LE, JERSEY CITY	12,341,231	807,399	18,775	0.15
CITATION GROUP, NY	11,982,670	398,100	6,513	0.05
BNY ESI & CO INC, JERSEY CITY	11,542,382	721,100	27,342	0.24
SG SECURITIES, HONG KONG	11,514,722	9,155,371	7,786	0.07
UBS WARBURG ASIA LTD, HONG KONG	10,688,527	3,092,963	7,260	0.07
MERRILL LYNCH INTL LONDON EQUITIES	10,583,863	805,297	9,476	0.09
J.P. MORGAN CLEARING CORP, NEW YORK	10,582,458	2,884,322	8,361	0.08
BNY CONVERGEX / LJR, HOUSTON	10,466,540	645,929	25,837	0.25
FIDELITY CAP MKTS (DIV OF NFSC), BOSTON	10,148,092	417,800	7,299	0.07
J P MORGAN SECS LTD, LONDON	9,850,038	983,710	7,220	0.07
MERRILL LYNCH PIERCE FENNER, WILMINGTON	9,684,274	2,550,846	5,607	0.06
ABN AMRO BANK NV, LONDON	9,541,045	10,715,975	5,753	0.06
BNY CONVERGEX, NEW YORK	8,631,601	398,900	2,372	0.03
SG SEC (LONDON) LTD, LONDON	8,228,566	665,466	7,016	0.09
NOMURA SECS INTL INC, NEW YORK	7,842,678	567,877	5,112	0.07
BANC OF AMERICA SECS LLC, CHARLOTTE	7,621,471	402,312	13,054	0.17
GOLDMAN SACHS INTL, LONDON (GSILGB2X)	7,393,172	492,388	4,518	0.06
CITIGROUP GLOBAL MARKETS LTD, LONDON	7,182,482	455,160	6,255	0.09
INSTINET CORP, NY	7,179,580	280,284	6,795	0.09
WELLS FARGO SECURITIES LLC, CHARLOTTE	7,128,236	633,423	18,241	0.26
GUZMAN & CO, NEW YORK	6,778,755	237,900	4,758	0.07
BROCKHOUSE AND COOPER, MONTREAL	6,163,320	1,673,630	3,711	0.06
WEEDEN & CO, NEW YORK	6,060,905	212,174	4,694	0.08
OTHER BROKERS	180,713,551	23,974,098	243,864	0.13
TOTAL	**$ 1,098,532,023**	**122,339,896**	**$ 1,096,541**	**0.10%**

Investment Summary

	As of June 30, 2008		As of June 30, 2009	
	Market Value	**% Market Value**	**Market Value**	**% Market Value**
Fixed Income				
U.S. Government obligations	$ 7,151,891	0.4%	$ —	0.0%
Mortgage-backed securities	7,303,871	0.4%	2,823,441	0.2%
Domestic corporate bonds	84,536,207	4.4%	91,464,447	6.4%
Convertible bonds	3,029,663	0.2%	523,532	0.0%
International bonds	36,652,616	2.0%	35,143,080	2.5%
Preferred stocks	6,824,099	0.4%	2,141,515	0.2%
Index / Commingled fund	320,784,462	17.3%	259,582,578	18.1%
Total fixed income	466,282,809	25.1%	391,678,593	27.4%
Domestic Equities:				
Basic industry	8,449,338	0.4%	10,576,651	0.7%
Consumer and services	194,195,143	10.5%	137,596,194	9.6%
Financial and utility	56,797,437	3.1%	51,612,265	3.6%
Technological	64,749,120	3.5%	51,353,915	3.6%
Index / Commingled fund	250,104,463	13.5%	192,204,327	13.6%
Total domestic stock	574,295,501	31.0%	443,343,352	31.1%
International Equity				
Basic industry	29,085,492	1.5%	17,905,392	1.3%
Consumer and services	181,609,000	9.8%	108,172,021	7.6%
Financial and utility	70,654,317	3.8%	57,631,888	4.0%
Technological	19,975,837	1.1%	17,602,395	1.2%
Index / Commingled fund	18,052,892	1.0%	22,930,225	1.6%
Total international stock	319,377,538	17.2%	224,241,921	15.7%
Real Estate				
Public	66,597,754	3.6%	45,083,537	3.2%
Private Real Estate	82,887,762	4.5%	51,843,546	3.6%
Total real estate	149,485,516	8.1%	96,927,083	6.8%
Alternative investments				
Better beta	101,588,242	5.5%	74,679,656	5.2%
Global asset allocation	188,062,092	10.1%	136,329,577	9.6%
Hedge fund of funds	25,268,155	1.4%	43,715,548	3.1%
Total alternative investments	314,918,489	17.0%	254,724,781	17.9%
Subtotal investments at fair value	1,824,359,853	98.4%	1,410,915,730	98.9%
Short-term Investments				
Money Market	17,684,305	0.9%	16,300,070	1.1%
Commercial paper	12,724,219	0.7%	-	0.0%
Total short-term investments	30,408,524	1.6%	16,300,070	1.1%
Total	**$ 1,854,768,377**	**100.0%**	**$ 1,427,215,800**	**100.0%**

Note: This summary is comprised of investments at fair value and short-term investments.

Schedule of Investment Management Fees

(Year Ended June 30, 2009)

Investment Category	Assets Under Management	Fees
Better Beta	$ 74,679,656	$ 390,975
Domestic equity managers	474,193,425	1,400,032
Fixed income managers	398,890,065	995,479
Global asset allocation	146,329,577	1,189,303
Hedge fund of funds	43,715,548	464,089
International managers	208,044,794	1,157,649
Real estate managers	94,785,538	975,223
Total	**$ 1,440,638,603**	**$ 6,572,750**

Note: Excludes short-term investments.

Actuarial Section

Actuary's Certification Letter

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

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May 21, 2009

Board of Trustees
Educational Employees' Supplementary
Retirement System of Fairfax County (ERFC)
8001 Forbes Place, Suite 300
Springfield, Virginia 22151

Dear Board Members:

The basic financial objective of ERFC is to establish and receive contributions which,

- when expressed in terms of percents of active member payroll will remain approximately level from generation to generation, and
- when combined with present assets and future investment return will be sufficient to meet the financial obligations of ERFC to present and future retirees and beneficiaries.

The financial objective is addressed within the annual actuarial valuation. The valuation process develops contribution rates that are sufficient to fund the plan's current cost (i.e., the costs assigned by the valuation method to the year of service about to be rendered) as well as to fund unfunded actuarial accrued liabilities as a level percent of active member payroll over a finite period. The most recent valuation was completed based upon population data, asset data, and plan provisions as of December 31, 2008.

The plan's administrative staff provides the actuary with data for the actuarial valuation. The actuary relies on the data after reviewing it for internal and year-to-year consistency. The actuary summarizes and tabulates population data in order to analyze longer term trends. The plan's external auditor also audits the actuarial data annually.

The actuary prepared the following supporting schedules for the Comprehensive Annual Financial Report.

Actuarial Section

Summary of Actuarial Assumptions and Methods

Sample Pay Increase Assumptions for an Individual Member

Probabilities of Retirement for Members Eligible to Retire

Single Life Retirement Values

Sample Rates of Separation from Active Employment before Retirement

Rates of Forfeiture Following Vested Separation

Actuary's Certification Letter

Board of Trustees
May 21, 2009
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Summary of Member Data Included in Valuation as of December 31, 2008

Active Members by Years of Service on December 31, 2008

All Active Members in Valuation on December 31, 2008 by Attained Age and Years of Service

Summary of Member Data

Short-Term Solvency Test

Analysis of Financial Experience Gains and Losses by Risk Area

Financial Section

Schedule of Funding Progress

Schedule of Employer Contributions

Summary of Actuarial Methods and Assumptions

Assets are valued on a market-related basis that recognizes each year's difference between actual and assumed investment return over a closed five-year period, subject to a 75% to 125% corridor on market value.

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. These assumptions are adopted by the Board after considering the advice of the actuary and other professionals. The assumptions comply with the requirements of Statement No. 25 of the Governmental Accounting Standards Board. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed. The December 31, 2008 valuation was based upon assumptions that were recommended in connection with a study of experience during the period from July 1, 1999 to June 30, 2004.

Based upon the results of the December 31, 2008 valuation, we are pleased to report to the Board that the Educational Employees' Supplementary Retirement System of Fairfax County (ERFC) is meeting its basic financial objective and continues to operate in accordance with actuarial principles of level percent of payroll financing. While the funding policy will result in a net pension obligation in fiscal 2011, ERFC is fortunate that its long standing commitment to excellence in funding has resulted in financial strength that is likely to enable it to weather the current severe market downturn.

Respectfully submitted,

Brian B. Murphy

Brian B. Murphy, FSA, MAAA, EA

Judith A. Kermans

Judith A. Kermans, MAAA, EA

BBM:JAK:mrb

Gabriel Roeder Smith & Company

ACTUARIAL

Summary of Actuarial Assumptions and Methods

The actuarial assumptions and methods used in making the annual actuarial valuation are summarized in this section. They were established and used initially for the December 31, 2004 actuarial valuation, based upon a study of experience during the period July 1, 1999, to June 30, 2004.

Economic Assumptions

The **investment return rate** used in making the valuation was 7.5 percent per year, compounded annually (net after administrative expenses). The real rate of return is the portion of total investment return, which is more than the wage inflation rate. Based upon an assumed wage inflation rate of 3.75 percent, the 7.5 percent investment return rate translates to an **assumed real rate of return over wages of 3.75 percent.**

Pay increase assumptions for individual active members are shown for sample ages on Table A. Part of the assumption for each age is for merit and/or seniority increase, and the other 3.75 percent recognizes wage inflation.

The number of active members is assumed to continue at the present number.

Total active member payroll is assumed to increase 3.75 percent annually, which is the portion of the individual pay increase assumptions attributable to wage inflation. This assumed increase is recognized in the funding of unfunded actuarial accrued liabilities.

Non-Economic Assumptions

The **probabilities of retirement** for members eligible to retire are shown on Table C.

The **mortality table** used to measure active and retired life mortality was the 1994 Group Annuity Mortality Table set back 2 years for males and 1 year for females. Related values are shown on Table D.

The **probabilities of withdrawal** from service, death-in-service, and disability are shown for sample ages on Table B.

The **individual entry age actuarial cost method of valuation** was used for determining actuarial accrued liabilities and normal cost.

Actuarial gains and losses reduce or increase the unfunded liability. The unfunded actuarial accrued liabilities are amortized to produce contribution amounts (principal and interest) which are level percent of payroll contributions.

Present assets *(cash and investments)* are valued on a market-related basis ***effective June 30, 1986.*** A one time adjustment toward market was made in connection with the 1990–93 experience study and an additional one-time adjustment set the funding value equal to the market value as of December 31, 2004. Further, an 85–110% market value corridor was added in the December 31, 2005 valuation. Additionally, the market value corridor on assets was changed from 15% to 25% in the December 31, 2008 valuation.

The data about persons now covered and about present assets was furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the actuary.

The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (MAAA).

Summary of Actuarial Assumptions and Methods

TABLE A: Sample Pay Increase Assumptions for an Individual Member

	PAY INCREASE ASSUMPTION		
Sample Ages	Merit & Seniority	Base (Economy)	Increase Next Year
20	4.45 %	3.75 %	8.2 %
25	3.25	3.75	7.0
30	2.75	3.75	6.5
35	2.35	3.75	6.1
40	2.05	3.75	5.8
45	1.55	3.75	5.3
50	1.15	3.75	4.9
55	0.75	3.75	4.5
60	0.35	3.75	4.1
65	0.25	3.75	4.0

TABLE B: Sample Rates of Separation from Active Employment Before Retirement

		PERCENT OF ACTIVE MEMBERS SEPARATING WITHIN NEXT YEAR									
		DEATH				DISABILTY				OTHER	
		Ordinary		Duty		Ordinary		Duty			
Sample Ages	Years of Service	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women
All	0									18.00%	18.00%
	1									15.00	15.00
	2									12.00	12.00
25	3 & over	0.04%	0.02%	0.01%	0.00%	0.06%	0.03%	0.01%	0.01%	12.00	15.80
30		0.06	0.02	0.01	0.00	0.06	0.05	0.02	0.01	8.50	12.00
35		0.06	0.03	0.01	0.00	0.09	0.09	0.02	0.02	5.75	8.20
40		0.07	0.05	0.01	0.01	0.14	0.12	0.03	0.03	4.30	5.00
45		0.10	0.07	0.01	0.01	0.21	0.18	0.05	0.05	2.90	3.70
50		0.16	0.10	0.02	0.01	0.34	0.29	0.08	0.07	2.50	3.20
55		0.27	0.16	0.04	0.02	0.59	0.49	0.15	0.12	2.50	3.00
60		0.47	0.29	0.06	0.04	0.98	0.71	0.24	0.18	2.50	3.00

Summary of Actuarial Assumptions and Methods

TABLE C: Probability of Retirement for Members Eligible to Retire

ERFC (Hired before 7/1/2001) Type of Retirement			*ERFC 2001* (Hired on or after 7/1/2001) Type of Retirement		
Ages	Service	Reduced Service	Age Based	Service	Service Based
45		5%			
46		5			
47		5			
48		5			
49		5			
50		6			
51		7			
52		8			
53		9			
54		10			
55	50%	10		30	35%
56	40	5		31	28
57	30	5		32	21
58	30	5		33	21
59	30	5		34	21
60	30	10	21%	35	21
61	40	10	28	36	28
62	40	20	28	37	28
63	25	20	18	38	35
64	25	20	18	39	50
65	50		50	40 & up	100
66	40		40		
67	30		30		
68	40		40		
69	20		20		
70	20		20		
71	20		20		
72	30		30		
73	40		40		
74	50		50		
75	100		100		
76	100		100		
77	100		100		
78	100		100		
79	100		100		
80	100		100		

Summary of Actuarial Assumptions and Methods

TABLE D: Single Life Retirement Values

Standard Mortality

Sample Attained Ages	Present Value of $1 Monthly for Life (Increasing 3% Annually)		Future Life Expectancy (years)	
	Men	Women	Men	Women
55	$ 183.72	$ 195.47	27.95	31.11
60	165.91	178.85	23.52	26.49
65	146.49	160.36	19.39	22.11
70	126.51	140.71	15.66	18.08
75	106.26	119.31	12.34	14.31
80	85.94	97.25	9.40	10.93

Disabled Mortality

Sample Attained Ages	Present Value of $1 Monthly for Life (Increasing 3% Annually)		Future Life Expectancy (years)	
	Men	Women	Men	Women
55	$ 128.18	$ 144.69	17.14	20.34
60	118.67	135.13	15.18	18.04
65	110.09	124.28	13.46	15.71
70	99.71	111.15	11.60	13.27
75	86.55	94.60	9.55	10.66
80	70.31	76.56	7.37	8.17

Summary of Actuarial Assumptions and Methods

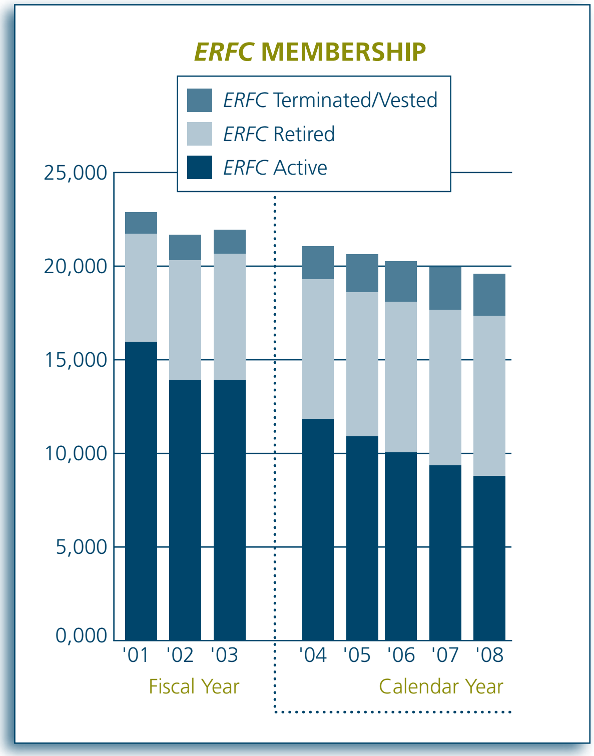
TABLE E: Rates of Forfeiture Following Vested Separation

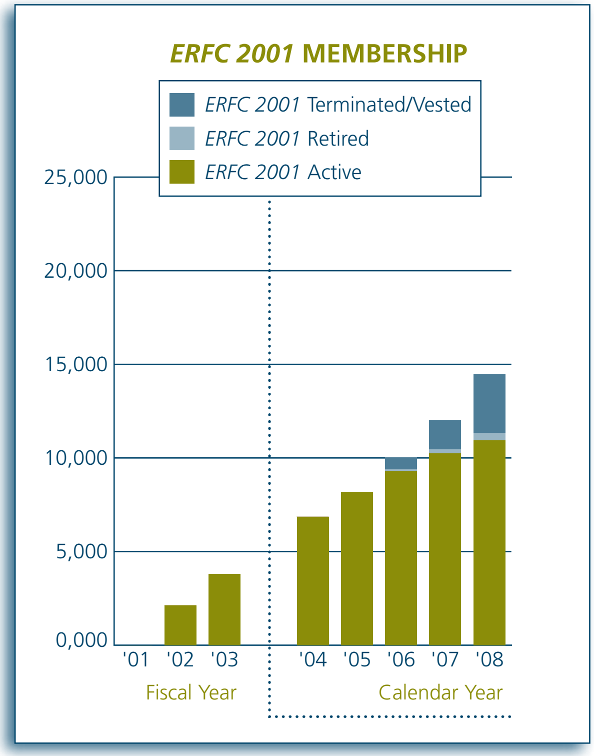
Forfeiture occurs when a vested person separates from service and withdraws contributions thereby forfeiting future rights to an employer financed benefit. The total probability of forfeiture is obtained by multiplying the probability of "other separation" from Table B by the probability of forfeiture from this table. The table does not apply to individuals who are eligible for retirement at the time of termination.

	Sample Entry Age				
Age at Separation	**25**	**30**	**35**	**40**	**45**
30	0.5000				
31	0.4854				
32	0.4708				
33	0.4563				
34	0.4417				
35	0.4271	0.5000			
36	0.4125	0.4816			
37	0.3979	0.4632			
38	0.3833	0.4447			
39	0.3688	0.4263			
40	0.3542	0.4079	0.5000		
41	0.3396	0.3895	0.4750		
42	0.3250	0.3711	0.4500		
43	0.3104	0.3526	0.4250		
44	0.2958	0.3342	0.4000		
45	0.2813	0.3158	0.3750	0.5000	
46	0.2667	0.2974	0.3500	0.4611	
47	0.2521	0.2789	0.3250	0.4222	
48	0.2375	0.2605	0.3000	0.3833	
49	0.2229	0.2421	0.2750	0.3444	
50	0.2083	0.2237	0.2500	0.3056	0.5000
51	0.1938	0.2053	0.2250	0.2667	0.4125
52	0.1792	0.1868	0.2000	0.2278	0.3250
53	0.1646	0.1684	0.1750	0.1889	0.2375
54	0.1500	0.1500	0.1500	0.1500	0.1500

Summary of Member Data

(Last Eight Years)





		ERFC			*ERFC 2001*			
	Year	**Active**	**Retired**	**Terminated/ Vested**	**Active**	**Retired**	**Terminated/ Vested**	**Total**
Fiscal Year	2001	15,955	5,766	1,157				22,878
(As of June 30)	2002	13,940	6,375	1,362	2,134			23,811
	2003	13,934	6,729	1,301	3,804			25,768
Calendar Year	2004	11,856	7,430	1,780	6,864			27,930
(As of December 31)	2005	10,895	7,710	2,030	8,186			28,821
	2006	10,065	7,710	2,179	9,306	6	65	29,331
	2007	9,350	8,333	2,249	10,249	21	157	30,359
	2008	8,791	8,556	2,243	10,940	39	317	30,886

Summary of Member Data

(As of December 31, 2008)

Active *ERFC* Members by Attained Age and Years of Service

Age Group	YEARS OF SERVICE TO VALUATION DATE							TOTALS		
	0-4	5-9	10-14	15-19	20-24	25-29	30 & Up	No.	Salary	Average
15-19										
20-24										
25-29	2	6						8	$ 381,492	$ 47,687
30-34	11	411	92					514	32,164,634	62,577
35-39	20	391	478	73				962	66,972,862	69,618
40-44	13	290	368	268	51	2		992	71,716,105	72,294
45-49	13	329	323	254	234	29	1	1,183	85,654,303	72,404
50-54	8	382	453	294	327	252	36	1,752	131,428,883	75,016
55-59	8	381	512	351	327	186	81	1,846	137,339,066	74,398
60	1	52	101	88	53	23	3	321	22,843,594	71,164
61	1	48	74	79	71	25	3	301	21,747,311	72,250
62	2	41	79	77	63	21	1	284	20,340,488	71,621
63	1	23	43	61	38	10		176	13,344,587	75,822
64		24	34	37	25	14	1	135	9,984,792	73,961
65	1	16	22	20	22	7	2	90	6,517,047	72,412
66		19	20	19	23	9	1	91	6,527,046	71,726
67		4	4	13	9	4	2	36	2,668,437	74,123
68		6	4	8	8	2	1	29	1,970,995	67,965
69		2	8	2	6	3		21	1,331,341	63,397
70		1	3	5	3	1		13	811,557	62,427
71		1	2	2	3	1	2	11	705,146	64,104
72				2	4		2	8	490,837	61,355
73			1	1				2	118,346	59,173
74			1	1	1		1	4	193,672	48,418
75 & Up		1	3	1	5	1	1	12	537,033	44,753
Totals	**81**	**2,428**	**2,625**	**1,656**	**1,273**	**590**	**138**	**8,791**	**635,789,574**	**72,323**

Summary of Member Data

(As of December 31, 2008)

Active *ERFC 2001* Members by Attained Age and Years of Service

	YEARS OF SERVICE TO VALUATION DATE							TOTALS		
Age Group	0-4	5-9	10-14	15-19	20-24	25-29	30 & Up	No.	Salary	Average
15-19	1							1	$ 18,084	$ 18,084
20-24	522	1						523	22,456,159	42,937
25-29	2,435	285						2,720	135,563,028	49,839
30-34	1,259	668						1,927	106,313,043	55,170
35-39	820	407						1,227	68,968,916	56,209
40-44	782	275						1,057	57,038,570	53,963
45-49	861	346						1,207	59,443,083	49,249
50-54	662	391						1,053	55,871,405	53,059
55-59	457	317						774	43,325,913	55,977
60	64	56						120	7,008,917	58,408
61	45	46						91	5,053,039	55,528
62	52	32						84	5,395,631	64,234
63	21	24						45	2,636,261	58,584
64	19	15						34	1,848,199	54,359
65	11	10						21	1,327,823	63,230
66	10	9						19	1,036,066	54,530
67	11	2						13	673,243	51,788
68	3	3						6	345,142	57,524
69	3	2						5	380,648	76,130
70	2	1						3	157,262	52,421
71	1	2						3	82,313	27,438
72	2							2	144,629	72,315
73	2	1						3	154,175	51,392
74										
75 & UP	2							2	108,886	54,443
TOTALS	**8,047**	**2,893**	—	—	—	—	—	**10,940**	**$ 575,350,435**	**$ 52,591**

ACTUARIAL

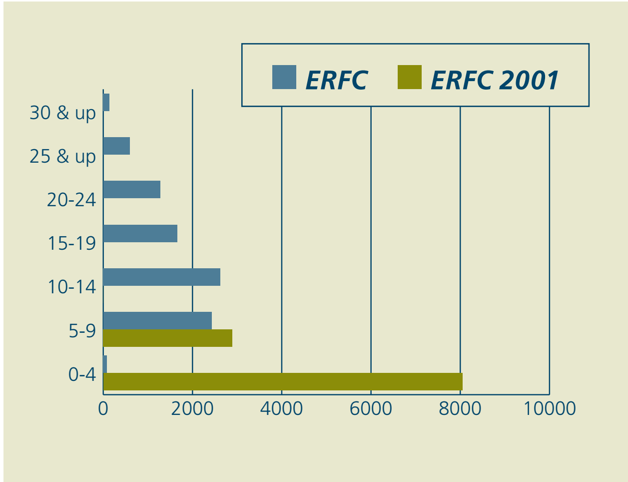
Summary of Member Data

(As of December 31, 2008)

ACTIVE MEMBER YEARS OF SERVICE

Average Service = 8.5 years

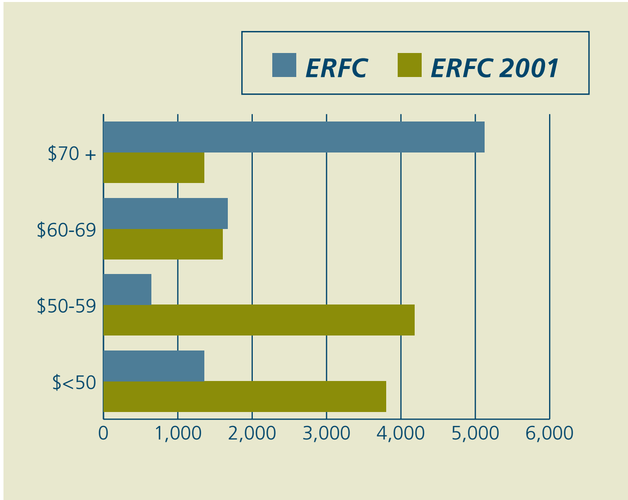
	0-4	5-9	10-14	15-19	20-24	25-29	30 & up
ERFC	81	2,428	2,625	1,656	1,273	590	138
ERFC 2001	8,047	2,893	–	–	–	–	–



ACTIVE MEMBER SALARIES ($ in thousands)

Average Annual Pay = $61,383

	<$ 50	$ 50-59	$ 60-69	$ 70+
ERFC	1,353	644	1,672	5,122
ERFC 2001	3,797	4,184	1,603	1,356

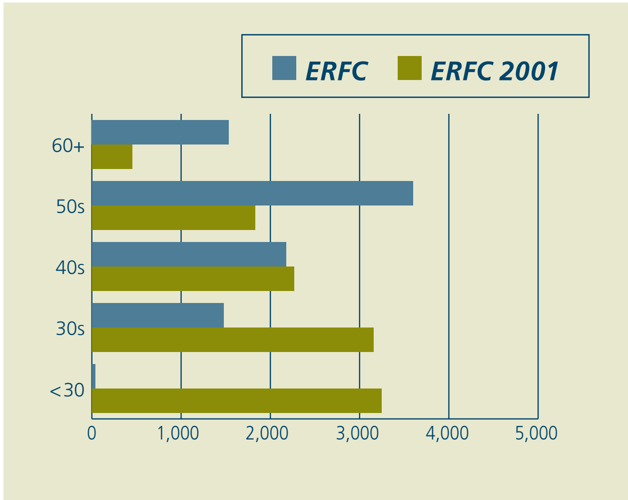


ACTIVE MEMBER AGES

Average Age = 43.8 years

Total Active Members = 19,731

	<30	30's	40's	50's	60+
ERFC	8	1,476	2,175	3,598	1,534
ERFC 2001	3,244	3,154	2,264	1,827	451



Summary of Member Data

(Last Eight Years)

ACTIVE MEMBER VALUATION DATA

Valuation Date	Annual Number	Annual Payroll	Annual Average Pay	% Increase in Annual Pay
June 30, 2001	15,955	$ 759,905,510	$ 47,628	5.6
June 30, 2002	16,074	781,756,005	48,635	2.1
June 30, 2003	17,738	866,501,799	48,850	0.4
December 31, 2004	18,720	977,817,281	52,234	6.9
December 31, 2005	19,081	1,050,216,544	55,040	5.4
December 31, 2006	19,371	1,111,827,576	57,396	4.3
December 31, 2007	19,599	1,161,431,668	59,260	3.2
December 31, 2008	19,731	1,211,140,009	61,383	3.6

RETIREES AND BENEFICIARIES ADDED AND REMOVED

	Added to Payroll		Removed from Payroll		Payroll at End of Year			
Year	Number	Annualized Monthly Benefit	Number	Annualized Monthly Benefit	Number	Annualized Monthly Benefit	Average Annualized Monthly Benefit	% Increase in Monthly Benefit
As of June 30								
2001	536	$ 687,740	115	$ 70,932	5,766	$ 6,381,227	1,107	7.44%
2002	741	1,120,553	132	77,890	6,375	7,245,460	1,137	13.54
2003	625	951,989	271	91,665	6,729	7,942,436	1,180	9.62
As of December 31								
2004*	989	1,465,852	288	175,242	7,430	8,872,997	1,194	11.72
2005	481	615,969	201	106,627	7,710	9,587,825	1,244	8.06
2006	531	729,364	212	124,532	8,029	10,124,699	1,261	5.60
2007	539	727,585	214	129,189	8,354	10,705,991	1,282	5.74
2008	461	660,186	220	147,638	8,595	11,189,751	1,302	4.52

* With the transition from fiscal year to calendar year valuations, the added and removed calculations reflect an 18-month time span.

Short-Term Solvency Test

If the contributions to ERFC are level in concept and soundly executed, the System **will pay all promised benefits when due — the ultimate test of financial soundness.** Testing for level contribution rates is the **long-term test.**

A **short-term solvency test** is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (cash and investments) are compared with:

1) Active member contributions on deposit,
2) The liabilities for future benefits to present retired lives, and
3) The liabilities for service already rendered by active members.

In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1 in the table below) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. The larger the funded portion of liability 3, the stronger the condition of the system.

	AGGREGATE ACTUARIAL ACCRUED LIABILITIES Last 20 years						
Valuation Date	(1) Member Contributions	(2) Retirants and Beneficiaries	(3) Members (Employer Financed Portion)	Valuation Assets	Portion of Accrued Liabilities Covered by Assets (1)	(2)	(3)
		($ in thousands)					
6/30/1989	$ 75,917	$ 203,394	$ 281,651	$ 405,317	100%	100%	45%
6/30/1990	83,920	240,122	320,831	461,450	100	100	43
6/30/1991	89,976	285,618	342,133	510,825	100	100	40
6/30/1992	97,502	318,072	347,996	563,644	100	100	43
@# 6/30/1993	115,312	344,160	448,895	717,701	100	100	58
6/30/1994	129,428	374,849	467,802	766,480	100	100	56
$ 6/30/1995	143,150	395,249	534,137	839,930	100	100	56
6/30/1996	146,228	436,181	548,135	934,572	100	100	64
6/30/1997	144,063	464,345	606,959	1,045,412	100	100	72
!# 6/30/1998	149,261	490,261	638,891	1,194,556	100	100	87
! 6/30/1999	154,582	539,917	651,160	1,365,417	100	100	103
6/30/2000	157,148	614,739	595,484	1,505,231	100	100	123
6/30/2001	178,564	667,605	674,857	1,599,219	100	100	112
$ 6/30/2001	178,564	667,605	706,389	1,599,219	100	100	107
! 6/30/2002	170,849	699,251	823,856	1,619,889	100	100	91
$ 6/30/2003	176,648	903,963	691,807	1,597,459	100	100	75
# 12/31/2004	227,725	1,083,988	623,869	1,643,020	100	100	53
12/31/2005	257,142	1,130,378	635,442	1,718,399	100	100	52
12/31/2006	239,780	1,176,979	688,793	1,818,930	100	100	58
12/31/2007	269,404	1,221,969	695,428	1,924,886	100	100	62
12/31/2008	302,910	1,237,613	714,775	1,595,230	100	100	8
@12/31/2008	302,910	1,237,613	714,775	1,733,946	100	100	27

@ After change in asset valuation method. $ After changes in benefit structure.
# After changes in actuarial assumptions. ! After change in employer contribution rate.

Analysis of Financial Experience

Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.

Investment Return. If there is a greater investment return than assumed, there is a gain. If smaller return, a loss.

Age & Service Retirement. If members retire at older ages than assumed, there is a gain. If at younger ages, a loss.

Disability & Death in Service. If disability claims are less than assumed, there is a gain. If claims are more, a loss. If survivor claims are less than assumed, there is a gain. If claims are more, a loss.

Other Separations. If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.

EXPERIENCE GAINS AND LOSSES BY RISK AREA

(Dollars in Millions)

	Economic Risk Area			Demographic Risk Area			Total Gain (Loss)	
Experience Period	**Pay Increases**	**Investment Return**	**Age and Service Retirement**	**Disability and Death-in Service**	**Other Separations**	**Other**	**Amount**	**Percent of Liabilities**
For Periods Ending June 30								
1989–90	$ (14.0)	$ 23.6	$ (18.7)	$ (4.3)	$ 1.2	$ (15.9)	$ (28.1)	(5.0)%
1990–91	(2.1)	14.4	(25.9)	(5.5)	0.4	(5.0)	(23.7)	(3.7)
1991–92	21.2	21.7	(28.4)	(6.0)	(4.0)	2.3	6.8	0.9
1992–93	15.1	34.6	(16.3)	(1.0)	(6.5)	(17.3)	8.6	1.1
#1993–94	(4.1)	4.7	(1.6)	(3.7)	3.5	(15.2)	(16.4)	(1.8)
1994–95	(9.7)	25.2	5.1	(1.4)	(4.4)	(5.5)	9.3	0.9
1995–96	(7.7)	45.4	4.1	(1.8)	(5.6)	4.3	38.7	3.6
1996–97	9.9	53.5	2.9	(1.7)	(4.5)	(8.7)	51.4	4.5
#1997–98	(2.6)	81.1	5.9	(0.5)	6.4	(13.9)	76.4	6.3
*1998–99	(8.4)	95.4	0.3	(1.0)	6.5	(3.8)	89.0	7.0
1999–00	(17.6)	62.3	3.8	(1.2)	12.9	38.9	99.1	7.4
2000–01	(9.1)	17.6	(0.3)	(1.0)	13.0	(19.5)	0.7	0.0
2001–02	3.0	(50.4)	3.5	(1.1)	2.6	(29.9)	(72.3)	(4.7)
2002–03	18.5	(92.5)	11.0	(0.3)	4.0	(23.3)	(82.6)	(4.9)
For Periods Ending December 31								
2003–04	*Due to transition to calendar year valuations, a gain/loss analysis was not conducted for this valuation period.*							
@#2005	(7.1)	1.9	1.0	0.1	0.0	(3.2)	(7.3)	(0.4)
2006	(4.7)	23.6	2.0	0.0	(0.8)	2.6	22.7	1.1
2007	10.0	25.1	1.9	(0.2)	(2.2)	(7.2)	27.4	1.4
2008	4.1	(277.5)	5.2	(0.4)	(4.0)	13.5	(259.1)	(11.8)

\# Experience Study

* Updated Gain Formulas

@ Risks not directly related to assumptions include granted additional service credit, data adjustments, timing of financial transactions, etc.

Summary of Benefit Provisions

Available to a Member Retiring with Some Service **Before July 1, 1988** (*ERFC* Members)

Service Retirement: Alternate Amount After Social Security Normal Retirement Age. By election at time of retirement, a member with service before July 1, 1988, may elect to receive 1988 new benefits with a special alternate amount for payment periods after the age the member becomes eligible for full Social Security benefits. The alternate amount is 103 percent of the total of:

1) the amount payable under June 30, 1987 benefit provisions,

2) plus, if the retiring member is younger than age 65 and if creditable Virginia service is less than 30 years, 1.65 percent of VRS average final compensation in excess of $1,200, multplied by years of creditable Virginia service, and further multiplied by a certain percent based upon the number of months that retirement occurs before reaching the earlier of the above two conditions; such percent is half of one percent for each of the first 60 such months and 4/10 of one percent for each of the next 60 such months, if any.

Reduced Service Retirement: With 25 Years Service. By election at time of retirement, such a member may elect to receive 103 percent of the following combination of benefits:

– **To age 55,** 2.85 percent of the 3-year average annual salary multiplied by years of credited service, then actuarially reduced to reflect retirement age younger than age 55; and

– **From age 55 to Social Security Normal Retirement Age,** the amount to age 55 reduced by: 1.65 percent of the portion of VRS average final compensation in excess of $1,200, multiplied by applicable years of creditable Virginia service; provided if creditable Virginia service is less than 30 years, the result of such multiplication shall be actuarially reduced for each month before the earlier of (1) attainment of age 65, and (2) the date when 30 years service would have been completed; and

– **From Social Security Normal Retirement Age for life,** the greater of the amount payable at the age the member becomes eligible for full Social Security benefits according to June 30, 1987 provisions or the amount payable at that age according to July 1, 1988 provisions.

Summary of Benefit Provisions

For a Person Becoming a Member after July 1, 1988 but Before July 1, 2001 (*ERFC* Members)

Service Retirement: Eligibility. A member may retire any time after reaching the service retirement date, which is either (i) age 65 with 5 years service or (ii) age 55 with 25 years of service.

Service Retirement: Amount. For payment periods during the retired member's lifetime 103 percent times (i) minus (ii) where:

(i) means 1.85 percent of the 3-year average annual salary multiplied by years of credited service, and

(ii) means 1.65 percent of the portion of VRS average final compensation in excess of $1,200, multiplied by applicable years of creditable Virginia service; provided if the member is younger than age 65 and if creditable Virginia service is less than 30 years, the result of such multiplication shall be actuarially reduced for each month before the earlier of:
- –1) attainment of age 65, and
- –2) the date when 30 years service would have been completed.

For payment periods, if any, before the age the member becomes eligible for full Social Security benefits, an additional temporary benefit equal to 1 percent of the 3-year average annual salary multiplied by years of credited service.

Reduced Service Retirement: Eligibility. A member with 25 years service but younger than age 55 may retire as early as age 45. A member with less than 25 years service and younger than age 65 may retire on or after age 55.

Reduced Service Retirement: Amount After 25 Years Service. Service Retirement amount actuarially reduced to reflect retirement age younger than age 55.

Reduced Service Retirement: Amount After 5-24 Years Service. For payment periods during the retired member's lifetime, the Service Retirement amount payable at age 65 is actuarially reduced to reflect that the retirement age is younger than age 65. For payment periods before the age the member becomes eligible for full Social Security benefits, an additional temporary benefit equal to the Service Retirement temporary benefit reduced to reflect that the retirement age is younger than age 65.

Disability Retirement: An active member with 5 or more years of service who becomes totally and permanently disabled may be retired and receive a disability pension. The 5 year service requirement is waived if the disability is service-connected.

The amount is 103 percent times a lifetime pension equal to 0.25 percent of the 3-year average annual salary multiplied by years of credited service. Credited service shall be increased by the time period from disability retirement to the date when member would have reached service retirement date.

Death-in-Service Benefits: An active member with 5 or more years of service who dies will have benefits payable to the surviving spouse and/or dependent children. The 5 year service requirement is waived if the death is service-connected and the menber's benefit includes service credit that the member would have earned between the date of death and eligibility for service retirement (with a minimum of 10 years of service used).

Deferred Retirement: Calculated in the same manner as reduced service retirement.

Member Contributions: Members contribute 4 percent of their salaries. Interest credits of 5 percent are added annually. If a member leaves covered employment before becoming eligible to retire, accumulated contributions are returned upon request.

***Before July 1, 2001,** continued on next page*

Before July 1, 2001, continued from previous page

Post-Retirement Increases: On March 31, most pensions are increased by 3 percent. These increases are compounded each year. Pensions of members or beneficiaries who retired in the immediately preceding calendar year are increased by 1.489 percent (½ of a year's increase).

Lifetime Level Benefit: Members retiring after July 1, 2004 are eligible for a lifetime level benefit (LLB) that is calculated by determining the annuitized value of the greater of their accumulated contribution balance or the present value of the currently provided benefit.

Optional Forms of Payment:

Option A — 100% joint and survivor.
Option B — 50% joint and survivor.
Option C — 10 years certain and life.
Option D — Single sum payment not exceeding member's accumulated contribution balance, plus a single life annuity actuarially reduced from the pension amount otherwise payable.

Summary of Benefit Provisions

For a Person Becoming a Member **July 1, 2001 or Later** (*ERFC 2001* Members)

Service Retirement: Eligibility. A member may retire any time after reaching the service retirement date, which is either (i) age 60 with 5 years service or (ii) any age with 30 years of service.

Service Retirement: Amount. For payment periods during the retired member's lifetime.

The amount is a lifetime pension equal to 0.8 percent of the 3-year average annual salary multiplied by years of credited service.

Death-in-Service Benefits: An active member with 5 or more years of service who dies will have benefits payable to the nominated beneficiary.

The amount is a pension equal to the straight life amount (0.8 percent of the 3-year average annual salary multiplied by years of credited service at date of death), reduced in accordance with an option A election and payable at age 60. Beneficiaries may elect to receive benefits before age 60 if benefits are further reduced as follows:

- an additional reduction of the smaller of
  1) ½ of 1 percent for the first 60 months and 4/10 of 1 percent for each additional month between the member's age at the date of death and age 60, and
  2) ½ of 1 percent for the first 60 months and 4/10 of 1 percent for each additional month between the member's service at the date of death and 30 years.

Deferred Retirement: An inactive member with 5 or more years of service will be entitled to a pension with payments beginning at age 60, provided she/he does not withdraw accumulated member contributions.

The amount is a pension equal to the straight life amount (0.8 percent of the 3-year average annual salary multiplied by years of credited service at termination date), payable at age 60.

Member Contributions: Members contribute 4 percent of their salaries. Interest credits of 5 percent are added annually. If a member leaves covered employment before becoming eligible to retire, accumulated contributions are returned upon request

Post-Retirement Increases: On March 31, most pensions are increased by 3 percent. These increases are compounded each year. Pensions of members or beneficiaries who retired in the immediately preceding calendar year are increased by 1.489 percent.

ERFC Contribution Rates

(Last 20 Years)

	Support Employees			Instructional Employees		
Fiscal Year	**Employee**	**Employer**	**Total**	**Employee**	**Employer**	**Total**
1990	2.00	5.08	7.08	2.00	5.53	7.53
1991	2.00	5.08	7.08	2.00	5.53	7.53
1992	2.00	5.08	7.08	2.00	5.53	7.53
1993	2.00	5.08	7.08	2.00	5.53	7.53
1994	2.00	5.08	7.08	2.00	5.53	7.53
1995	2.00	5.08	7.08	2.00	5.53	7.53
1996	2.00	5.08	7.08	2.00	5.53	7.53
1997	2.00	5.58	7.58	2.00	6.03	8.03
1998	2.00	5.58	7.58	2.00	6.03	8.03
1999	2.00	5.58	7.58	2.00	6.03	8.03
ERFC began using composite rates effective July 1, 1999						
2000	2.00	4.99	6.99			
2001	2.00	3.69	5.69			
2002	2.00	3.69	5.69			
2003	2.00	4.00	6.00			
2004						
7/1 to 5/30	2.00	4.29	6.29			
6/1 to 6/30	4.00	2.53	6.53			
2005	4.00	3.37	7.37			
2006	4.00	3.37	7.37			
2007	4.00	3.37	7.37			
2008	4.00	3.37	7.37			
2009	4.00	3.37	7.37			

Summary of Plan Changes

There were no significant plan changes during the valuation period ending December 31, 2008.

Statistical Section

FINANCIAL TRENDS INFORMATION

- Net Assets
- Changes in Net Assets
- Assets and Liabilities Comparative Statement
- Benefit Deductions by Type
- Benefit Refunds by Type

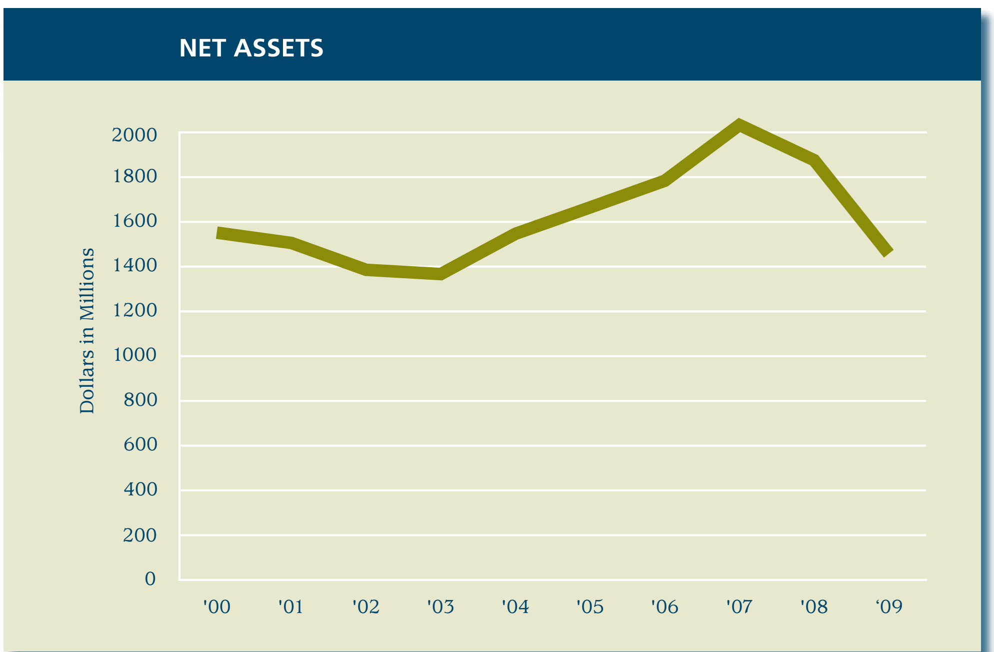
OPERATING INFORMATION

- Retired Members by Type of Benefit
- Average Benefit Payments by Years of Service
- Average Composite Monthly Benefit Payments
- Current Benefits by Attained Ages
- Deferred Benefits by Attained Ages

Net Assets

Last Ten Fiscal Years

FISCAL YEARS	NET ASSETS
2000	$ 1,534,986,934
2001	1,488,764,682
2002	1,369,372,874
2003	1,349,792,227
2004	1,528,120,115
2005	1,647,713,156
2006	1,766,534,921
2007	2,015,738,092
2008	1,858,571,973
2009	1,441,434,430

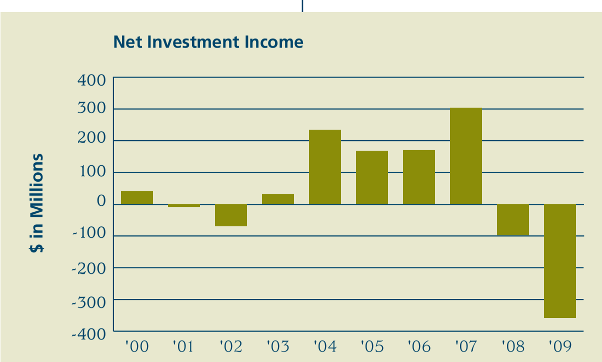


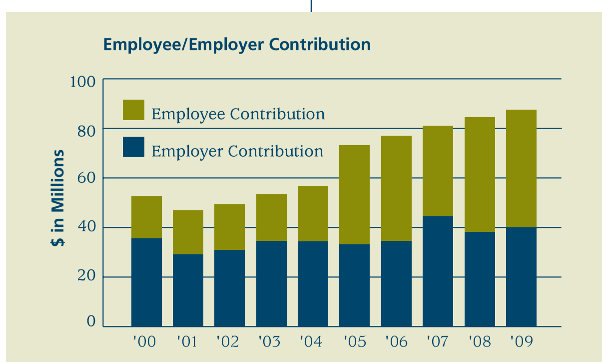
Changes in Net Assets

Last Ten Fiscal Years

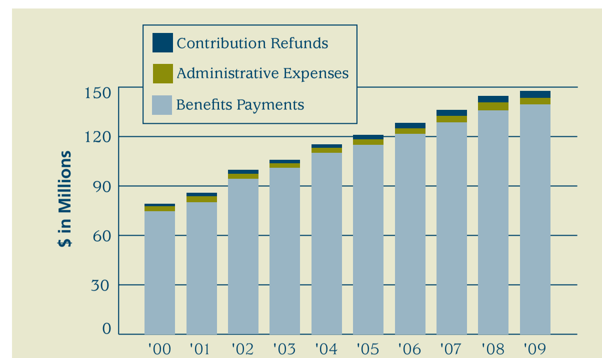
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
ADDITIONS										
Employee contributions	$ 16,936,454	$ 17,744,273	$ 18,472,712	$ 18,750,568	$ 22,340,870	$ 39,818,585	$ 42,292,828	$ 44,453,617	$ 46,143,803	$ 47,996,408
Employer contributions	35,655,898	29,145,883	30,849,067	34,506,630	37,331,203	32,198,596	34,648,918	36,644,001	38,334,140	40,012,480
Investment income (net of expenses)	41,186,381	(7,290,226)	(69,121,464)	32,857,465	233,807,964	168,479,920	169,944,356	304,119,327	(96,855,060)	(357,672,266)
Fixed assets	—	—	—	—	—	—	—	27,632	—	(5,494)
Total additions to plan net assets	93,778,733	39,599,930	(19,799,685)	86,114,663	293,480,037	240,497,101	246,886,102	385,244,577	(12,377,117)	(269,668,872)
DEDUCTIONS										
Benefit payments	74,803,741	79,969,985	94,247,498	100,979,864	110,236,424	114,999,379	121,687,318	128,739,638	135,927,308	139,594,144
Contribution refunds	1,777,493	2,092,580	2,153,958	1,848,428	1,996,947	2,794,118	3,087,501	3,583,007	4,229,850	3,975,907
Administrative expenses	2,734,139	3,759,617	3,190,667	2,867,018	2,918,778	3,110,563	3,289,518	3,718,761	4,631,844	3,898,620
Total deductions to plan net assets	79,315,373	85,822,182	99,592,123	105,695,310	115,152,149	120,904,060	128,064,337	136,041,406	144,789,002	147,468,671
Change in net assets net of expenses	$ 14,463,360	$ (46,222,252)	$ (119,391,808)	$ (19,580,647)	$ 178,327,888	$ 119,593,041	$ 118,821,765	$ 249,203,171	$ (157,166,119)	$ (417,137,543)

ADDITIONS BY SOURCE





DEDUCTIONS BY TYPE



STATISTICAL

Assets and Liabilities Comparative Statement

Last 20 Years—Dollars in Thousands

		Computed Liabilities					
Valuation Date	Active Member Payroll	Retired	Members	Total	Valuation Assets	[Excess of Assets] Unfunded Accrued Liabilities	Funded Percent
6/30/1989	$ 369,575	$ 203,394	$ 357,569	$ 560,963	$ 405,317	$ 155,646	72.3 %
6/30/1990	411,970	240,122	404,751	644,873	461,450	183,423	71.6
6/30/1991	451,873	285,618	432,109	717,727	510,825	206,902	71.2
6/30/1992	447,474	318,072	445,498	763,570	563,644	199,926	73.8
@# 6/30/1993	450,530	344,160	564,207	908,367	717,701	190,666	79.0
6/30/1994	480,995	374,849	597,230	972,079	766,480	205,599	78.8
$! 6/30/1995	521,044	395,249	677,287	1,072,536	839,930	232,606	78.3
6/30/1996	531,060	436,181	694,363	1,130,544	934,571	195,973	82.7
6/30/1997	553,709	464,345	751,022	1,215,367	1,045,412	169,955	86.0
#! 6/30/1998	582,755	490,261	788,111	1,278,372	1,194,556	83,816	93.4
! 6/30/1999	626,015	539,917	805,742	1,345,659	1,365,417	(19,758)	101.5
6/30/2000	678,937	614,739	752,632	1,367,371	1,505,231	(137,860)	110.1
$ 6/30/2001	759,906	667,605	884,953	1,552,558	1,599,219	(46,661)	103.0
! 6/30/2002	781,756	699,251	994,705	1,693,956	1,619,889	74,067	95.6
$ 6/30/2003	866,502	903,963	868,455	1,772,418	1,597,459	174,959	90.1
12/31/2004	977,817	1,043,677	853,565	1,897,242	1,640,216	257,026	86.5
# 12/31/2004	977,817	1,083,988	851,594	1,935,582	1,643,020	292,562	84.9
12/31/2005	1,050,271	1,130,378	892,584	2,022,962	1,718,399	304,563	84.9
12/31/2006	1,111,828	1,176,979	928,573	2,105,552	1,818,930	286,662	86.4
12/31/2007	1,161,432	1,221,969	964,832	2,186,801	1,924,886	261,915	88.0
12/31/2008	1,211,140	1,237,613	1,017,685	2,255,298	1,595,230	660,068	70.7
@ 12/31/2008	1,211,140	1,237,613	1,017,685	2,255,298	1,733,946	521,352	76.9

@ After change in asset valuation method.

@ After change in asset valuation method.

$ After change in benefits.

After changes in actuarial assumptions.

! After change in employer contribution rate.

Benefit Deductions from Net Assets by Type

Last Ten Years

	Service Benefits				Death Benefits		Disability Benefits				Total	
	Normal		Early		Duty/Non-Duty		Duty		Non-Duty			
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Participants	Benefits
Fiscal Years												
1999	2,532	$ 41,591,650	2,299	$ 20,081,725	49	$ 341,906	24	$ 253,279	209	$ 1,044,290	5,113	$ 63,312,850
2000	2,729	46,386,613	2,326	22,480,107	52	351,142	23	260,556	214	1,069,656	5,344	70,548,074
2001	2,924	50,415,043	2,561	23,851,414	54	380,950	23	268,374	204	1,006,855	5,766	75,922,636
2002	3,286	59,760,307	2,787	25,449,657	55	366,736	33	312,046	214	1,096,861	6,375	86,985,607
2003	3,537	68,619,019	2,857	26,854,190	116	793,302	24	286,818	195	969,233	6,729	97,522,562
Calendar Years												
2004	3,890	77,911,030	3,174	29,941,238	111	812,149	26	298,169	229	1,066,414	7,430	110,029,000
2005	3,989	81,734,466	3,364	32,279,036	110	850,781	27	309,656	220	1,049,826	7,710	116,223,765
2006	4,156	87,010,607	3,513	34,096,345	112	910,194	27	318,947	221	1,066,747	8,029	123,402,840
2007	4,334	91,777,998	3,658	36,100,474	120	1,048,496	26	322,317	216	1,057,794	8,354	130,307,079
2008	4,476	94,522,827	3,760	37,401,953	123	1,055,983	25	319,262	210	1,043,164	8,594	134,343,189

Benefit Refunds by Type

Last Ten Years

	Separation		Deaths		TOTAL	
Fiscal Year	**No.**	**Amount**	**No.**	**Amount**	**No.**	**Amount**
2000	589	$ 1,777,493	n/a	n/a	589	$ 1,777,493
2001	744	2,092,580	n/a	n/a	744	2,092,580
2002	851	2,153,958	n/a	n/a	851	2,153,958
2003	695	1,717,293	19	$ 131,135	714	1,848,428
2004	719	1,840,349	15	156,598	734	1,996,947
2005	871	2,620,070	26	174,048	897	2,794,118
2006	818	2,865,448	20	222,052	838	3,087,500
2007	746	3,407,248	18	175,759	764	3,583,007
2008	857	4,064,627	24	165,223	881	4,229,850
2009	722	3,644,789	25	331,118	747	3,975,907

n/a — Information not readily available

Retired Members by Type of Benefit

(As of December 31, 2008)

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement*					Option Selected**					
		1	2	3	4	5	Basic Benefit	1	2	3	4	5
$ 1–$ 250	1,510	204	1,218	22	56	10	1,133	41	9	25	11	291
251–500	1,190	296	777	11	101	5	841	30	11	19	12	277
501–750	802	337	424	14	27	—	577	14	14	23	9	165
751–1,000	791	482	286	5	18	—	592	11	17	24	8	139
1,001–1,250	652	455	185	6	6	—	509	5	10	27	6	95
1,251–1,500	571	436	130	3	2	—	447	5	12	26	3	78
1,501–1,750	460	339	118	2	—	1	351	5	13	23	—	68
1,751–2,000	352	230	119	1	—	2	228	8	6	22	—	88
Over 2,000	2,267	1,733	523	4	—	7	992	78	14	123	23	1,037
Total	**8,595**	**4,512**	**3,780**	**68**	**210**	**25**	**5,670**	**197**	**106**	**312**	**72**	**2,238**

*** TYPE OF RETIREMENT:**

1 Full Service

2 Reduced Service

3 Ordinary Death

4 Ordinary Disability

5 Service Connected Disability

**** OPTION SELECTED:**

Basic Benefit

1 Beneficiary receives 100% of member's reduced monthly benefit

2 Beneficiary receives 67% of member's reduced monthly benefit

3 Beneficiary receives 50% of member's reduced monthly benefit

4 Beneficiary receives a specified number of payments equal to 120 minus the number of payments the member has received.

5 Member receives partial lump sum and reduced monthly benefit

Note: *The source of information presented above is from the most recent actuarial valuation report.*

STATISTICAL

Average Benefit Payments by Years of Service

	YEARS CREDITED SERVICE					
	5-10	**10-15**	**15-20**	**20-25**	**25-30**	**30+**
Retirement Effective Dates						
Period 1/1/05 to 12/31/05						
Avg Monthly Benefit	$ 234.91	$ 406.79	$ 617.89	$ 828.81	$ 2,388.75	$ 2,557.08
Avg Final Average Salary	$ 4,466.69	$ 4,914.15	$ 4,924.77	$ 5,230.64	$ 6,541.46	$ 6,989.21
No. of Retired Members	62	59	103	48	128	60
Period 1/1/06 to 12/31/06						
Avg Monthly Benefit	$ 205.22	$ 394.76	$ 647.03	$ 880.16	$ 2,436.76	$ 2,596.68
Avg Final Average Salary	$ 4,218.58	$ 4,440.82	$ 5,200.61	$ 5,547.99	$ 6,707.84	$ 7,076.66
No. of Retired Members	54	83	87	60	162	61
Period 1/1/07 to 12/31/07						
Avg Monthly Benefit	$ 247.08	$ 413.63	$ 691.25	$ 943.45	$ 2,425.67	$ 2,757.24
Avg Final Average Salary	$ 4,806.27	$ 4,496.84	$ 5,343.67	$ 5,809.65	$ 6,778.91	$ 7,061.31
No. of Retired Members	56	78	97	69	155	59
Period 1/1/08 to 12/31/08						
Avg Monthly Benefit	$ 273.32	$ 360.11	$ 730.56	$ 905.71	$ 2,442.16	$ 2,721.16
Avg Final Average Salary	$ 4,807.02	$ 4,918.32	$ 5,626.34	$ 5,648.77	$ 6,985.58	$ 7,405.08
No. of Retired Members	64	60	80	45	146	49

Average Composite Monthly Benefit Payments for Retirees

Last Ten Years

By Type of Benefit Being Paid

	Year	Service Retirement	Reduced Service	Ordinary Disability
Fiscal Year	1999	$ 1,369	$ 728	$ 464
	2000	1,416	805	468
	2001	1,437	776	468
	2002	1,516	761	475
	2003	1,617	783	478
Calendar Year	2004	1,663	784	446
	2005	1,707	800	459
	2006	1,745	809	466
	2007	1,765	754	475
	2008	1,760	825	483

STATISTICAL

Retirees and Beneficiaries Current Annual Benefits Tabulated by Attained Ages

(As of December 31, 2008)

	Total	
Attained Ages	**No.**	**Annual Amount**
under 40	6	$ 31,374
40–44	2	3,496
45	6	17,630
46	2	8,637
48	2	40,844
49	6	70,692
50	4	34,614
51	9	109,099
52	11	134,004
53	25	521,628
54	41	918,455
55	110	2,449,550
56	189	4,073,801
57	231	4,923,032
58	283	6,061,820
59	337	7,900,346
60	422	9,316,496
61	527	11,432,300
62	549	11,301,436
63	456	8,850,692
64	500	10,355,230
65	499	10,179,791
66	402	4,090,580
67	329	3,214,210
68	329	3,246,741
69	287	2,769,549
70–74	1,347	15,548,480
75–79	839	9,697,791
80 & up	845	7,043,942
Total	**8,595**	**$ 134,346,260**

Note: *The source of information presented above is from the most recent actuarial valuation report.*

Inactive Vested Members
Deferred Benefits by Attained Ages

(As of December 31, 2008)

	Total	
Attained Ages	**No.**	**Annual Amount**
24	0	—
25	1	$ 840
26	1	937
27	8	23,139
28	15	38,229
29	30	84,491
30	46	106,894
31	68	144,915
32	72	152,149
33	86	174,541
34	109	214,936
35	100	214,640
36	114	244,716
37	113	261,046
38	130	287,296
39	128	307,823
40	116	277,375
41	114	254,209
42	89	183,597
43	95	210,321
44	85	181,469
45	88	221,321
46	74	179,914
47	69	219,543
48	69	162,148
49	66	215,848
50	52	148,699
51	56	178,439
52	73	241,944
53	79	236,589
54	74	225,218
55	57	154,666
56	50	157,269
57	43	111,861
58	40	116,919
59	29	80,910
60	30	119,368
61	25	84,323
62	24	78,304
63	21	55,849
64	9	18,601
Over 65	16	50,424
Total	**2,564**	**$ 6,421,720**

Note: *The source of information presented above is from the most recent actuarial valuation report.*

STATISTICAL

ERFC

THE EDUCATIONAL EMPLOYEES'
SUPPLEMENTARY RETIREMENT SYSTEM
of Fairfax County

Sports analogies tend to get a ‘bum rap’ due to their overuse as catch phrases or in motivational messages offered to cynical audiences. That noted, we still found no clearer imagery to depict the unique challenges faced in funds management during FY 2009, than that conveyed through the eager energy of FCPS’ students and athletes charging forward—with so many different balls in the air.

With no less team spirit, the ERFC Board and administrative staff stand united, working through the constancy of change with prudent long-term strategies to maintain a solid fiscal balance through variable investment cycles.

ERFC salutes the FCPS student athletes featured in our report, including

- The Bruins of Lake Braddock Secondary
- The Cavaliers of W.T. Woodson High School
- The Rams of Robinson Secondary
- The Jaguars of Falls Church High School
- The Bulldogs of Westfield High School and
- PE students from Lemon Road Elementary

Photo courtesy of Chris Nebrich

Educational Employees' Supplementary Retirement System of Fairfax County

8001 Forbes Place, Suite 300, Springfield, VA 22151-2205