# ERFC 2014

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

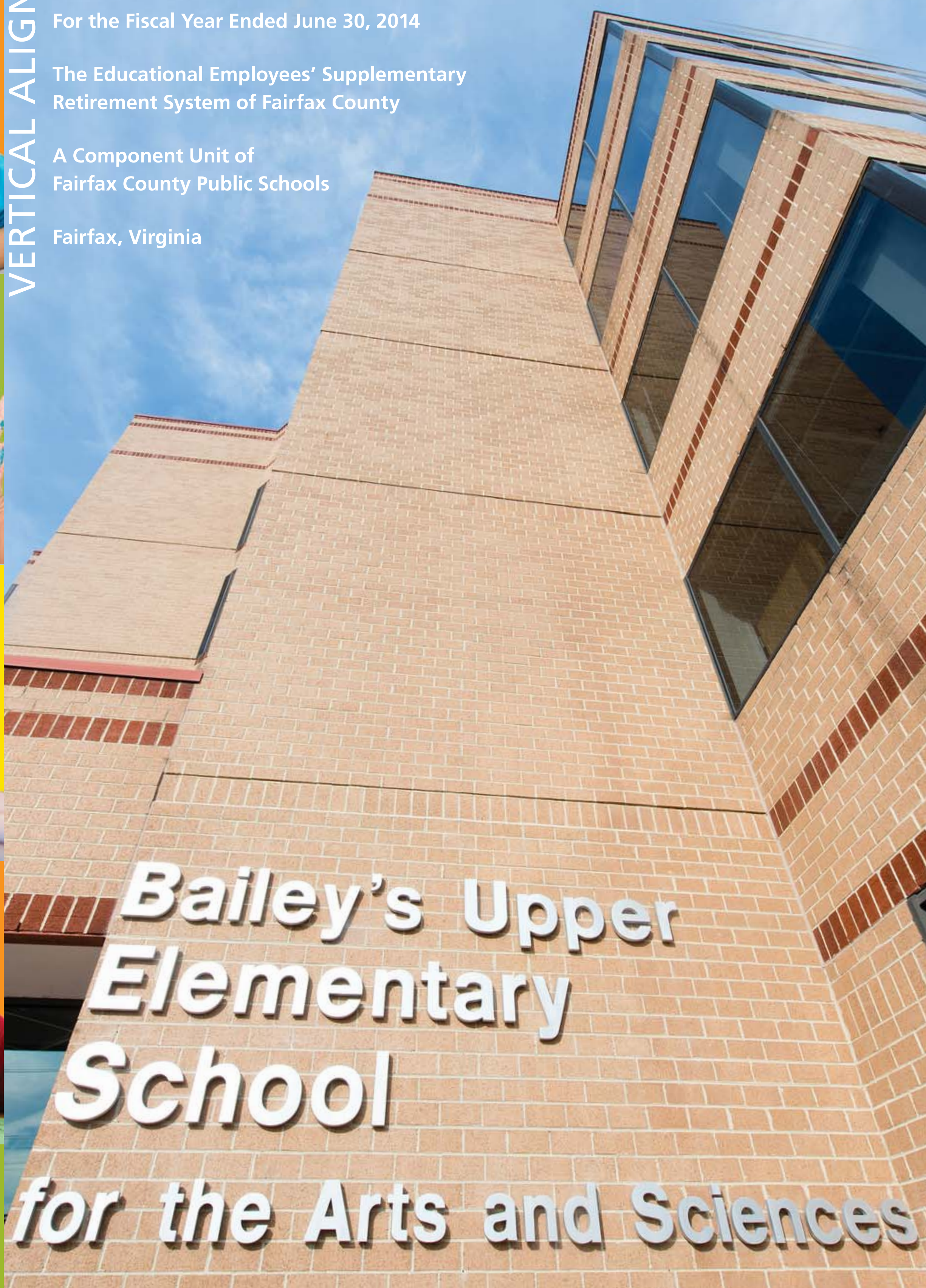
VERTICAL ALIGNMENT

**For the Fiscal Year Ended June 30, 2014**

**The Educational Employees' Supplementary Retirement System of Fairfax County**

**A Component Unit of Fairfax County Public Schools**

**Fairfax, Virginia**

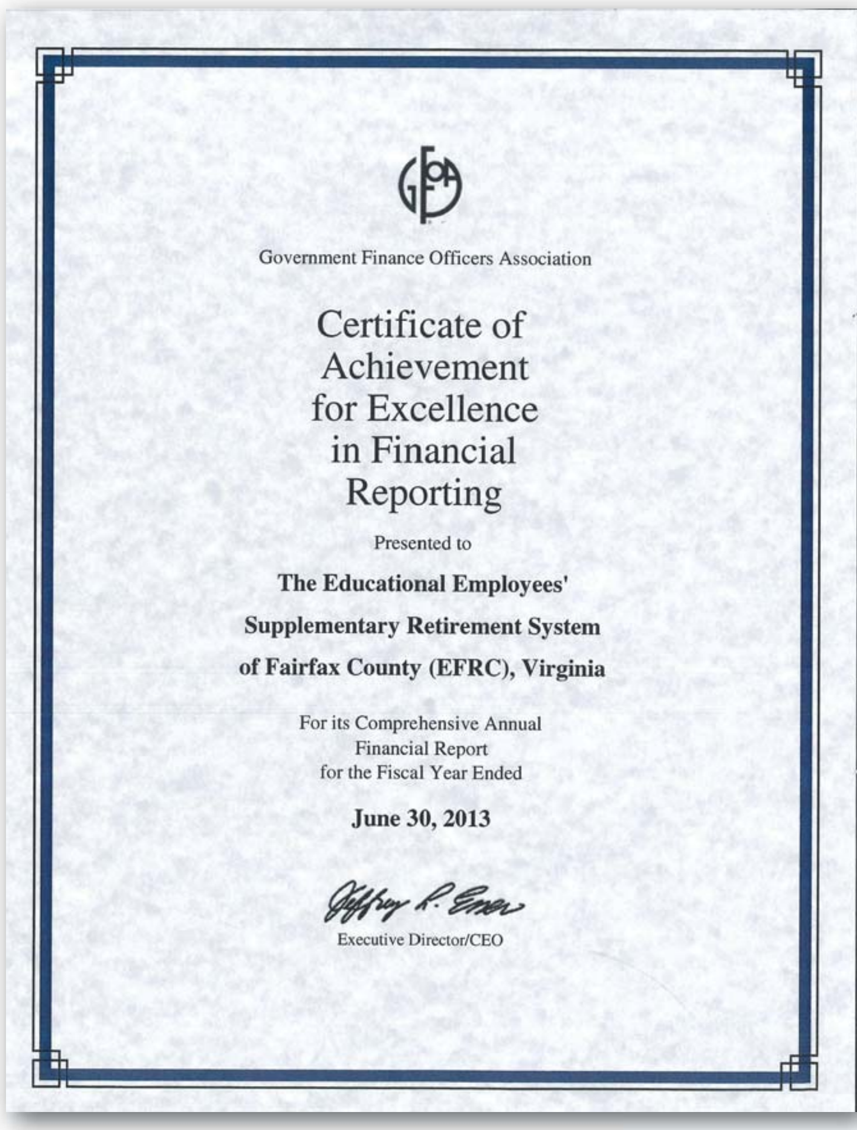



FCPS FAIRFAX COUNTY PUBLIC SCHOOLS

# 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 *2013 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.



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

**The Educational Employees' Supplementary Retirement System of Fairfax County (EFRC), Virginia**

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

**June 30, 2013**

Executive Director/CEO

Educational Employees' Supplementary Retirement System of Fairfax County

# 2014 ERFC

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2014
Educational Employees' Supplementary
Retirement System of Fairfax County

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



ADMINISTRATION

**Jeanne Carr,** Executive Director and CIO
**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 security of our members through prudent financial stewardship of a defined benefit plan while providing outstanding retirement services and education.

## ERFC SLOGAN

ERFC: Enter Retirement Feeling Confident

## ERFC VISION

To be a leader among our peers in providing professional and personalized service to our members and beneficiaries.

## ERFC VALUES

***Accountability***

Operate with transparency and a commitment to think strategically while fulfilling fiduciary obligations.

***Customer Service***

Respond promptly with quality as we strive to exceed the expectations of our membership.

***Open Communication***

Provide timely and pertinent information that improves processes, removes barriers, and establishes accountabilities.

***Integrity***

Conduct operations by adhering to the highest standards of ethical conduct.

***Continuous Improvement***

Enable employees to grow and succeed through appropriate education.

## 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.

***Actuarial Studies***

To have an annual actuarial valuation performed by an enrolled actuary in accordance with actuarial standards and to implement 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 implement an annual audit of the System's financial statement in accordance with generally accepted auditing standards.

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# ACHIEVEMENTS

## PUBLIC PENSION STANDARDS *2014 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.

Public Pension Coordinating Council

***Public Pension Standards Award***
***For Funding and Administration***
***2014***

Presented to

***The Educational Employees' Supplementary Retirement System of Fairfax County (ERFC)***

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

*Presented by the Public Pension Coordinating Council, a confederation of*

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

# INTRODUCTION

**IN THIS SECTION:**



FCPS officials got creative in alleviating the overcrowding at Bailey's Elementary School for the Arts and Sciences and converted an empty office building into the new Bailey's Upper Elementary, the only vertical elementary school in the region. Bailey's is now the largest elementary school in the state with two campuses, k-2 and 3-5, where teaching and learning are conducive to making every student successful in a rapidly changing and increasingly diverse environment and where the portrait of a graduate is created.

"The principal goal of education in the schools should be creating men and women who are capable of doing new things, not simply repeating what other generations have done; men and women who are creative, inventive and discoverers, who can be critical and verify, and not accept, everything they are offered."

Jean Piaget

# LETTER OF TRANSMITTAL

ERFC
8001 Forbes Place, Suite 300
Springfield, VA 22151

December 1, 2014

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

**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, 2014. The ERFC management holds responsibility for the financial information presented in this report. Proper internal accounting controls exist to provide reasonable, but not absolute, assurance for both the safekeeping of assets and the fair presentation of the financial statements. The concept of reasonable assurance recognizes that costs of controls should not exceed the anticipated benefits these controls provide. This CAFR reflects the careful stewardship of the System's assets, and dedicated service provided by the Board and staff. For financial reporting purposes, the 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 the Government Finance Officers Association's (GFOA) requirements.

The following provides a summary of the System's historical background, and outlines significant achievements for the Board and management during the fiscal year. A management discussion and analysis (MD&A) narrative is also provided in the Finance Section, immediately following the independent auditor's 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 specifically to supplement the benefits of two primary retirement plans: the Virginia Retirement System (VRS) and the federal Social Security System. In 1987, the VRS introduced major increases to the state's early retirement benefits, which required the ERFC to thoroughly re-examine the complementary structure of its supplemental benefits plan. Effective July 1, 1988, the ERFC significantly altered its Legacy Plan benefit structure in order to re-balance the benefit amounts payable to future ERFC members, while also maintaining and protecting the rights of current members. Thirteen years later, the School Board approved further refinements to the ERFC supplemental retirement program with the introduction of a second retirement plan, ERFC 2001 – a streamlined and stand-alone retirement plan structure, provided for all eligible FCPS employees hired on or after July 1, 2001. With prudent management oversight and sustained support from the School Board, the ERFC Legacy and ERFC 2001 plans continue to provide a valuable and secure defined benefit retirement program for over twenty-thousand full-time educational, administrative and support employees of Fairfax County Public Schools (FCPS).

**Administration and Technology Updates**

The ERFC staff continued its efforts to implement technology innovations that will result in improved efficiencies or cost savings. For the first time, ERFC distributed member statements through ERFCDirect, ERFC's online member service. Over fifteen thousand active members and retired members now use ERFCDirect, up from nine thousand a year ago. As part of its "ERFC Going Paperless" campaign, newsletters were emailed to active members and retirees where the retiree's email address was available; workshop materials will now be posted to the FCPS Blackboard website rather than printed. Staff developed a hardware replacement and software upgrade policy during the year; replaced servers will be repurposed for use if needed in the event of a disaster.

In fiscal year 2014, staff implemented GASB Statement No. 67, Financial Reporting for Pension Plans, issued in June, 2012. The staff also completed several communications activities with the Virginia Retirement System regarding its new hybrid plan whose members include employees hired on or after January 1, 2014. ERFC introduced its new slogan "Enter Retirement Feeling Confident" through posters distributed to all school locations.

**Strategic Plan**

During the year, the ERFC staff implemented several action items included in the 2013 Strategic Plan. Staff augmented its communication and education programs to fulfill the Strategic Plan's theme of increasing the understanding and appreciation of the value of ERFC and the total FCPS retirement program among our members and stakeholders. Expansion of ERFC's on-site school presence, development of a new call center guide, completion of an ERFC paperwork information video and award of professional credit hours for workshop attendance were new communications initiatives. The Trustees also made progress on several Strategic Plan initiatives – adopting a Board education policy, updating its funding policy in light of the new GASB standards and developing a succession plan for Trustees and ERFC key staff.

**Plan Financial Condition**

The ERFC achieved a 16.2 percent return for fiscal year 2014, outpacing the strong 11.2 percent return earned during fiscal year 2013. For the year, ERFC exceeded its policy index by 1.5 percent due to strong equity returns and outperformance by its investment managers. ERFC has achieved a double-digit return in four out of the last five fiscal years.

# LETTER OF TRANSMITTAL

ERFC's independent actuary reported that the System's funding ratio increased from 75.4 percent to 76.7 percent for the valuation period ending December 31, 2013 due to lower than anticipated pay increases, higher than assumed investment returns and favorable demographic experience. The recommended employer contribution rate remained unchanged at 5.60 percent of payroll for fiscal year 2015.

The Financial, Actuarial, and Statistical sections of this report provide detailed information regarding the Fund's overall financial condition. In addition, the Required Supplementary Information, included in the Financial Section, presents historical data to help in assessment of the System's funding status.

**Investment Activity**

The ERFC's 16.2 percent return for FY 2014 outperformed its benchmark index and its peer systems for the fiscal year with the median fund returning 16.0 percent. This peer system outperformance occurred even though the Fund's 22.4 percent U.S. equity allocation was lower than the median fund's 36.2 percent allocation and domestic equity was the best performing sector during the fiscal year. The international equity portfolios – both developed and emerging markets – helped achieve the outperformance and earned the highest peer rankings. The Fund's longer-term return also remained strong with the ten year return of 7.6 percent ranked in the nineteenth percentile.

The Board continued implementation of its private equity program during the fiscal year. It committed $15 million to the Lexington Capital Partners Fund VIII. The Board anticipates that ERFC will meet its long-term investment objectives by taking these prudent measures to add further diversification in the portfolio with less reliance on the domestic equity markets. The Investment Section of this report provides further details regarding the Fund's activities and performance.

**Professional Services**

The ERFC Board of Trustees appoints professional services to provide aid in the efficient management of the System. New England Pension Consultants (NEPC), based in Boston, 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) awarded ERFC the **Certificate of Achievement for Excellence in Financial Reporting** for its FY 2013 Comprehensive Annual Financial Report (CAFR). This is the 17th consecutive year ERFC has earned the award. The GFOA certification remains valid for a period of one year and requires, at 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' 2014 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, its Government Finance Offices, and other interested parties. Copies are made available in print and electronically, with the full report posted on the ERFC website. We hope that all recipients find the report informative and useful.

Respectfully submitted,

**Jeanne Carr, CFA**
Executive Director
and CIO

**Michael Lunter**
Finance Coordinator

# LETTER FROM THE CHAIRPERSON

ERFC
8001 Forbes Place, Suite 300
Springfield, VA 22151

December 8, 2014

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 the fiscal year ending June 30, 2014. The ERFC Board continues to commit itself to maintaining the financial integrity of the fund, and adhering to best practices in the areas of customer service and governance. The participants and stakeholders in ERFC can be proud of the legacy created to emphasize retirement security and to protect the System's assets in order to provide a predictable source of supplemental retirement income to the members of the ERFC.

The months subsequent to the fiscal year end introduced several changes to the composition of ERFC's Board. The School Board appointed Steven Lockard, the FCPS Deputy Superintendent, and Kristen Michael, the FCPS Assistant Superintendent for the Department of Financial Services, to ERFC's Board. Susan Quinn, the FCPS Chief Operating Officer, and Michael Burke, the individual Trustee, were re-appointed to the Board. Nancy Hammerer was re-elected to her second 3-year term as an ERFC trustee and was named Vice Chairperson in July. I was re-elected as Chairperson in July, 2014. The Board looks forward to working together with the new Trustees to achieve its goals and objectives.

As mentioned last year, the ERFC Board made communication activities a high priority in the 2013 Strategic Plan. The Board and ERFC staff completed many of the Strategic Plan's communications initiatives during the year. The ERFC staff established an extensive school visitation schedule and created targeted communications for members at different phases of their careers including a new "How to Fill Out Your Retirement Paperwork" video for upcoming retirees. ERFC staff also developed a "Call Center Guide" to ensure that accurate and consistent information is provided to our membership. For the first time, member statements were posted to ERFCDirect, ERFC's online member service, saving postage and printing costs. ERFCDirect continues to provide members, retirees, and other benefit recipients direct and secure online access to their individual ERFC retirement information and now boasts over fifteen thousand subscribers.

In its Strategic Plan, the ERFC Board also emphasized adhering to governance best practices. To this end, the Board adopted a Board education policy, a succession plan for Trustees and senior staff and updated its Board procedures and standards of conduct.

# LETTER FROM THE CHAIRPERSON

Under the new GASB 67 standards, this annual report details the ERFC system and investment activities specific to the 2014 fiscal year period. The Board is pleased with the 16.2 percent return for the 2014 fiscal year period and the double-digit returns in the last four out of five fiscal years which helped mitigate the results of the 2008-09 downturn. Because of its concern over a possible rising interest rate environment, the Board implemented an absolute return fixed income strategy to help mitigate bond losses due to increased interest rates. The Board will continue to analyze investment strategies in conjunction with the ERFC staff and its investment advisors to ensure a well-diversified asset mix with a risk-balanced approach, and managed with the disciplined oversight required to meet the System's long-term investment goals.

ERFC's defined benefit plan provides a valuable supplement to FCPS' employee members. The 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. The VRS hybrid plan for new employees went into effect January 1, 2014 and existing employees were offered the opportunity to opt into the new plan. The ERFC staff acted as a liaison with VRS in assisting existing members with the opt-in decision.

The School Board maintained FCPS' employer contribution rate at 5.60 percent of covered payroll for the 2015 fiscal year. The combined employee and employer contributions provide significant revenue for the ERFC. However, it is the System's investment earnings that provide the essential factor necessary to fulfill the guarantee of defined member benefits. Although concerned about the continued market volatility, the Board believes ERFC will continue to prosper by implementing prudent long-term investment strategies designed to spread pension costs over the full span of the employees' careers, during both strong and weak investment periods.

The Board of Trustees gratefully acknowledges the teamwork and commitment provided by the entire ERFC staff during the prior fiscal year. The ERFC Board values your opinions and welcomes 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 ERFC Board comprises seven members: three appointed by the School Board, three elected by the System's active membership, and one trustee who is neither affiliated with, nor employed by Fairfax County, the Fairfax County School Board, nor by any union or similar organization representing teachers or other Fairfax County employees. The initial six trustees annually select and recommend a seventh ERFC Board member, or "individual Trustee," for approval by the Fairfax County School Board. The ERFC executive committee comprises the chairperson and treasurer. The Board meets monthly throughout the year, excluding August. ERFC trustees receive no compensation, but are reimbursed for business-related expenses.

**Michael A. Hairston**
Chairperson/Trustee
Elected Member

**Leonard Bumbaca**
Vice Chairperson/
Trustee
Elected Member

**Susan Quinn**
Treasurer/Trustee
Appointed Member

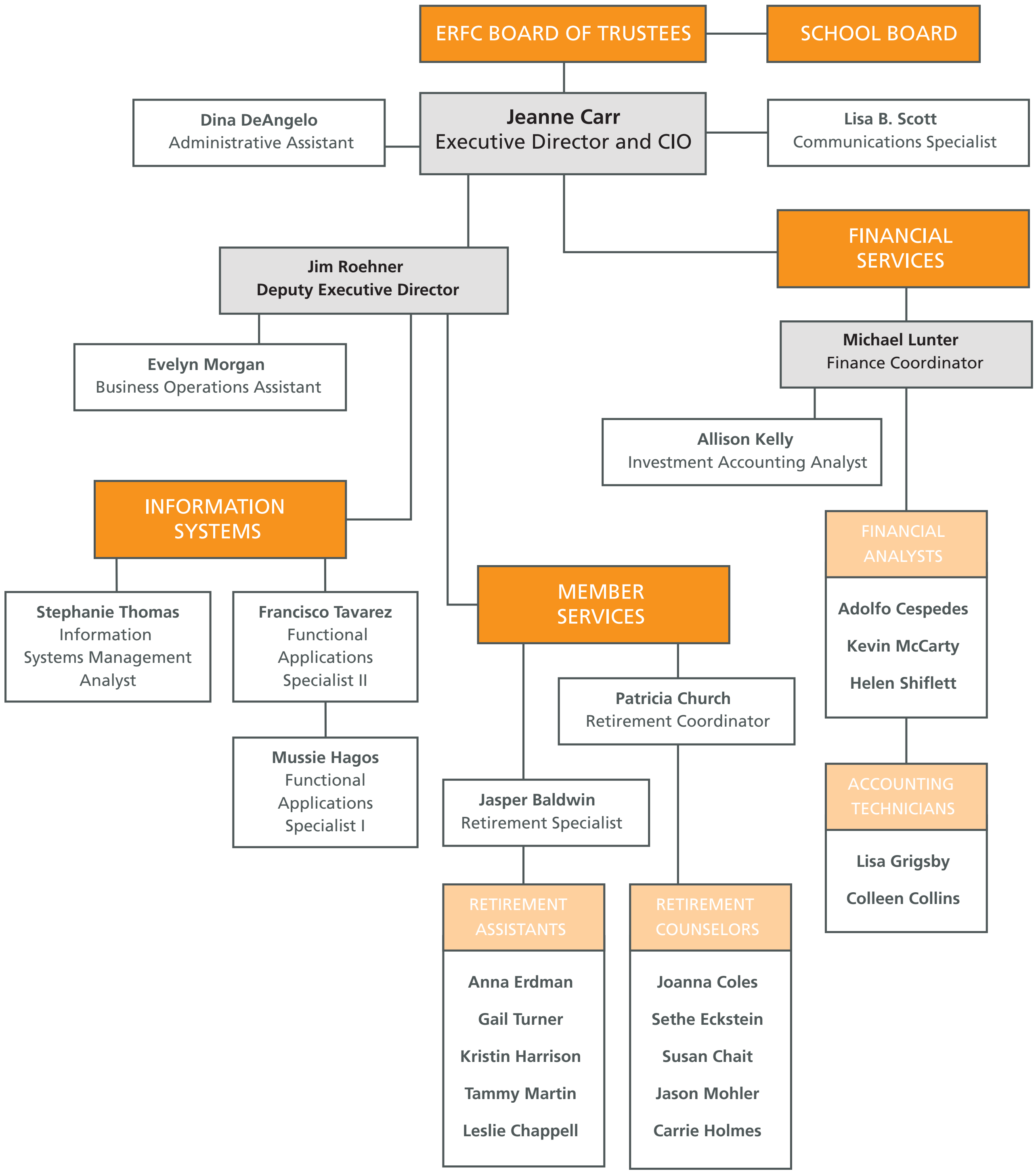
**Michael Burke**
Individual Trustee
Appointed Member

**Nancy Hammerer**
Trustee
Elected Member

**Dan Parris**
Trustee
Appointed Member

**De Hawley Brown**
Trustee
Appointed Member

# ERFC ADMINISTRATIVE ORGANIZATION



# PROFESSIONAL SERVICES

## Investment Managers*

### DOMESTIC EQUITY

**Aronson Johnson Ortiz, LP**
Philadelphia, Pennsylvania

**Epoch Investment Partners, Inc.**
New York, New York

**Lazard Asset Management**
New York, New York

**Mellon Capital Management Corporation**
San Francisco, California

**Russell Investments** [1]
Seattle, Washington

**Westfield Capital Management**
Boston, Massachusetts

### FIXED INCOME

**Loomis-Sayles & Company**
Boston, Massachusetts

**Mellon Capital Management Corporation**
San Francisco, California

**Mondrian Investment Group, Inc.**
London, England

**Pacific Investment Management Company**
Newport Beach, California

### GLOBAL ASSET ALLOCATION

**Bridgewater Associates, Inc.**
Westport, Connecticut

**Wellington Management**
Boston, Massachusetts

**Pacific Investment Managment Company**
Newport Beach, California

### HEDGE FUND

**Grosvenor Institutional Partners, L.P.**
Chicago, Illinois

**Permal Group, Inc.**
New York, New York

### PRIVATE EQUITY

**Audax Management Company, LLC**
New York, New York

**Harbourvest Partners, LLC**
Boston, Massachusetts

**Lexington Partners**
New York, New York

**Newstone Capital Partners, LLC**
Los Angeles, California

**Permal Capital Management, LLC**
Boston, Massachusetts

**Private Advisors**
Richmond, Virginia

### INTERNATIONAL EQUITY

**Acadian Asset Management**
Boston, Massachusetts

**Causeway Capital Management, LLC**
Los Angeles, California

**William Blair and Company, LLC**
Chicago, Illinois

### REAL ESTATE

**JP Morgan Asset Management**
New York, New York

**Prudential Investment Management**
Parsippany, New Jersey

**Center Square 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**
Boston, 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

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[1] Hired in fiscal year 2014
* See page 50 in the Investment Section

# FINANCIAL

"A school is a building that has four walls with tomorrow inside."

Lon Watters

**IN THIS SECTION:**



Bailey's elementary was operating at 30 percent over capacity supporting 1,300 students in one building and 19 trailers. The main campus, which now houses students in K-2, even lost half of its library to serve as additional classroom space. When school officials first put forth the idea of turning a five-story building into a non-traditional learning environment, the proposal drew skeptical concern from parents and the community. But according to Jeff Platenberg, FCPS's assistant superintendent for facility and transportation services, in a region where there isn't much green space or land, the only way to go was vertical.

# INDEPENDENT AUDITORS' REPORT

KPMG

**KPMG LLP**
Suite 12000
1801 K Street, NW
Washington, DC 20006

**Independent Auditors' Report**

The Board of Supervisors
County of Fairfax, Virginia

The School Board
Fairfax County Public Schools

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Educational Employees' Supplementary Retirement System of Fairfax County (the System), a pension trust fund of the County of Fairfax, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on these 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 from material misstatement.

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

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

# INDEPENDENT AUDITORS' REPORT

**Opinion**

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

**Emphasis of Matter**

As discussed in Note 1 to the financial statements, in fiscal year 2014, the System implemented the Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, issued on June 2012. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 14-16, the schedule of contributions on page 30, the schedule of changes in the net pension liability and related ratios on page 31, and the schedule of investment returns on page 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplemental and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The introductory section on pages 2-10, the other supplementary information on pages 33-36, the investment section on pages 38-50, the actuarial section on pages 52-70 and the statistical section on pages 72-81 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and the investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

Washington, DC
November 21, 2014

# MANAGEMENT DISCUSSION AND ANALYSIS

(Unaudited)

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, 2014. 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 2014 the return on ERFC's assets was 16.2 percent[1]. This resulted in a total net asset value of $2.205 billion which reflects an increase of $248.1 million over fiscal year 2013's year end total (as reflected in the accompanying chart). Additional detail on this net increase 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 $304.6 million in investment income and $114.2 million in employee and employer contributions. The additions are offset by $161.3 million in retiree benefit payments and $9.4 million in member refunds and administrative expenses.

ERFC's 16.2 percent return exceeded the policy benchmark return of 14.7 percent[2]. Three, five, and ten year returns are 9.1 percent, 13.1 percent, and 7.6 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 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 |
|---|---|---|---|
| 2010 | 1,607.7 | 166.2 | 11.5 |
| 2011 | 1,887.0 | 279.3 | 17.4 |
| 2012 | 1,827.8 | (59.2) | (3.1) |
| 2013 | 1,956.8 | 129.0 | 7.1 |
| 2014 | 2,204.9 | 248.1 | 12.7 |

At December 31, 2013, the actuarial value of assets totaled $2.029 billion while liabilities totaled $2.645 billion. This resulted in a funding ratio of 76.7 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.

1 Gross time-weighted rate of return as calculated by New England Pension Consultants.

2 Policy Index benchmark is 16% Russell 1000, 6.0% Russell 2000, 14% MSCI ACWI Ex-US,3% MSCI Emerging Markets, 3.75% NAREIT, 3.75% NCREIF, 18% BC aggregate, 4.0% BC Credit, 4.0% BC Long Credit, 7.5% MS World Net, 7.5% Citi World Govt Bond, 8.0% HFRI FoF, 1.5% Cambridge PE,3% JPM GBI EM.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

(Unaudited)

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 Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, 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 Fiduciary Net Position provides information on all of the System's assets and liabilities, with the difference between the assets and liabilities shown as net position. Ultimately, increases or decreases in net position may be used to measure the financial condition of ERFC over time.

The Statement of Changes in Fiduciary Net Position describes how ERFC's net position changed during the current fiscal year.

Additions and deductions represent revenues and expenses, respectively. Additions minus deductions represent the change in net position. For the current fiscal year, ERFC investments generated sound gains. Expenses, or deductions, which consisted of benefit payments, refunds, and administrative costs were slightly higher this fiscal year.

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 System's changes in net pension liability and schedule of employer contributions, which is intended to assess ERFC's ability to accumulate assets to pay retirement benefits when due.

## SUMMARY OF FIDUCIARY NET POSITION

| | June 30,2014 | June 30,2013 | Difference |
|---|---|---|---|
| **Assets** | | | |
| Total cash and investments | $ 2,386,033,851 | $ 2,022,309,156 | $ 363,724,695 |
| Total receivables | 6,792,764 | 11,291,746 | (4,498,982) |
| Other assets | 30,790 | 28,645 | 2,145 |
| Total assets | 2,392,857,405 | 2,033,629,547 | 359,227,858 |
| **Liabilities** | | | |
| Accounts payable | 1,957,496 | 1,864,168 | 93,328 |
| Securities purchased | 10,567,130 | 8,493,585 | 2,073,545 |
| Securities lending collateral | 175,405,588 | 66,498,968 | 108,906,620 |
| Total liabilities | 187,930,214 | 76,856,721 | 111,073,493 |
| **Total net position restricted for pensions** | **$ 2,204,927,191** | **$ 1,956,772,826** | **$ 248,154,365** |

# MANAGEMENT DISCUSSION AND ANALYSIS

(Unaudited)

## Financial Statements

As indicated in the Summary of Fiduciary Net Position, the System's net asset value increased $248.2 million or 12.7 percent in fiscal year 2014. This total increase in net position is due primarily to an increase of $363.7 million in the value of investments, a decrease in receivables of $(4.5) million, a $2.2 million increase in the value of payables along with an increase of $108.9 million in securities lending collateral liabilities.

As reflected in the Summary of Additions and Deductions (below), the net change is due to $114.2 million in contributions and $304.6 million in net investment income, which is offset by $161.3 million in benefits, $5.8 million in refunds and $3.6 million in expenses.

Also presented in the Summary of Additions and Deductions, additional information is provided regarding the differences between the fiscal year 2013 and 2014 results. These differing results are due mainly to a significant increase in investment income of $114.0 million and an increase in contributions of $8.0 million, offset by an increase in benefits of $1.2 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 30,2014 | June 30,2013 | Difference |
|---|---|---|---|
| **Additions** | | | |
| Contributions | | | |
| Employer | $ 74,174,082 | $ 67,734,634 | $ 6,439,448 |
| Member | 40,018,590 | 38,428,367 | 1,590,223 |
| Net investment income | 304,640,803 | 190,947,851 | 113,692,952 |
| Total | 418,833,475 | 297,110,852 | 121,722,623 |
| **Deductions** | | | |
| Benefits | 161,276,831 | 160,098,128 | 1,178,703 |
| Refunds | 5,772,959 | 4,419,806 | 1,353,153 |
| Admin. Expenses | 3,629,320 | 3,588,414 | 40,906 |
| Total | 170,679,110 | 168,106,348 | 2,572,762 |
| **Net increase in net position** | **$ 248,154,365** | **$ 129,004,504** | **$ 119,149,861** |

# STATEMENT OF FIDUCIARY NET POSITION

(As of June 30, 2014)

## ASSETS

| | |
|---|---|
| Cash and short-term investments | |
| Cash | $ 2,035,637 |
| Cash with fiscal agent | 559,643 |
| Cash collateral for securities on loan | 175,405,588 |
| Short-term investments | 56,058,086 |
| **Total cash and short-term investments** | **234,058,954** |
| Receivables | |
| Interest and dividends | 3,419,057 |
| Securities sold | 3,373,707 |
| **Total receivables** | **6,792,764** |
| Investments, at fair value | |
| US Government obligations | 25,166,149 |
| Mortgage-backed securities | 3,437,784 |
| Domestic corporate bonds | 87,407,536 |
| Convertible bonds | 14,027,290 |
| International bonds | 42,403,411 |
| Common stock | 661,110,417 |
| Real estate | 170,254,849 |
| Preferred stock | 1,187,335 |
| Global asset allocation | 223,631,110 |
| Better beta | 112,865,754 |
| Hedge fund of funds | 174,498,284 |
| Private Equity Limited Partnership | 34,645,625 |
| Mutual funds | 601,339,353 |
| **Total investments** | **2,151,974,897** |
| Prepaid assets | |
| Prepaid expenses | 5,004 |
| Other assets | |
| Furniture and equipment | 130,261 |
| Accumulated depreciation | (104,475) |
| **Total assets** | **2,392,857,405** |
| **LIABILITIES** | |
| Accounts payable | 1,957,496 |
| Securities purchased | 10,567,130 |
| Securities lending collateral | 175,405,588 |
| **Total liabilities** | **187,930,214** |
| **Net position restricted for pensions** | **$ 2,204,927,191** |

*See accompanying Notes to the Financial Statements*

# STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

(For the Fiscal Year Ending June 30, 2014)

| | |
|---|---|
| **ADDITIONS** | |
| Contributions | |
| Employer | $ 74,174,082 |
| Plan members | 40,018,590 |
| **Total contributions** | **114,192,672** |
| Investment income | |
| Net appreciation in fair value of investments | 272,689,846 |
| Interest and dividends | 40,909,308 |
| Real estate income | 2,922,632 |
| Other | 54,967 |
| **Total investment income** | **316,576,753** |
| Less investment expenses | |
| Investment management fees | 11,271,734 |
| Investment consulting fees | 459,232 |
| Investment custodial fees | 217,240 |
| Investment salaries | 216,853 |
| **Total investment expenses** | **12,165,059** |
| Income from securities lending activities | |
| Securities lending income | 131,434 |
| Securities lending borrower rebates | 173,929 |
| Securities lending management fees | (76,254) |
| **Net securities lending income** | **229,109** |
| **Net investment income** | **304,640,803** |
| **Total additions** | **418,833,475** |
| **DEDUCTIONS** | |
| Benefits | 161,276,831 |
| Refunds | 5,772,959 |
| Administrative expense | 3,629,320 |
| **Total deductions** | **170,679,110** |
| **Net increase** | **248,154,365** |
| **Net Position Restricted for Pensions** | |
| **Beginning of year** | **1,956,772,826** |
| **End of year** | **$ 2,204,927,191** |

*See accompanying Notes to the Financial Statements*

# NOTES TO THE FINANCIAL STATEMENTS

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 was closed to new members employed after June 30, 2001. Effective July 1, 2001, all newly hired full-time educational and administrative support employees are enrolled in ERFC 2001. This new component incorporates a streamlined stand-alone retirement benefit structure.

The Board of Trustees is the governing body of the Educational Employees' Supplementary Retirement System of Fairfax County. The ERFC Board comprises seven members: three appointed by the School Board, three elected by the System's active membership, and one trustee who is neither affiliated with, nor employed by Fairfax County, the Fairfax County School Board, nor by any union or similar organization representing teachers or other Fairfax County employees. The initial six trustees annually select and recommend a seventh ERFC Board member, or "individual Trustee," for approval by the Fairfax County School Board. The ERFC executive committee comprises the chairperson and treasurer. The Board meets monthly throughout the year, excluding August. ERFC trustees receive no compensation, but are reimbursed for business-related expenses.

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.

At December 31, 2013, the date of the most recent actuarial valuation, the System's membership consisted of:

| | |
|---|---|
| Retirees and beneficiaries currently receiving benefits | 10,156 |
| Terminated employees entitled to benefits but not yet receiving them | 3,509 |
| Active plan members | 21,643 |
| **Total** | **35,308** |

*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. Participants in their first full year of retirement

***Notes,*** *continued on next page*

# NOTES TO THE FINANCIAL STATEMENTS

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 Plan Document. ERFC also issues this publicly available financial report which includes financial statements and required supplementary information. A copy of this report may be obtained by writing to ERFC, 8001 Forbes Place, Suite 300, Springfield, VA 22151 or by calling 703-426-3900. It is also available online at www.fcps.edu/erfc/publications.shtml.

## 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.

In fiscal year 2014, the System implemented GASB Statement No. 67, *Financial Reporting for Pension Plans*, issued June, 2012. GASB No. 67 addresses accounting and financial reporting requirements for pension plans. The requirements for GASB No. 67 include changes in presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB No. 67 did not significantly impact the investment balances. The total pension liability, determined in accordance with GASB No. 67, is presented in Note 3 and in the Required Supplementary Information on page 31.

**Investment 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 and limited partnerships are provided to ERFC's master custodian by the investment managers. These commingled funds and limited partnerships include private real estate, global asset allocation, better beta, hedge fund of funds, emerging market equity, emerging market debt, and private equity. 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, hedge fund of funds, emerging market equity and emerging market debt, the assets are reported at fair value as determined by the markets for those assets. For private equity, since market quotes are not readily available, the investment values are determined by the manager, based upon annual audits, cash flow analysis, purchases and sales of similar investments and other practices used within the industry.

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.

# NOTES TO THE FINANCIAL STATEMENTS

**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 June 30, 2014, the cash balance of $2,035,637 represents funds that could not be invested in the County's enhanced cash fund until July 1, 2014.

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, 2014, cash with fiscal agent totaled $559,643. This cash is insured and represents receipts from investment sales occurring on the last day of the month.

## 2. Contribution Requirements

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.

Members are required to contribute 3 percent of annual salary. The employer is required to contribute at an actuarially determined rate which presently is 5.60 percent. 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, 2011 valuation recommended that the contribution rate for the two-year period beginning July 1, 2013 to June 30, 2015 be increased to 5.6 percent. Restructuring of the VRS employee contribution rate caused the School Board to decrease the ERFC member contribution rate to 3 percent beginning in fiscal year 2013.

***Notes,*** *continued on next page*

| VALUATION DATE: | DECEMBER 31, 2013 |
|---|---|
| Notes | Actuarially determined contribution rates are calculated as of December 31 of odd numbered years, which is 18 months prior to the beginning of the fiscal year biennium in which contributions are reported. |
| **METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES:** | |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percentage of Payroll, Closed |
| Remaining Amortization Period | 25 years from July 1,2016 |
| Asset Valuation Method | 5 Year smoothed market; 25% corridor |
| Inflation | 3.0%—approximate; No explicit price inflation assumption is used in this valuation. |
| Salary Increases | 3.75% to 9.05% including inflation |
| Investment Rate of Return | 7.50% |
| Retirement Age | Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009. |
| Mortality | 1994 Group Annuity Mortality Table set back 3 years for both males and females. This table appeared to have an approximate 7% margin for future improvement at the time of adoption. |
| **OTHER INFORMATION:** | |
| Notes | There were no benefit changes during the year. |

# NOTES TO THE FINANCIAL STATEMENTS

## 3. Net Pension Liability Disclosures

The components of ERFC's net pension liability at June 30, 2014 were as follows:

| | |
|---|---|
| Total Pension Liability | $ 2,697,688,622 |
| Plan Fiduciary Net Position | 2,204,927,191 |
| Net Pension Liability | $ 492,761,431 |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 81.73 % |

**Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of December 31, 2013, using update procedures to roll forward the total pension liability to the plan's fiscal year end. The actuarial assumptions applied to all periods in the measurement.

**Single Discount Rate**

A single discount rate of 7.5% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.5%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Long-Term Expected Return on Plan Assets**

The long-term expected rate of return on pension plan investments was determined in conjunction with a formal study of experience during the period January 1, 2005 to December 31, 2009. The reasonable range at the time the study was performed was from 5.32% to 8.31%, meaning that there was at least a 50% chance that actual returns would fall within that range.

Best estimates of arithmetic real rates of return as of the measurement date are summarized in the table below. New England Pension Consultants supplied the information in the table.

***Notes,*** *continued on next page*

## ASSET ALLOCATION

| Asset Class | Target Allocation | Long-Term Expected Real Rate Of Return |
|---|---|---|
| Domestic Large Cap Equity | 16.00% | 4.50% |
| Domestic Small Cap Equity | 6.00% | 4.75% |
| International Equity | 14.00% | 5.00% |
| Emerging Market Equity | 3.00% | 6.25% |
| Real Estate | 7.50% | 3.25% |
| Core Fixed Income | 18.00% | 1.21% |
| Investment Grade Credit | 8.00% | 2.00% |
| Emerging Market Debt (Local) | 3.00% | 4.00% |
| Global Asset Allocation | 15.00% | 4.01% |
| Absolute Return | 8.00% | 3.75% |
| Private Equity | 1.50% | 6.50% |
| Total | 100.00% | |

# NOTES TO THE FINANCIAL STATEMENTS

The investment consultant's inflation expectation is 3%. The Fixed Income category is a blend of US Core Fixed, High Yield, and Non US fixed. The Global Asset Allocation category is a blend of Global Equity, Global Fixed Income, and Inflation Sensitive Assets (commodities).

**Pension Liability Sensitivity**

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following table presents the plan's net pension liability, calculated using a single discount rate of 7.5% as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%):

Sensitivity of the Net Pension Liability to the Single Discount Rate Assumption

Current Single Rate:

| 1% Decrease | Assumption | 1% Increase |
|---|---|---|
| 6.50% | 7.50% | 8.50% |
| $ 813,126,598 | $ 492,761,431 | $ 226,956,209 |

Sensitivity results at 6.50% interest were based upon computer runs. Results at 8.50% were based upon the 6.50% results and estimation techniques.

The Schedule of Changes in Net Pension Liability and Related Ratios, presented as RSI following the Notes to the Financial Statements, presents multi-year trend information about whether the plan's net position is increasing or decreasing over time relative to the total pension liability.

## 3. 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 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 replace with "position restricted for pensions.

**Investment Policy**

The System's investment policy is established by the Board of Trustees based on information and/or recommendations provided by ERFC's investment consultant and ERFC staff. The policy may be amended as necessary by the Board of Trustees and is reviewed at least annually. There were no significant investment policy changes during the fiscal year. The Fund's asset structure is enumerated in the investment policy and reflects a proper balance of the Fund's needs for liquidity, growth of assets and the risk tolerance of the Trustees. The target asset mix, consistent with the achievement of the long-term objective of the Fund is presented below:

| Security Class | Interim Strategic Targets as of June 30, 2014 | |
|---|---|---|
| Domestic Large Cap Equity | 13.0 | % |
| Domestic Small Cap Equity | 5.5 | |
| International Equity | 17.0 | |
| Real Estate | 7.5 | |
| Fixed Income | 29.0 | |
| Global Asset Allocation/ Better Beta | 15.0 | |
| Absolute Return | 8.0 | |
| Private Equity | 5.0 | |
| Cash | | |
| **Total** | **100.0** | **%** |

**Rate of Return**

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 15.91 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the

***Notes,*** *continued on next page*

# NOTES TO THE FINANCIAL STATEMENTS

changing amounts actually invested. This method differs from the time-weighted rate of return calculation referenced at the beginning of the Management Discussion and Analysis, which is performed on a gross basis.

**Derivative Financial Instruments**
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, the System invested in collateralized mortgage obligation (CMO) derivatives. These derivatives are securities created using the underlying cash flows from mortgage-backed securities as collateral. As of June 30, 2014, the fair value of the CMOs was $534,020, which is included in the mortgage-backed securities classification on the financial statements. The change in fair value during the fiscal year is reported in the net appreciation in fair value of investments.

In addition, the System had indirect investments in derivatives through its ownership interest in the Emerging Markets Growth Fund, the Better Beta fund, one of the Emerging Market Debt funds, one Private Equity manager, two of the Real Estate managers, and one of the Global Asset Allocation managers. These portfolios are commingled funds in which ERFC has a percentage ownership. Derivatives in these portfolios consisted of interest rate swaps and caps, which reduce the effect of interest rate fluctuations by converting floating rate financing into fixed rate loans for real estate investments. Futures, because they are more liquid than over the counter derivatives, have among the lowest transaction costs available, carry minimal counterparty risk and are de facto currency hedged. Non Deliverable Forward's (NDF's) obtain

***Notes,*** *continued on next page*

## INVESTMENT COMBINED DURATION AS OF JUNE 30, 2014

| Investment Category | Amount | Modified Duration |
|---|---|---|
| U.S. Treasuries | $ 167,221,903 | 2.78 |
| Agencies | 12,463,884 | 1.74 |
| Corporate Bonds | 168,907,871 | 6.14 |
| Municipals | 2,989,199 | 0.09 |
| Mortgages | 103,046,401 | 2.62 |
| Asset-Backed Securities | 3,172,387 | 6.15 |
| CMBS | 3,504,021 | 3.39 |
| Emerging Market | 67,335,499 | 3.87 |
| Foreign bonds | 55,509,207 | 3.04 |
| Convertible and preferred | 14,982,013 | 6.96 |
| Cash and cash equivalents | 6,629,816 | 0.47 |
| **Total** | $ 605,762,201 | |

* *Weighted Duration in years: 3.91*

# NOTES TO THE FINANCIAL STATEMENTS

## CREDIT QUALITY SUMMARY (As of June 30, 2014)

| Rating | Category | Percent | Amount | Total | Percent |
|---|---|---|---|---|---|
| AAA | Domestic bonds | 0.1% | $ 771,736 | | |
| AAA | International bonds | 2.5% | 15.165.871 | | |
| AAA | Mortgage backed securities | 0.4% | 2,482,576 | | |
| AAA | US Government obligations | 3.0% | 18,185,357 | 36,605,540 | 6.0% |
| AA | Domestic bonds | 0.7% | 4,255,949 | | |
| AA | International bonds | 0.3% | 1,928,389 | | |
| AA | Mortgage backed securities | 7.3% | 44,002,870 | | |
| AA | US Government obligations | 9.8% | 59,360,235 | 109,547,443 | 18.1% |
| A | Convertable bonds | 0.5% | 2,969,254 | | |
| A | Domestic bonds | 5.7% | 34,565,897 | | |
| A | International bonds | 5.4% | 32,809,227 | | |
| A | Mortgage backed securities | 0.1% | 427,694 | 70,772,072 | 11.7% |
| BBB | Convertible bonds | 0.7% | 4,069,112 | | |
| BBB | Domestic bonds | 8.6% | 52,304,411 | | |
| BBB | International bonds | 6.7% | 40,694,317 | | |
| BBB | Mortgage backed securities | 0.1% | 577,218 | | |
| BBB | Preferred stocks | 0.0% | 214,750 | 97,859,808 | 16.2% |
| BB | Convertible bonds | 0.7% | 4,455,894 | | |
| BB | Domestic bonds | 3.6% | 21,849,920 | | |
| BB | International bonds | 2.1% | 12,527,430 | | |
| BB | Preferred stocks | 0.0% | 117,607 | 38,950,851 | 6.4% |
| B | Convertable bonds | 0.3% | 1,965,801 | | |
| B | Domestic bonds | 0.9% | 5,395,442 | | |
| B | International bonds | 0.1% | 309,428 | | |
| B | Mortgage backed securities | 0.0% | 42,501 | | |
| B | Preferred stocks | 0.1% | 325,189 | 8,038,361 | 1.3% |
| Below B | Domestic bonds | 0.9% | 5,753,940 | 5,753,940 | 0.9% |
| Not rated | Cash and Cash equivalent | 5.7% | 34,299,953 | | |
| Not rated | Convertible Bonds | 0.1% | 567,229 | | |
| Not rated | Domestic bonds | 31.2% | 189,154,090 | | |
| Not rated | International bonds | 1.1% | 6,784,194 | | |
| Not rated | US Government obligations | 1.2% | 7,006,020 | 237,811,486 | 39.3% |
| Withdrawn rating | Domestic bonds | 0.1% | 422,700 | 422,700 | 0.1% |
| **Total** | | **100.0%** | **$ 605,762,201** | **$ 605,762,201** | **100.0%** |

# NOTES TO THE FINANCIAL STATEMENTS

exposure to a currency and its interest rate where the actual purchase of onshore debt is difficult. The interest rate exposure comes through the difference between the spot foreign exchange (F/X) rate and the forward F/X rate, and through investing the US dollar (USD) cash used as collateral in short dated US bonds. Forward commodity contracts hedge changes in cash flows due to market price fluctuations related to the expected purchase of a commodity. Currency forwards are used for hedging non-USD denominated physical instruments back to the base currency. Options are contracts that give the buyer the right, but not the obligation, to buy or sell an underlying asset at a specific price on or before a certain date. At June 30, 2014, exposure to interest rate swaps was $(5,509,290), exposure to interest rate caps was $406,164, exposure to futures contracts was $15,645,131, exposure to NDF's was $(1,716,805), exposure to forward commodity contracts was $165,839, exposure to currency forward contracts was $(20,434,594) and exposure to options was $343,087.

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**

Three of ERFC's four fixed income managers use the modified duration method to control interest rate risk. Regarding maturity, ERFC does not place limits on these fixed income managers. However, it does expect the average duration to be within 30 percent of the portfolio's benchmark. The fourth fixed income manager uses the effective duration method to control interest rate risk. This manager's duration is expected to be within 50 percent of the Barclays Capital Government/Credit Index.

**Credit Risk**

The System's policy on credit quality states that the average credit quality of the portfolio must be at least A. Up to 20 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. One of ERFC's fixed income managers may invest up to 35 percent in below investment grade securities. For this manager, if a security has a split rating, the higher rating shall be considered.

As of June 30, 2014, the System had three active fixed income managers and one passive fixed income manager. The schedule on the prior page lists the ratings of all of ERFC's fixed income investments according to Moody's Investment Services and Standard & Poor's.

**Notes,** *continued on next page*

## SUMMARY OF SECURITY LENDING JUNE 30, 2014

| Securities | Cash Market Value | Cash Collateral |
|---|---|---|
| Domestic corporate bonds | $ 21,634,017 | $ 22,153,379 |
| International stock | 5,783,060 | 7,498,751 |
| Domestic stock | 139,232,764 | 143,177,410 |
| Government | 2,522,947 | 2,576,048 |
| **Total** | **$ 169,172,788** | **$ 175,405,588** |

# NOTES TO THE FINANCIAL STATEMENTS

**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.

At June 30, 2014, and as addressed previously, the System had three active fixed income managers and one passive fixed income manager. The active manager portfolios had values of $62.2 million, $218.2 million and $176.4 million. The indexed portfolio had a value of $148.9 million. The market value of the largest issue other than the U.S. Government in the portfolios of the active managers was only 7.64 percent of that portfolio. Since the passive manager's portfolio is an indexed mutual fund, it is excluded from the Concentration of Credit Risk measurement.

**Deposits**
At June 30, 2014, short-term investments with the custodial bank totaled $56,058,086. 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 number 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.

***Notes,** continued on next page*

## INVESTMENTS WITH THE CUSTODIAN AS OF JUNE 30, 2014, INCLUDING THE FOLLOWING:

| Investment Type | Market Value |
|---|---|
| US Government obligations | $ 25,166,149 |
| Mortgage-backed securities | 3,437,784 |
| Domestic corporate bonds | 87,407,536 |
| Convertible bonds | 14,027,290 |
| International bonds | 42,403,411 |
| Common stock | 661,110,417 |
| Real Estate | 170,254,849 |
| Preferred stock | 1,187,335 |
| Global asset allocation | 223,631,110 |
| Better beta | 112,865,754 |
| Hedge fund of funds | 174,498,284 |
| Private Equity Limited Partnership | 34,645,625 |
| Mutual funds | 601,339,353 |
| **Sub-total investments** | **$ 2,151,974,897** |
| Cash collateral for securities on loan | 175,405,588 |
| **Total** | **$ 2,327,380,485** |

# NOTES TO THE FINANCIAL STATEMENTS

| Market Value of Foreign Currency Risk (As of June 30, 2014) | | | | | |
|---|---|---|---|---|---|
| Currency | Cash & Cash Equivalents | Equity | Fixed Income Securities | Preferred Securities | Grand Total |
| AUSTRALIAN DOLLAR | $ 186,651 | $ 3,858,751 | $ 3,857,797 | | $ 7,903,199 |
| BRAZIL REAL | 82,427 | 243,566 | 12,745,782 | 208,172 | 13,279,947 |
| CANADIAN DOLLAR | 81,519 | 22,477,478 | 6,242,494 | | 28,801,491 |
| CHILEAN PESO | 1,817,416 | | | | 1,817,416 |
| COLOMBIAN PESO | 58,636 | | 4,298,940 | | 4,357,576 |
| DANISH KRONE | | 3,292,175 | | | 3,292,175 |
| EURO CURRENCY UNIT | 621,786 | 83,069,504 | 894,937 | 295,146 | 84,881,373 |
| HONG KONG DOLLAR | 130,863 | 8,667,366 | | | 8,798,229 |
| HUNGARIAN FORINT | | | 1,202,602 | | 1,202,602 |
| INDONESIAN RUPIAH | 71,073 | 415,835 | 3,616,486 | | 4,103,394 |
| ISRAELI SHEKEL | 945 | 24,069 | | | 25,014 |
| JAPANESE YEN | 214,488 | 42,816,774 | | | 43,031,262 |
| MALAYSIAN RINGGIT | 93,749 | 1,928,694 | 4,310,316 | | 6,332,759 |
| MEXICAN NEW PESO | 257,243 | 1,101,080 | 13,202,366 | | 14,560,689 |
| NEW TAIWAN DOLLAR | 46,095 | 6,029,766 | | | 6,075,861 |
| NEW TURKISH LIRA | | 1,448,833 | | | 1,448,833 |
| NEW ZEALAND DOLLAR | 42,969 | 683,805 | 8,305,230 | | 9,032,004 |
| NORWEGIAN KRONE | 74,753 | 3,098,520 | 2,661,290 | | 5,834,563 |
| PERUVIAN NUEVO SOL | 95,859 | | 3,114,600 | | 3,210,459 |
| PHILIPPINES PESO | 137 | 118,147 | | | 118,284 |
| POLISH ZLOTY | 28,253 | 1,545,265 | 6,826,363 | | 8,399,881 |
| POUND STERLING | 104,322 | 44,540,055 | 316,433 | 1,101 | 44,961,911 |
| RUSSIAN ROUBLE | | | 5,111,637 | | 5,111,637 |
| S AFRICAN COMM RAND | 77,912 | 2,933,515 | 5,495,434 | 25,371 | 8,532,232 |
| SINGAPORE DOLLAR | 19,252 | 3,866,129 | | | 3,885,381 |
| SOUTH KOREAN WON | 59,390 | 13,082,812 | | | 13,142,202 |
| SWEDISH KRONA | 226 | 9,554,564 | | | 9,554,790 |
| SWISS FRANC | 84,454 | 20,105,482 | | | 20,189,936 |
| THAILAND BAHT | | 1,388,311 | 1,225,248 | | 2,613,559 |
| TURKISH LIRA | | | 3,717,303 | | 3,717,303 |
| **Grand Total** | **$ 4,250,418** | **$ 276,290,496** | **$ 87,145,258** | **$ 529,790** | **$ 368,215,962** |

***Notes,*** *continued on next page*

# NOTES TO THE FINANCIAL STATEMENTS

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 60 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.

Cash received as collateral and the related liability of $175,405,588 as of June 30, 2014, are shown on the Statement of Plan Net Assets. As of June 30, 2014, the market value of securities on loan for cash collateral was $169,172,788. Securities received as collateral are not reported as assets and liabilities since ERFC does not have the ability to pledge or sell the collateral securities absent borrower default.

During 2008, one of the securities held in the collateral pool in which ERFC is invested suffered a significant downgrade and consequently was worth only a relatively small portion of its face value. ERFC's portion of the investment, securities issued by Sigma Finance, totaled approximately $875,598. In 2010, ERFC received a distribution of $44,341 for the securities. In 2013, ERFC received a Class Action settlement of $232,916 reducing the loss to $598,341. In April 2014, ERFC began depositing its monthly securities lending income to the cash collateral account. This will reduce the collateral insufficiency over time until the deficit is repaid. As of June 30, 2014, the outstanding Sigma liability amount is $535,177.

**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 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**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The System's currency risk exposures primarily exist in the international equity and active fixed income holdings. At the present time, there are no specific foreign currency guidelines for equities or active fixed income investments, however, equity and fixed income managers are all measured against specific performance standard and risk guidelines identified in ERFC's investment policy. The chart on the previous page provides a summary of ERFC's foreign currency risk.

## 4. Income Taxes

The Internal Revenue Service (IRS) issued a determination letter on May 22, 2012, 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

(Unaudited)

Historical contribution information is presented herein for the last ten fiscal years. 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. Please refer to the actuarial assumptions on page 21 for relevant notes to this schedule.

Analysis of the dollar amounts of plan net position, total pension liability, and net pension liability in isolation can be misleading. Expressing plan net position as a percentage of the total pension 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 net pension liability and covered employee payroll are both affected by inflation. Expressing the net pension liability as a percentage of covered employee 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 Changes in Net Pension Liability and Related Ratios illustrates whether the plan's net position is increasing or decreasing over time relative to the total pension liability, and the net pension liability as it relates to covered employee payroll. As addressed previously, the most recent actuarial valuation was effective December 31, 2013. The Schedule of Changes in Net Pension Liability and Related Ratios was prepared using procedures to roll forward the results of the most recent actuarial valuation to the fiscal year end June 30, 2014. This schedule presents information that is currently available. Additional years will be added until 10-year trend information can be presented.

## SCHEDULE OF CONTRIBUTIONS (Last 10 Fiscal Years)

| FY Ending June 30 | Actuarially Determined Contribution | Actual Contribution | Contribution Deficiency (Excess) | Covered Payroll | Actual Contribution as a % of Covered Payroll |
|---|---|---|---|---|---|
| 2005 | $ 32,198,596 | $ 32,198,596 | $ - | $ 955,447,953 | 3.37% |
| 2006 | 34,648,918 | 34,648,918 | - | 1,028,157,804 | 3.37% |
| 2007 | 36,644,001 | 36,644,001 | - | 1,087,359,080 | 3.37% |
| 2008 | 38,334,140 | 38,334,140 | - | 1,137,511,573 | 3.37% |
| 2009 | 37,281,658 | 40,012,480 | (2,730,822) | 1,187,313,947 | 3.37% |
| 2010 | 35,146,816 | 37,868,623 | (2,721,807) | 1,183,394,469 | 3.20% |
| 2011 | 47,118,111 | 47,118,111 | - | 1,166,289,876 | 4.04% |
| 2012 | 50,738,815 | 52,934,245 | (2,195,430) | 1,219,683,057 | 4.34% |
| 2013 | 68,242,010 | 67,734,634 | 507,376 | 1,268,438,838 | 5.34% |
| 2014 | 73,673,215 | 74,174,082 | (500,867) | 1,324,537,175 | 5.60% |

# REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

## SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

| FY Ending June 30 | 2014 |
|---|---|
| **Total pension liability** | |
| Service Cost | $ 75,787,752 |
| Interest on the Total Pension Liability | 192,723,577 |
| Changes of benefit terms | - |
| Difference between expected and actual experience of the Total Pension Liability | (19,051,630) |
| Changes of assumptions | - |
| Benefit payments, including refunds of employee contributions | (167,049,790) |
| **Net Change in Total Pension Liability** | $ 82,409,909 |
| **Total Pension Liability - Beginning** | 2,615,278,713 |
| **Total Pension Liability - Ending (a)** | $ 2,697,688,622 |
| **Plan Fiduciary Net Position** | |
| Contributions - Employer | $ 74,174,082 |
| Contributions - Employee | 40,018,590 |
| Net Investment Income | 304,640,803 |
| Benefit Payments, including refunds of employee contributions | (167,049,790) |
| Pension Plan Administrative Expense | (3,629,320) |
| Other | - |
| **Net Change in Plan Fiduciary Net Position** | 248,154,365 |
| **Plan Fiduciary Net Position - Beginning** | 1,956,772,826 |
| **Plan Fiduciary Net Position - Ending (b)** | $ 2.204,927,191 |
| **Net Pension Liability - Ending (a) - (b)** | 492,761,431 |
| **Plan Fiduciary Net Position as a Percentage of Total Pension Liability** | 81.73% |
| **Covered Employee Payroll** | $ 1,324,537,175 |
| **Net Pension Liability as a Percentage of Covered Employee Payroll** | 37.20% |

1 This schedule presents information for available years. Additional years will be added prospectively until 10 years of information is available.

# REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

## SCHEDULE OF INVESTMENT RETURNS

| FY Ending June 30 | Annual Return[1] |
|---|---|
| 2014 | 15.91% |

1 Annual money-weighted rate of return, net of investment expenses.

2 This schedule presents information for available years. Additional years will be added prospectively until 10 years of information is available.

# OTHER 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 eleven fiscal years.

**Contribution Rates** (as a percent of salary)

| Fiscal Year | Composite Employer | Employee | Total |
|---|---|---|---|
| June 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 |
| 2010 | 3.20 | 4.00 | 7.20 |
| 2011 | 4.04 | 4.00 | 8.04 |
| 2012 | 4.34 | 4.00 | 8.34 |
| 2013 | 5.34 | 3.00 | 8.34 |
| 2014 | 5.60 | 3.00 | 8.60 |

- 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.

- 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, 2014)

| | |
|---|---|
| **Personnel services** | |
| Salaries and wages | $ 1,909,924 |
| Retirement contributions | 365,985 |
| Insurance | 278,616 |
| Social security | 154,384 |
| **Total personnel services** | **2,708,909** |
| **Professional services** | |
| Actuarial | 151,018 |
| Legal | 82,732 |
| Payroll disbursement | 44,830 |
| Plan automation support | 16,250 |
| Strategic planning | 14,307 |
| Audit | 66,101 |
| **Total professional services** | **375,238** |
| **Communications** | |
| Printing | 26,603 |
| Postage | 32,050 |
| **Total communications** | **58,653** |
| **Supplies** | |
| Office supplies | 16,861 |
| Dues and subscriptions | 9,501 |
| **Total supplies** | **26,362** |
| **Other services and charges** | |
| Board travel and staff development | 41,342 |
| Equipment | 128,803 |
| Building rent | 264,058 |
| Depreciation expense and asset disposal | 12,292 |
| Miscellaneous | 13,663 |
| **Total other services and charges** | **460,158** |
| **Total administrative expenses** | **$ 3,629,320** |

# OTHER SUPPLEMENTARY INFORMATION

## SCHEDULE OF INVESTMENT EXPENSES

(Year Ended June 30, 2014)

| | |
|---|---|
| **Investment management fees** | |
| Fixed income managers | |
| Loomis-Sayles and Company, L.P. | $ 516,708 |
| Mellon Capital Management Corporation | 26,173 |
| Mondrian Investment Partners (US), Inc. | 389,532 |
| Pacific Investment Management Company | 492,899 |
| Equity managers | |
| Aronson Johnson Ortiz, LLC | 353,427 |
| Epoch Investment Partners, Inc. | 467,278 |
| Lazard Asset Management | 349,242 |
| Mellon Capital Management Corporation | 23,701 |
| Westfield Capital Management | 317,875 |
| International managers | |
| Acadian Asset Management, Inc. | 693,578 |
| AllianceBernstein L.P. | - |
| Causeway Capital Management, LLC | 550,062 |
| William Blair & Company | 902,346 |
| Real Estate managers | |
| J.P. Morgan Asset Management | 380,608 |
| Prudential Financial | 198,890 |
| UBS Realty Investors, LLC | 324,540 |
| CenterSquare Investment Management (formerly Urdang) | 521,332 |
| Global Asset Allocation managers | |
| Pacific Investment Management Company | 856,080 |
| Wellington Management Company LLP | 1,116,469 |
| Better Beta | |
| Bridgewater Associates | 503,951 |
| Hedge fund of funds | |
| Grosvenor Capital Management, L.P. | 791,418 |
| Permal Investment Management Services. Ltd. | 606,897 |
| Private equity | |
| Audax Mezzanine Fund III, L.P. | 125,310 |
| HarbourVest Partners, LLC Buyout | 108,972 |
| HarbourVest Partners, LLC Credit | 60,112 |
| HarbourVest Partners, LLC Venture | 115,604 |
| Lexington Capital Partners VII | 79,767 |
| Lexington Capital Partners VIII | 64,588 |
| Newstone Capital Partners, LLC | 106,875 |
| Permal Private Equity Opportunities IV, L.P. | 62,500 |
| Private Advisors Fund IV, L.P. | 75,000 |
| Private Advisors Fund V, L.P. | 90,000 |
| **Total investment management fees** | **11,271,734** |
| **Other investment service fees** | |
| Custodial fees - Mellon Trust | 217,240 |
| Investment consultant fees—New England Pension Consulting, Inc. | 441,050 |
| Monitor managers' trading processes—Zeno Consulting Group | 15,000 |
| Foreign tax consulting—Pricewaterhouse Coopers | 3,182 |
| Investment salaries | 216,853 |
| **Total other investment service fees** | **893,325** |
| **Total investment expenses** | **$ 12,165,059** |

# OTHER SUPPLEMENTARY INFORMATION

## SCHEDULE OF PROFESSIONAL SERVICE FEES

(Year Ended June 30, 2014)

| Service Provider | Nature of Service | Amount |
|---|---|---|
| Gabriel, Roeder, Smith & Company | Actuary | $ 151,018 |
| Levi, Ray & Shoup, Inc. | Plan automation support | $ 16,250 |
| Bredhoff & Kaiser, P.L.L.C. | Legal counsel | $ 73,662 |
| Groom Law Group, Chartered | Legal counsel | $ 9,070 |
| ADP payroll services | Pension disbursement | $ 44,830 |
| KPMG, LLP | Audit | $ 66,101 |
| Various | Miscellaneous | $ 14,307 |
| **Total professional service fees** | | **$ 375,238** |

# INVESTMENT

“Do not train a child to learn by force or harshness; but direct them to it by what amuses their minds, so that you may be better able to discover with accuracy the peculiar bent of the genius of each.”

Plato

**IN THIS SECTION:**



The L-shaped Bailey’s Upper Elementary building features learning “communities” at the end of each wing. Classrooms open onto central spaces featuring learning theaters and one-flight staircases connecting color-coded floors. Hallways end at creative reading, studying and presentation areas, many of which have soaring views, where students can spread out and limit their movements between floors.

# Consultant Report on Investment Activity

NEPC, LLC

October 21, 2014

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, 2014.

As of the June 30th fiscal year-end, the Fund was in compliance with policy ranges, and had 40.0 percent in equities, 7.7 percent in real estate equity, 27.5 percent in bonds, 7.8 percent in hedge fund strategies, 1.6 percent in private equity, 15.3 percent in global asset allocation/better beta strategies, and 0.1 percent in cash. Over the past year, the Fund has maintained public equity levels lower than the median equity allocation when measured against public fund peers in the InvestorForce Public Defined Benefit Universe.

The Fund earned 16.2%[1] in the year ending June 30, 2014, which ranked in the 42nd percentile of all public funds within the InvestorForce Universe. Over the last 12 months ending June 30, 2014, ERFC outperformed its assumed actuarial return target of 7.5% by 8.7%. Assets increased from \$1.96 billion at the end of fiscal 2013 to approximately \$2.20 billion as of June 30, 2014[2].

**Market Commentary**

If 2013 was the year to own equities, 2014, so far, has been the year to have balance. Global equities and fixed income assets are mostly in the black and their gains have come amidst startlingly low volatility. The 2014 fiscal year posted solid gains and investors showed resilience with headline risks related to the government shutdown, debt ceiling, a severe downward revision to US GDP, the Fed quantitative easing program, and geopolitical tensions arising from Russia and the Middle East.

As the calendar year came to a close, the US economy appeared to be picking up steam with rising growth and falling unemployment even as the Fed began to taper its monetary stimulus. Macro policy and politics affected global markets with fears of the US hitting its debt ceiling and slowing growth in emerging markets. Investor sentiment turned positive when Janet Yellen emerged as the favored candidate to serve as the chair of the Federal Reserve. Following a strong 2013, growth assets in developed markets continued their upward trajectory, while emerging market stocks and bonds rallied in March. Markets mostly shrugged off the geopolitical tensions arising from Russia taking control of Crimea, and the sustained economic slowdown in

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[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.
[2] The fund assets presented in the investment section are reported at fair value.

# Consultant Report on Investment Activity

emerging economies. In the final quarter of the fiscal year, all major asset classes moved higher, even overlooking a severe revision downward for the first quarter US GDP growth to -1.0%, attributing the miss to poor weather. Emerging market assets continued their recovery with large inflows pouring into equity and debt during the quarter as investors dismissed balance of payment concerns.

The broad domestic equity market, as measured by the S&P 500 Index, posted its sixth consecutive quarterly gain, capping off the fiscal year with a +24.6% return. The domestic bond market, as measured by the Barclays Aggregate Bond Index, returned +4.4% in the fiscal year 2014. The global equity market, as measured by the MSCI All Country World Index (net), returned +21.6% for the fiscal year.

During the quarter ended September 30th, 2013 US equities continued their march upward; the S&P 500 index gained +5.2%, shrugging off uncertainty around the continuity of the Federal Reserve's accommodative monetary policy. Housing remained strong as unemployment inched lower and consumers regained confidence. Stock market gains were tempered at the end of the quarter as investors fretted over the political gridlock and a potential debt default by the US. Small-caps continued to lead in the quarter, with the Russell 2000 Growth Index returning +12.8%. Improving economic data in Europe, especially in some of the more troubled regions such as Greece, Italy and Spain also boosted returns. The MSCI Europe, Australia, Far East (EAFE) rose +11.6% and the MSCI Emerging Markets index rose +5.8%. In fixed income, an unexpected announcement by the Fed to leave the bond-purchase program unaltered ratcheted up investors' risk appetite. US Treasury obligations sold off as yields reached 2.98% in September from 2.52% in June, subsequently ending the quarter at +2.64%. The Barclays Aggregate Index, which tracks the US investment-grade fixed income market, lost -0.6% in the quarter. The thirst for yield persisted as lower quality and less liquid portions of the speculative-grade market outperformed higher quality issues. High-yield bonds and leveraged loans maintained their reign over domestic fixed income, with the Barclays High Yield Index returning +2.3% for the quarter. Leveraged loans benefited from strong demand from retail and institutional investors, gained +1.2% during the same period according to the S&P LSTA Leveraged Loan Index.

The quarter ended December 31st, 2013 saw consumer confidence, which dipped early in the quarter, rebound nicely in December, perhaps in response to a brighter economic outlook and continued Fed stimulus. US equities had a strong quarter with the S&P posting +10.5%. Macro policy and politics affected global markets during the quarter with fears of the US hitting its debt ceiling and slowing growth in emerging markets initially pushing non-US stocks lower. Markets subsequently turned positive when Janet Yellen emerged as the favored candidate to serve as the chairperson of the Fed. A solid showing in December rounded off a strong quarter for global equities, which gained +7.6%, according to the MSCI World Index. European stocks returned +7.9%, outperforming the UK and Japan while emerging markets' equities trailed, posting gains of +1.9%. High yield bonds and leveraged loans continued to lead fixed income in the fourth quarter with the Barclays High Yield index returning +3.6% during this period. Leveraged Loans returned +1.7% as yield-hungry investors and concern around rising interest rates increased demand. The so-called fragile five—Brazil, Indonesia, India, Turkey and South Africa—were responsible for much of the underperformance in the bond indices of emerging markets, with the JP Morgan GBI-EM index down -1.5%.

U.S. stocks posted modest gains for the quarter ending March 31st, 2014, but there was a shift in dynamics, especially in the final week of the quarter. US equities dipped in January amid concerns regarding the Fed tapering. They rebounded in February, hitting new record highs, on the heels of the Fed stating it would maintain current short-term interest rates near zero. However, equities oscillated again in March, falling after the Fed touched on the possibility of

# CONSULTANT REPORT ON INVESTMENT ACTIVITY

raising interest rates. In anticipation of rising interest rates, investors sold their positions in small caps, fast-growing stocks and non-earners, while moving into stocks of more moderately-valued, stable companies exhibiting cyclical growth. The S&P 500 Index rose +1.8% while the Russell 2000 gained a modest +1.1%. International equities lagged US markets, returning +0.7%, as measured by the MSCI EAFE Index. Despite rallying in March, emerging markets ended the quarter down -0.4% after absorbing volatility throughout the quarter. Russia was the worst performing market with a -14.4% return. Bond markets rallied as investors snapped up safer, higher-quality assets amid concerns around an economic slowdown in China and the unseasonably harsh winter in the US. This flight to quality was further reinforced following the crisis in Ukraine and Russia taking control of Crimea. The US Credit Index gained +2.9% and the Long Duration Credit Index returned +6.3% in the quarter. Emerging market debt continued to underperform through January amid concerns surrounding China's growth and its shadow banking system, but rebounded strongly in February and March, with JP Morgan GBI-EM Index, posting +1.9% for the quarter.

US equities advanced in the last quarter of the fiscal year amid improving economic data underscoring growth in the United States and Europe. For the quarter, large cap stocks outperformed small cap stocks, with the S&P 500 Index returning +5.2% versus +2.1% for the Russell 2000 Index. So far this year, value has outpaced growth across the capitalization spectrum. International equities gained 4.1% underperforming domestic and emerging markets. Emerging markets rallied to a 12-month high and gained +6.6% according to the MSCI Emerging Markets Index. Returns during the quarter were bolstered by improving conditions in the Ukraine, positive election results in India, and better economic conditions in China. Fixed income markets continued to rally through June on the heels of the robust prior quarter. Treasury Inflation-Protected Securities, or TIPS, outperformed nominal Treasuries due to increased inflation (expectations and actual), with the Barclays US TIPS Index posting gains of +3.8% over the period. Despite record new supply, investment grade credit posted strong performance, with spreads narrowing 7 basis points to 96 basis points. The US Credit Index gained +2.7% and the Long Duration Credit Index returned +5.0%. In addition to the accommodative action by the European Central Bank, declining Treasury yields and economic stability in several emerging market countries provided a tailwind for the asset class. Coming off a strong February and March, local currency (JP Morgan GBI-EM GD Unhedged) and external currency (JP Morgan EMBI+) emerging markets debt had a stellar quarter, returning +4.0% and +5.8%, respectively.

Changes to the fund during Fiscal Year 2014 included hiring GAM USA Inc. to manage an absolute return focused mandate as part of a change to the overall fixed income portfolio's structure and positioning. The fund continued to build out the private equity portfolio which grew from a market value of approximately $24 million in June 2013 to $35 million as of June 2014. In April, the Board voted to commit $15 million to Lexington Partners Fund VIII. In addition the Board approved an updated Investment Policy Statement. The portfolio is well positioned and diversified across asset classes and remains in compliance with policy targets.

Sincerely,

Douglas Moseley, Partner

Keith Stronkowsky, CFA, Sr. Consultant

# Strategic Review and Investment Policy

## Introduction

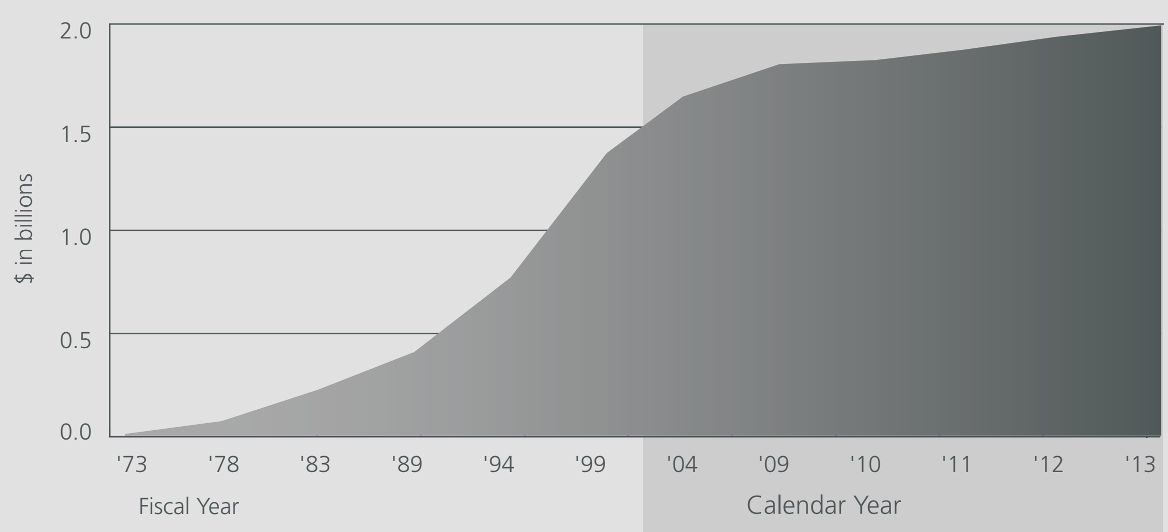
The members of the ERFC Board of Trustees have jurisdiction over and ultimate fiduciary responsibility for the investment of the System's assets. In carrying out their responsibilities, they must adhere to applicable laws, regulations, and rulings with respect to the duties of investment fiduciaries. 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. 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, 2013 actuarial valuation)



# Investment Managers

## ASSETS UNDER MANAGEMENT

As of June 30, 2014 ($ in millions)

| Investment Manager | Investment Type | Amount |
|---|---|---|
| Equities | | |
| **Large Capitalization** | | |
| Aronson Johnson Ortiz | Value | $ 120.1 |
| Mellon Capital Management Corp. | Core Index (Russell 1000) | 116.1 |
| Russell | Growth | 117.8 |
| **Small/Mid Capitalization** | | |
| Epoch Investment Partners, Inc. | Value | 45.0 |
| Lazard Asset Management | Core | 48.2 |
| Westfield Capital Management | Growth | 46.3 |
| **International** | | |
| Acadian Asset Management | Core | 131.0 |
| Causeway Capital | Value | 93.5 |
| William Blair & Company | Growth | 93.7 |
| William Blair & Company | Emerging Market | 70.2 |
| Fixed Income | | |
| Loomis-Sayles & Company | Core Plus | 176.4 |
| Mellon Capital Management Corp. | Core Index | 148.9 |
| Pacific Investment Management Co. | Core Plus | 218.2 |
| Mondrian Investments | Emerging Market | 62.2 |
| Global Asset Allocation/Better Beta | | |
| Bridgewater Associates, Inc. | Better Beta | 112.9 |
| Wellington Management Co. | Global Asset Allocation | 114.4 |
| Pacific Investment Management Co. | Global Asset Allocation | 109.3 |
| Hedge fund of funds | | |
| Grosvenor Institutional Partners, L.P. | Hedge Fund of Funds | 86.1 |
| Permal Group of Funds | Hedge Fund of Funds | 88.3 |
| Private Equity | | |
| Audax Mezzanine Fund III, L.P. | Private | 3.4 |
| Lexington Capital Partners VII, L.P. | Private | 6.7 |
| Newstone Capital Partners II, L.P. | Private | 3.6 |
| Permal Private Equity Opportunities IV, L.P. | Private | 4.1 |
| Private Advisors, LLC | Private | 7.4 |
| HarbourVest | Private | 9.5 |
| Real Estate | | |
| JP Morgan Asset Management | Private | 25.7 |
| Prudential Financial | Private | 24.0 |
| UBS Realty Investors, LLC | Private | 30.5 |
| Center Square Investment Management | Public | 90.1 |
| Cash (temporary cash) | | 2.6 |
| **Total** | | **$ 2,206.2** |

# ASSET STRUCTURE

## Interim Strategic Target Allocation

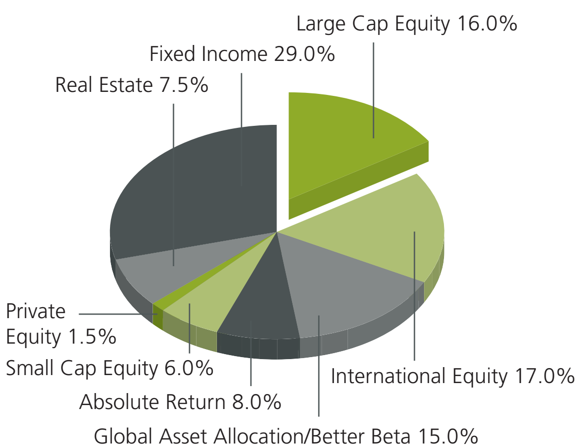
The asset structure shown below represents the Trustees' assessment of their optimal asset allocation as of June 30, 2014. This interim strategic allocation provides a reasonable expectation that the fund's investment objective can be achieved based on historic relationships of asset class performance.

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, 2014.

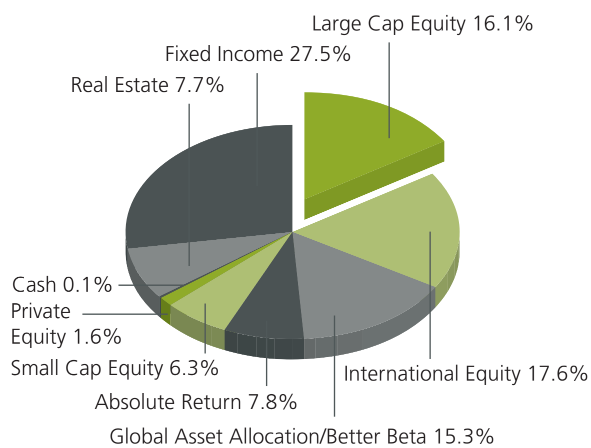
## Actual Asset Allocation as of June 30, 2014

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

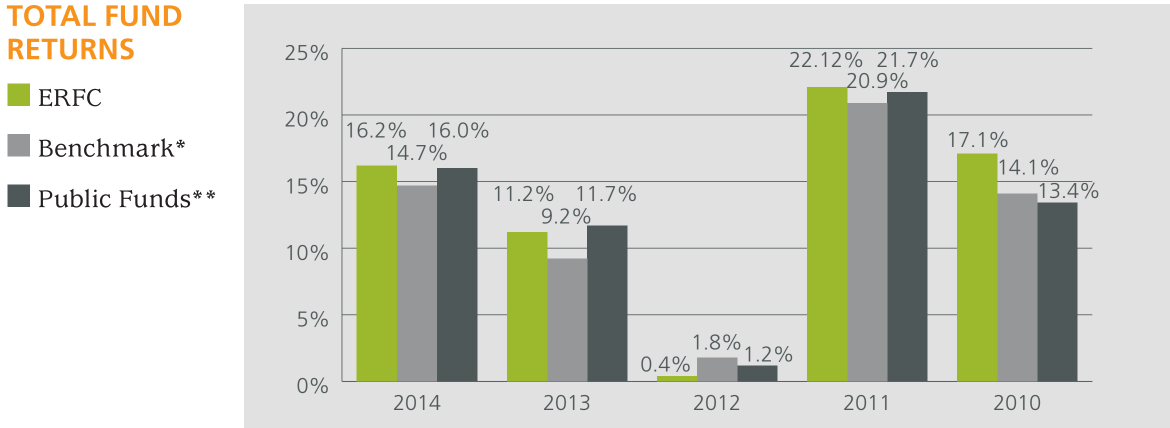



| Security Class | Interim Strategic Targets as of June 30, 2014 | Actual Asset Allocation as of June 30, 2014 |
|---|---|---|
| Domestic Large Cap Equity | 16.0 % | 16.1 % |
| Domestic Small Cap Equity | 6.0 | 6.3 |
| International Equity | 17.0 | 17.6 |
| Real Estate | 7.5 | 7.7 |
| Fixed Income | 29.0 | 27.5 |
| Global Asset Allocation/Better Beta | 15.0 | 15.3 |
| Absolute Return | 8.0 | 7.8 |
| Private Equity | 1.5 | 1.6 |
| Cash | — | 0.1 |
| **Total** | **100.0%** | **100.0%** |

# INVESTMENT RESULTS

Fiscal Years Ending June 30

## TOTAL FUND RETURNS

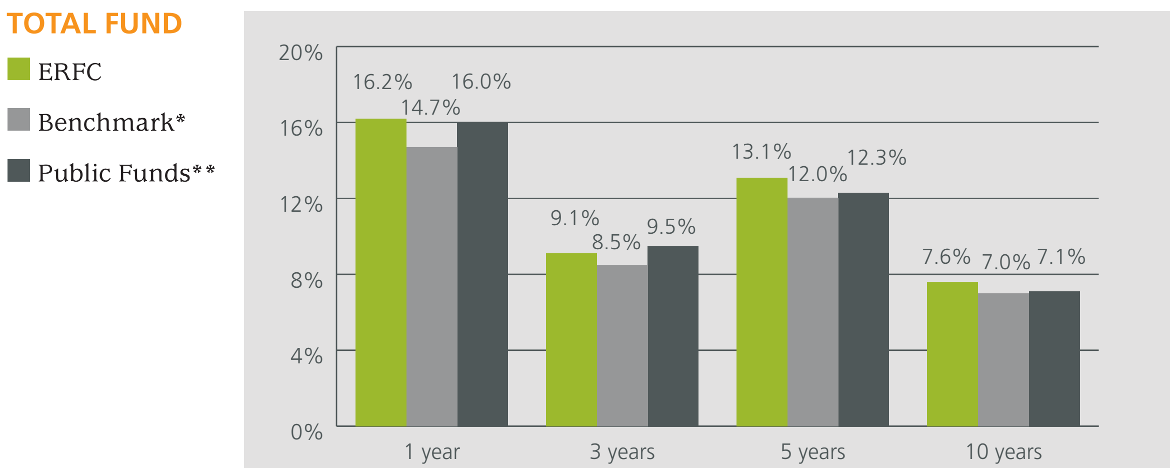



* Diversified benchmark is 16.0% Russell 1000, 6.0% Russell 2000, 14% MSCI ACWI Ex-US, 3.0% MSCI Emerging Markets, 3.75% FTSE EPRA/NAREIT, 3.75% NCREIF, 18.0% Barclays Aggregate Bond Index, 4.0% BC Credit, 4.0% BC Long Credit, 7.5% MSCI World Net, 7.5% CitiWorld Govt Bond, 8.0% HFRI FoF, 1.5% Cambridge PE, 3.0% JPM GBIEM

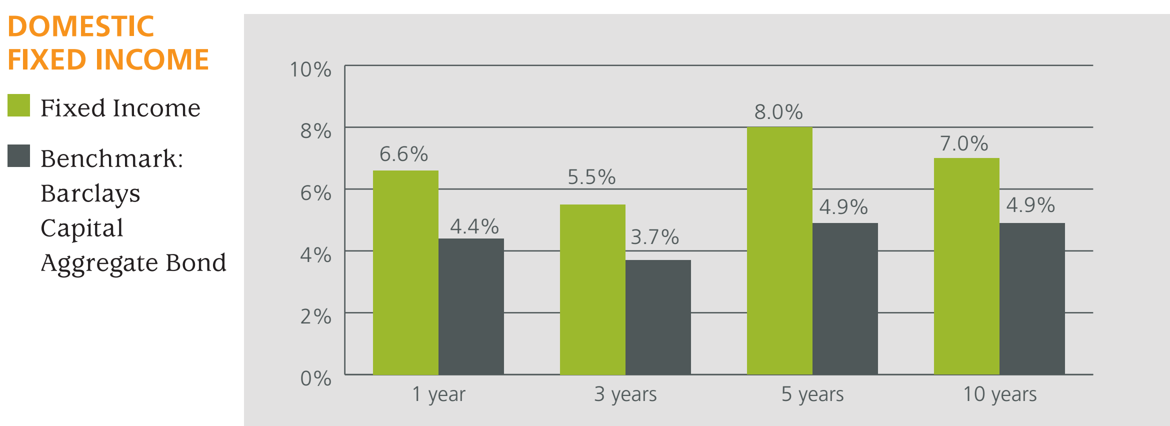
** New England Pension Consultants Universe

For the Periods Ending June 30, 2014

## TOTAL FUND




## DOMESTIC FIXED INCOME

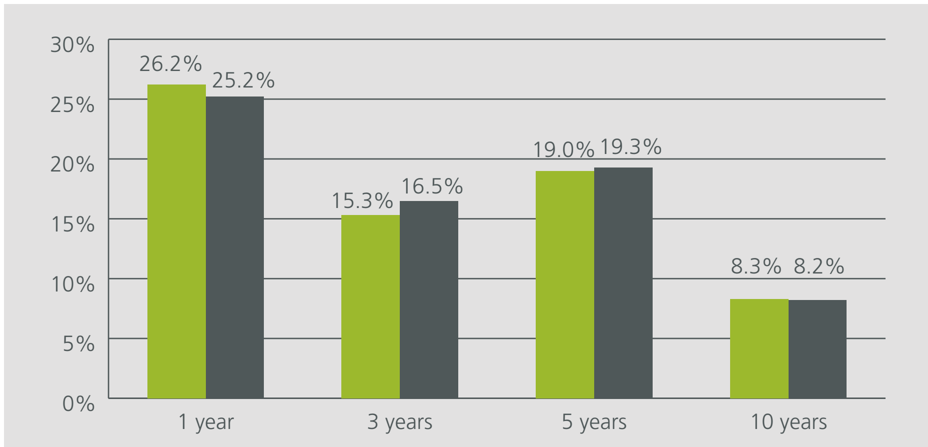


# INVESTMENT RESULTS

(For the Periods Ending June 30, 2014)

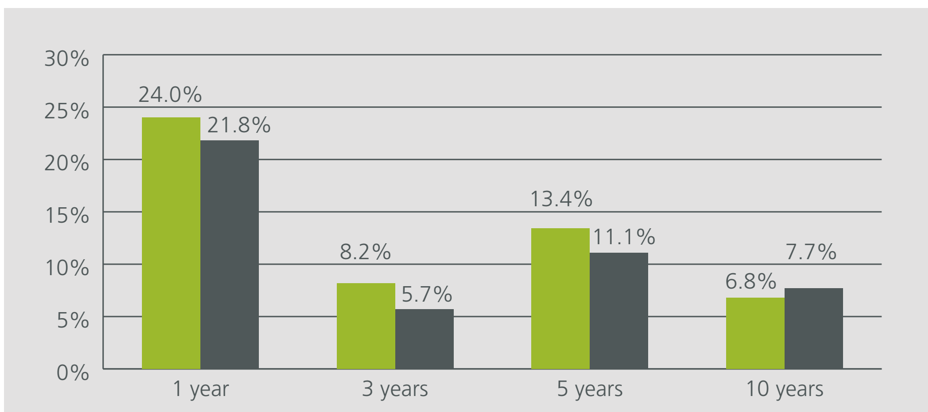
## DOMESTIC EQUITY

- Domestic Equity
- Benchmark: Russell 3000 Index



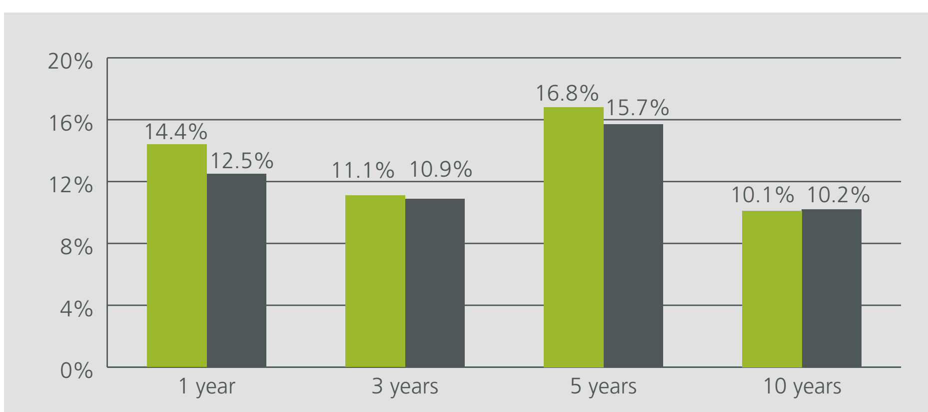

## INTERNATIONAL EQUITY

- International Equity
- Benchmark: MSCI/ACWI Ex-USA Index




## REAL ESTATE

- Real Estate
- Benchmark: 50% FTSE EPRA/NAREIT 50% NCREIF



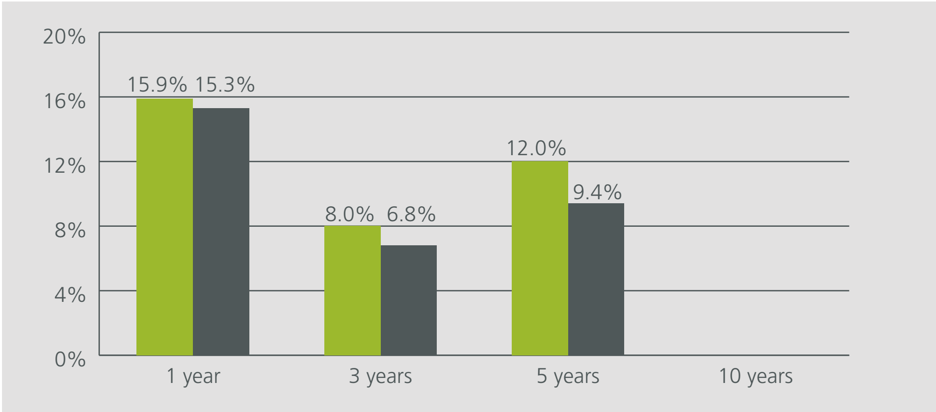

**Note:** All investment performance figures were calculated using a time-weighted rate of return based on market values.

# INVESTMENT RESULTS

(For the Periods Ending June 30, 2014)

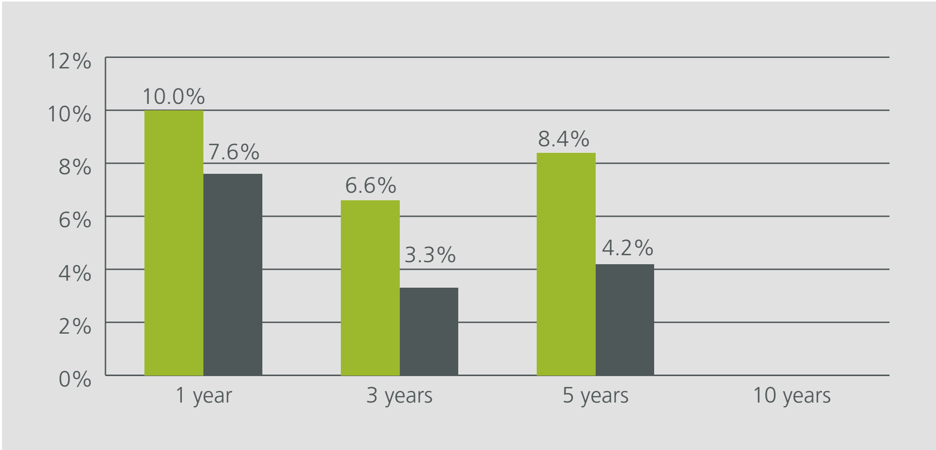
## GLOBAL ASSET ALLOCATION

- GAA
- Benchmark: 50% MSCI World / 50% Citi World Govt Bond Index




## HEDGE FUND

- Hedge Fund of Funds
- Benchmark: HFRI Fund of Funds Composite Index



# SCHEDULES OF TEN LARGEST EQUITY & FIXED INCOME HOLDINGS

(As of June 30, 2014)

## TEN LARGEST EQUITY HOLDINGS*

| No. Shares | Description | Cost | Fair Value | % of Total Portfolio |
|---|---|---|---|---|
| 57,673 | APPLE INC | $ 1,722,423 | $ 5,359,552 | 0.24% |
| 43,600 | EXXON MOBIL CORP | $ 3,548,233 | $ 4,389,648 | 0.20% |
| 101,891 | ROYAL DUTCH SHELL PLC | $ 3,176,539 | $ 4,218,603 | 0.19% |
| 89,562 | MICROSOFT CORP | $ 3,530,659 | $ 3,734,735 | 0.17% |
| 2,466 | SAMSUNG ELECTRONICS CO LTD | $ 2,546,601 | $ 3,222,033 | 0.15% |
| 41,109 | AKZO NOBEL NV | $ 2,821,804 | $ 3,081,570 | 0.14% |
| 28,100 | MAGNA INTL INC | $ 1,384,828 | $ 3,030,152 | 0.14% |
| 5,057 | GOOGLE INC | $ 1,677,263 | $ 2,956,676 | 0.13% |
| 128,196 | REED ELSEVIER NV | $ 2,061,277 | $ 2,939,953 | 0.13% |
| 41,174 | COLGATE-PALMOLIVE CO | $ 2,378,056 | $ 2,807,243 | 0.13% |
| **TOTAL** | | **$ 24,847,683** | **$ 35,740,165** | **1.62%** |

## TEN LARGEST FIXED INCOME HOLDINGS*

| Par Value | Security | Coupon | Maturity | Cost | Fair Value | % of Total Portfolio |
|---|---|---|---|---|---|---|
| 8,285,000 | U S TREASURY NOTE | 0.375% | 03/31/2016 | $ 8,280,793 | $ 8,286,574 | 0.38% |
| 7,000,000 | U S TREASURY NOTE | 0.500% | 06/30/2016 | $ 7,006,016 | $ 7,006,020 | 0.32% |
| 5,505,000 | INTER-AMERICAN DEVELOPMENT BANK | 6.000% | 12/15/2017 | $ 3,779,204 | $ 5,018,213 | 0.23% |
| 3,115,000 | GEORGIA-PACIFIC LLC | 7.750% | 11/15/2029 | $ 2,766,891 | $ 4,283,717 | 0.19% |
| 3,355,000 | NEW SOUTH WALES TREASURY CORP | 6.000% | 02/01/2018 | $ 3,785,333 | $ 3,491,651 | 0.16% |
| 2,795,000 | OLD REPUBLIC INTERNATIONAL CORP | 3.750% | 03/15/2018 | $ 2,743,203 | $ 3,478,042 | 0.16% |
| 37,450,000 | MEXICAN BONOS | 8.000% | 12/07/2023 | $ 3,347,568 | $ 3,372,578 | 0.15% |
| 2,760,000 | MORGAN STANLEY | 4.100% | 05/22/2023 | $ 2,663,044 | $ 2,799,772 | 0.13% |
| 2,400,000 | MERRILL LYNCH & CO INC | 6.110% | 01/29/2037 | $ 2,064,106 | $ 2,768,736 | 0.13% |
| 2,190,000 | INTEL CORP | 2.950% | 12/15/2035 | $ 2,161,153 | $ 2,722,455 | 0.12% |
| **TOTAL** | | | | **$ 38,597,311** | **$43,227,758** | **1.96%** |

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

# SCHEDULE OF BROKERAGE COMMISSIONS

(Year Ended June 30, 2014)

| Broker Name | Base Volume | Total Shares | Base Commission | Commission Percentage |
|---|---|---|---|---|
| INVESTMENT TECHNOLOGY GROUP, NEW YORK | $124,690,202 | 2,157,496 | $31,832 | 0.03 |
| SG AMERICAS SECURITIES LLC, NEW YORK | 69,240,445 | 1,694,532 | 15,450 | 0.02 |
| CREDIT SUISSE, NEW YORK (CSUS) | 62,977,213 | 6,032,767 | 34,829 | 0.06 |
| BNY CONVERGEX / LJR, HOUSTON | 43,840,658 | 1,528,303 | 56,897 | 0.13 |
| MORGAN STANLEY & CO INC, NY | 43,827,324 | 7,262,995 | 30,651 | 0.07 |
| DEUTSCHE BK SECS INC, NY | 43,502,860 | 4,067,344 | 20,276 | 0.05 |
| LIQUIDNET INC, BROOKLYN | 38,027,875 | 1,272,038 | 28,299 | 0.07 |
| BARCLAYS CAPITAL LE, JERSEY CITY | 28,465,532 | 693,186 | 7,590 | 0.03 |
| CITIGROUP GBL MKTS INC, NEW YORK | 26,909,745 | 784,820 | 19,176 | 0.07 |
| UBS SECURITIES LLC, STAMFORD | 25,228,915 | 512,940 | 8,952 | 0.04 |
| INSTINET CORP, NY | 25,030,547 | 543,360 | 9,986 | 0.04 |
| MERRILL LYNCH INTL LONDON EQUITIES | 24,723,472 | 3,932,838 | 20,782 | 0.08 |
| UBS EQUITIES, LONDON | 19,806,131 | 1,343,422 | 15,352 | 0.08 |
| GOLDMAN SACHS & CO, NY | 17,968,565 | 1,289,002 | 15,944 | 0.09 |
| INSTINET EUROPE LIMITED, LONDON | 16,011,101 | 817,154 | 16,956 | 0.11 |
| GUZMAN & COMPANY, CORAL GABLES | 15,042,233 | 633,140 | 9,671 | 0.06 |
| J P MORGAN SECS LTD, LONDON | 14,295,672 | 988,110 | 11,965 | 0.08 |
| J.P. MORGAN CLEARING CORP, NEW YORK | 13,020,410 | 686,720 | 7,378 | 0.06 |
| BERNSTEIN SANFORD C & CO, NEW YORK | 12,917,818 | 457,173 | 4,476 | 0.03 |
| CREDIT SUISSE (EUROPE), LONDON | 12,733,742 | 728,163 | 9,427 | 0.07 |
| JNK SECURITIES INC, NEW YORK | 12,649,672 | 287,260 | 4,832 | 0.04 |
| ROSENBLATT SECURITIES LLC, JERSEY CITY | 10,764,475 | 235,390 | 3,533 | 0.03 |
| JP MORGAN SECS ASIA PACIFIC, HONG KONG | 10,570,261 | 627,417 | 6,103 | 0.06 |
| JP MORGAN SECURITIES INC, BROOKLYN | 10,546,918 | 481,467 | 16,913 | 0.16 |
| MERRILL LYNCH PIERCE FENNER, WILMINGTON | 9,282,622 | 627,417 | 6,694 | 0.07 |
| JEFFERIES & CO INC, NEW YORK | 9,135,724 | 246,217 | 6,621 | 0.07 |
| CITIGROUP GBL MKTS/SALOMON, NEW YORK | 9,043,031 | 2,329,723 | 5,177 | 0.06 |
| BARCLAYS CAPITAL, LONDON | 8,979,145 | 1,326,140 | 10,121 | 0.11 |
| BLOOMBERG TRADEBOOK LLC, NEW YORK | 8,433,979 | 172,010 | 3,440 | 0.04 |
| UBS WARBURG ASIA LTD, HONG KONG | 7,253,577 | 1,101,614 | 7,512 | 0.10 |
| MERRILL LYNCH PIERCE FENNER SMITH INC NY | 6,267,552 | 200,594 | 4,851 | 0.08 |
| BROCKHOUSE AND COOPER, MONTREAL | 6,032,218 | 147,958 | 2,415 | 0.04 |
| CITIGROUP GLOBAL MARKETS LTD, LONDON | 5,897,609 | 400,895 | 7,614 | 0.13 |
| MERRILL LYNCH & CO INC ATLAS GLOBAL, NY | 5,808,244 | 1,241,385 | 3,252 | 0.06 |
| GUZMAN & CO, NEW YORK | 5,529,693 | 116,500 | 2,330 | 0.04 |
| JONESTRADING INSTL SVCS LLC, WESTLAKE | 5,416,727 | 234,845 | 7,045 | 0.13 |
| BROADCOURT CAP CORP,NEW YORK | 5,223,534 | 196,110 | 7,825 | 0.15 |
| JPMORGAN SECURITIES INC, NEW YORK | 5,039,699 | 630,118 | 5,372 | 0.11 |
| INVESTMENT TECHNOLOGY GROUP LTD,DUBLIN | 4,840,952 | 240,507 | 2,049 | 0.04 |
| RBC CAPITAL MARKETS LLC, NEW YORK | 4,834,006 | 195,182 | 6,173 | 0.13 |
| FIDELITY CAP MKTS (DIV OF NFSC), BOSTON | 4,792,583 | 76,620 | 1,155 | 0.02 |
| CREDIT LYONNAIS SECS, SINGAPORE | 4,096,269 | 210,286 | 3,047 | 0.07 |
| ITG HONG KONG LIMITED, HONG KONG | 4,060,869 | 6,391,320 | 2,134 | 0.05 |
| RAYMOND JAMES & ASSOC INC, ST PETERSBURG | 4,019,596 | 108,197 | 3,899 | 0.10 |
| HSBC BANK PLC , LONDON | 3,916,751 | 569,827 | 3,562 | 0.09 |
| OTHER BROKERS | 133,695,831 | 11,309,306 | 136,157 | 0.10 |
| **TOTAL** | **$ 984,392,019** | **71,628,499** | **$ 645,736** | |

# INVESTMENT SUMMARY

| | AS OF JUNE 30, 2014 | | AS OF JUNE 30, 2013 | |
|---|---|---|---|---|
| | Market Value | % Market Value | Market Value | % Market Value |
| **Fixed Income** | | | | |
| U.S. Government obligations | $ 25,166,149 | 1.1% | $ 22,836,510 | 1.2% |
| Mortgage-backed securities | 3,437,784 | 0.2% | 3,973,060 | 0.2% |
| Domestic corporate bonds | 87,407,536 | 4.0% | 84,011,424 | 4.3% |
| Convertible bonds | 14,027,290 | 0.6% | 12,143,244 | 0.6% |
| International bonds | 42,403,411 | 1.9% | 38,735,376 | 2.0% |
| Preferred stocks | 1,187,335 | 0.1% | 2,409,937 | 0.1% |
| Index / Commingled fund | 399,926,578 | 17.9% | 356,838,334 | 18.4% |
| Total fixed income | 573,556,083 | 25.8% | 520,947,885 | 26.8% |
| **Domestic Equities:** | | | | |
| Basic industry | 59,066,021 | 2.7% | 66,136,779 | 3.4% |
| Consumer and services | 136,124,232 | 6.2% | 110,471,161 | 5.7% |
| Financial and utility | 70,260,774 | 3.2% | 81,022,092 | 4.1% |
| Technological | 75,539,999 | 3.4% | 60,526,874 | 3.1% |
| Index / Commingled fund | 116,082,968 | 5.3% | 106,662,381 | 5.5% |
| Total domestic stock | 457,073,994 | 20.8% | 424,819,287 | 21.8% |
| **International Equity** | | | | |
| Basic industry | 85,799,455 | 3.9% | 74,770,555 | 3.8% |
| Consumer and services | 107,578,024 | 4.9% | 100,604,259 | 5.1% |
| Financial and utility | 83,471,494 | 3.8% | 75,408,684 | 3.9% |
| Technological | 43,270,418 | 2.0% | 33,706,829 | 1.7% |
| Index / Commingled fund | 85,329,807 | 3.9% | 75,141,087 | 3.8% |
| Total international stock | 405,449,198 | 18.5% | 359,631,414 | 18.3% |
| **Real Estate** | | | | |
| Commercial | 54,462,973 | 2.5% | 55,423,279 | 2.8% |
| Commingled | 115,791,876 | 5.2% | 103,294,385 | 5.3% |
| Total real estate | 170,254,849 | 7.7% | 158,717,664 | 8.1% |
| **Alternative investments** | | | | |
| Better beta | 112,865,754 | 5.1% | 90,595,119 | 4.6% |
| Global asset allocation | 223,631,110 | 10.1% | 186,066,940 | 9.5% |
| Hedge fund of funds | 174,498,284 | 7.9% | 156,881,646 | 8.0% |
| Limited partnerships | 34,645,625 | 1.6% | 25,221,027 | 1.3% |
| Total alternative investments | 545,640,773 | 24.7% | 458,764,732 | 23.4% |
| Subtotal investments at fair value | 2,151,974,897 | 97.5% | 1,922,880,982 | 98.4% |
| **Short-term Investments** | | | | |
| Money Market | 56,058,086 | 2.5% | 30,897,541 | 1.6% |
| Total short-term investments | 56,058,086 | 2.5% | 30,897,541 | 1.6% |
| **Total** | **2,208,032,983** | **100.0%** | **$ 1,953,778,523** | **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, 2014)

| Investment Category | Assets Under Management | Expense |
|---|---|---|
| Better beta | $ 112,865,754 | $ 503,951 |
| Domestic equity managers | 516,611,739 | 1,511,523 |
| Fixed income managers | 540,193,173 | 1,425,312 |
| Global asset allocation managers | 223,631,110 | 1,972,549 |
| Hedge fund of funds | 174,498,284 | 1,398,315 |
| International equity managers | 379,274,363 | 2,145,986 |
| Private equity | 34,645,625 | 888,728 |
| Real estate managers | 170,254,849 | 1,425,370 |
| **Total** | **$ 2,151,974,897** | **$ 11,271,734** |

Note: Excludes cash and cash equivalents

# ACTUARIAL

"There is a brilliant child locked inside every student."

Marva Collins

**IN THIS SECTION:**



In just 21 weeks, Bailey's Upper underwent the conversion that transformed an empty space into the school's second campus. Both buildings share one principal and three assistant principals whose goals are to keep the culture between the schools consistent. Friday afternoon slideshows feature students at the primary and upper campuses experiencing positive learning, and both faculties enjoy trips between campuses for shared staff meetings. The primary focus at Bailey's Upper is to continue to build student knowledge so that every child leaves on grade level.

# ACTUARY'S CERTIFICATION LETTER

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

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October 20, 2014

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, 2013.

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
October 20, 2014
Page 2

Summary of Member Data Included in Valuation as of December 31, 2013
- Active Members by Years of Service on December 31, 2013
- All Active Members in Valuation on December 31, 2013 by Attained Age and Years of Service
- Summary of Member Data
- Short-Term Solvency Test
- Analysis of Financial Experience Including Gains and Losses by Risk Area
- Contribution Rates

Financial Section

- Schedule of Funding Progress
- Schedule of Employer Contributions
- Summary of Actuarial Methods and Assumptions
- Schedule of Changes in Net Pension Liability and Related Ratios
- Notes to Schedule of Contributions
- Sensitivity of the Net Pension Liability to the Single Discount Rate Assumption

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. 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, 2013 valuation was based upon assumptions that were recommended in connection with a study of experience during the period from January 1, 2005 to December 31, 2009.

**Based upon the results of the December 31, 2013 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.**

Respectfully submitted,

Brian B. Murphy

Brian B. Murphy, FSA, EA, FCA, MAAA

Judith A. Kermans

Judith A. Kermans, EA, FCA, MAAA

BBM:JAK:clh

Gabriel Roeder Smith & Company

# SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

The actuarial assumptions and methods used in making the annual actuarial valuation are summarized in this section. The assumptions were adopted by the Trustees following a study of experience covering the five-year period ending December 31, 2009.

## 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 3 years for males and 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 85–115% market value corridor was added in the December 31, 2005 valuation. Additionally, the market value corridor on assets was changed from 75% to 125% 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 | | |
|---|---|---|---|
| Service Index | Merit & Seniority | Base (Economy) | Increase Next Year |
| 1 | 5.30% | 3.75% | 9.05% |
| 2 | 3.80% | 3.75% | 7.55% |
| 3 | 3.30% | 3.75% | 7.05% |
| 4 | 3.10% | 3.75% | 6.85% |
| 5 | 2.90% | 3.75% | 6.65% |
| 6 | 2.70% | 3.75% | 6.45% |
| 7 | 2.70% | 3.75% | 6.45% |
| 8 | 2.30% | 3.75% | 6.05% |
| 9 | 2.10% | 3.75% | 5.85% |
| 10–19 | 1.80% | 3.75% | 5.55% |
| 20–24 | 1.00% | 3.75% | 4.75% |
| 25 | 0.00% | 3.75% | 3.75% |

## 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 |
| 25 | 4 & over | 0.02% | 0.01% | 0.00% | 0.00% | 0.03% | 0.02% | 0.01% | 0.00% | 11.20 | 15.40 |
| 30 | | 0.03 | 0.01 | 0.00 | 0.00 | 0.03 | 0.02 | 0.01 | 0.01 | 7.60 | 11.20 |
| 35 | | 0.03 | 0.02 | 0.00 | 0.00 | 0.05 | 0.04 | 0.01 | 0.01 | 5.40 | 7.60 |
| 40 | | 0.04 | 0.02 | 0.00 | 0.00 | 0.07 | 0.06 | 0.02 | 0.02 | 3.80 | 4.20 |
| 45 | | 0.05 | 0.03 | 0.01 | 0.00 | 0.10 | 0.09 | 0.03 | 0.02 | 3.00 | 3.00 |
| 50 | | 0.08 | 0.04 | 0.01 | 0.01 | 0.17 | 0.15 | 0.04 | 0.04 | 2.00 | 3.00 |
| 55 | | 0.13 | 0.07 | 0.02 | 0.01 | 0.29 | 0.25 | 0.07 | 0.06 | 3.20 | 4.20 |
| 60 | | 0.22 | 0.12 | 0.03 | 0.01 | 0.49 | 0.35 | 0.12 | 0.09 | 4.00 | 5.00 |

Rates of separation for members with less than 4 years of service are assumed to be 16% in the first year, 13% in the second and thid years for men, and 14% in the second and third years for women.

# 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 | | 2% | | | |
| 46 | | 2 | | | |
| 47 | | 2 | | | |
| 48 | | 2 | | | |
| 49 | | 2 | | | |
| 50 | | 2 | | | |
| 51 | | 3 | | | |
| 52 | | 6 | | | |
| 53 | | 8 | | | |
| 54 | | 8 | | | |
| 55 | 45% | 9 | 22.5% | 30 | 22.5% |
| 56 | 35 | 4 | 17.5 | 31 | 17.5 |
| 57 | 25 | 4 | 12.5 | 32 | 12.5 |
| 58 | 25 | 4 | 12.5 | 33 | 12.5 |
| 59 | 25 | 4 | 12.5 | 34 | 12.5 |
| 60 | 30 | 8 | 15.0% | 35 | 15.0 |
| 61 | 35 | 9 | 17.5 | 36 | 17.5 |
| 62 | 35 | 15 | 17.5 | 37 | 17.5 |
| 63 | 30 | 18 | 15.0 | 38 | 35.0 |
| 64 | 25 | 18 | 12.5 | 39 | 50.0 |
| 65 | 25 | | 12.5 | 40 & up | 100 |
| 66 | 25 | | 12.5 | | |
| 67 | 25 | | 25.0 | | |
| 68 | 25 | | 25.0 | | |
| 69 | 20 | | 20.0 | | |
| 70 | 20 | | 20.0 | | |
| 71 | 20 | | 20.0 | | |
| 72 | 20 | | 20.0 | | |
| 73 | 30 | | 30.0 | | |
| 74 | 30 | | 30.0 | | |
| 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 | $ 187.03 | $ 201.44 | 28.85 | 32.99 |
| 60 | 169.63 | 185.77 | 24.39 | 28.31 |
| 65 | 150.45 | 167.93 | 20.18 | 23.82 |
| 70 | 130.51 | 148.72 | 16.37 | 19.65 |
| 75 | 110.33 | 128.05 | 12.98 | 15.78 |
| 80 | 89.95 | 106.03 | 9.96 | 12.22 |

**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 | 111.14 | 11.60 | 13.27 |
| 75 | 86.55 | 94.59 | 9.55 | 10.66 |
| 80 | 70.31 | 76.55 | 7.37 | 8.16 |

# SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

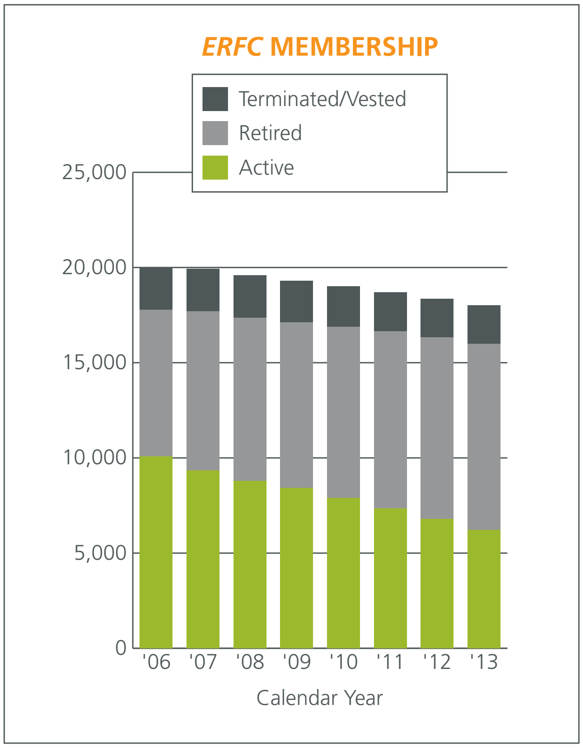
## TABLE E: Rates of Forfeiture Following Vested Separation

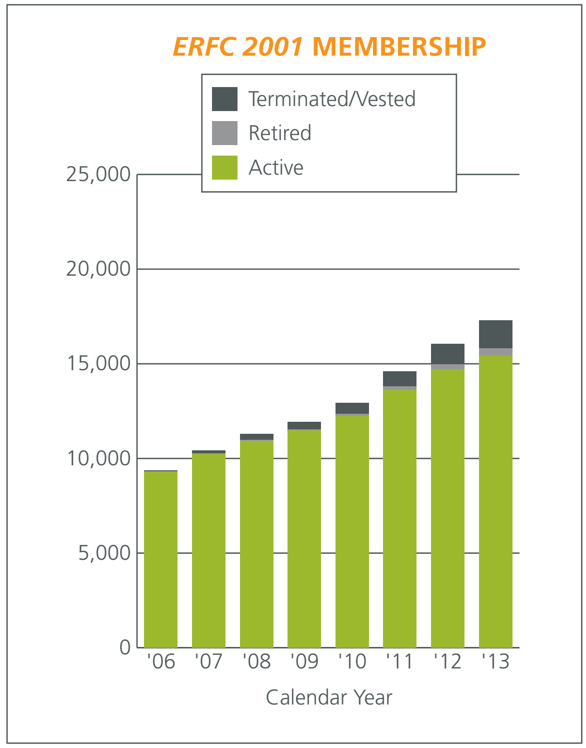
Forfeiture occurs when a vested person separates from service and withdraws contributions thereby forfeiting future rights to an employer financed benefit. The total probability of forfeiture is obtained by multiplying the probability of "other separation" from Table B by the probability of forfeiture 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 | 0.4750 | | | | |
| 32 | 0.4500 | | | | |
| 33 | 0.4250 | | | | |
| 34 | 0.4000 | | | | |
| 35 | 0.3750 | 0.5000 | | | |
| 36 | 0.3500 | 0.4667 | | | |
| 37 | 0.3250 | 0.4333 | | | |
| 38 | 0.3000 | 0.4000 | | | |
| 39 | 0.2750 | 0.3667 | | | |
| 40 | 0.2500 | 0.3333 | 0.5000 | | |
| 41 | 0.2250 | 0.3000 | 0.4500 | | |
| 42 | 0.2000 | 0.2667 | 0.4000 | | |
| 43 | 0.1750 | 0.2333 | 0.3500 | | |
| 44 | 0.1500 | 0.2000 | 0.3000 | | |
| 45 | 0.1250 | 0.1667 | 0.2500 | 0.5000 | |
| 46 | 0.1000 | 0.1333 | 0.2000 | 0.4000 | |
| 47 | 0.0750 | 0.1000 | 0.1500 | 0.3000 | |
| 48 | 0.0500 | 0.0667 | 0.1000 | 0.2000 | |
| 49 | 0.0250 | 0.0333 | 0.0500 | 0.1000 | |
| 50 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |

# SUMMARY OF MEMBER DATA

(Last Eight Years)




| | | ERFC | | | ERFC 2001 | | | |
|---|---|---|---|---|---|---|---|---|
| | Year | Active | Retired | Terminated/ Vested | Active | Retired | Terminated/ Vested | Total |
| Calendar Year | 2006 | 10,065 | 7,710 | 2,179 | 9,306 | 6 | 65 | 29,331 |
| (As of December 31) | 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 |
| | 2009 | 8,417 | 8,707 | 2,177 | 11,474 | 65 | 390 | 31,230 |
| | 2010 | 7,900 | 8,968 | 2,137 | 12,241 | 113 | 582 | 31,941 |
| | 2011 | 7,353 | 9,293 | 2,063 | 13,623 | 174 | 798 | 33,304 |
| | 2012 | 6,801 | 9,524 | 2,029 | 14,718 | 264 | 1,070 | 34,406 |
| | 2013 | 6,221 | 9,776 | 2,009 | 15,422 | 380 | 1,500 | 35,308 |

# SUMMARY OF MEMBER DATA

(As of December 31, 2013)

## ACTIVE ERFC 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 |
| 30-34 | | 1 | 6 | | | | | 7 | $382,955 | $54,708 |
| 35-39 | 3 | 29 | 297 | 78 | | | | 407 | 29,092,629 | 71,481 |
| 40-44 | 14 | 64 | 340 | 435 | 65 | | | 918 | 72,246,931 | 78,700 |
| 45-49 | 15 | 32 | 294 | 343 | 257 | 48 | 2 | 991 | 79,594,214 | 80,317 |
| 50-54 | 5 | 32 | 281 | 305 | 259 | 212 | 25 | 1,119 | 89,699,286 | 80,160 |
| 55-59 | 4 | 19 | 315 | 376 | 270 | 184 | 62 | 1,230 | 95,689,700 | 77,797 |
| 60 | | 2 | 63 | 84 | 48 | 24 | 10 | 231 | 17,449,662 | 75,540 |
| 61 | | 2 | 74 | 67 | 68 | 30 | 12 | 253 | 19,242,544 | 76,057 |
| 62 | 1 | 3 | 64 | 78 | 29 | 35 | 13 | 223 | 16,799,329 | 75,333 |
| 63 | | 2 | 44 | 66 | 50 | 13 | 14 | 189 | 14,480,599 | 76,617 |
| 64 | | | 41 | 68 | 34 | 28 | 11 | 182 | 14,152,268 | 77,760 |
| 65 | | 1 | 27 | 53 | 43 | 18 | 6 | 148 | 10,945,868 | 73,959 |
| 66 | 1 | 1 | 24 | 34 | 20 | 12 | 5 | 97 | 7,060,796 | 72,792 |
| 67 | | 2 | 14 | 22 | 16 | 13 | 2 | 69 | 4,896,329 | 70,961 |
| 68 | | | 7 | 10 | 15 | 4 | 1 | 37 | 3,179,724 | 85,938 |
| 69 | | | 9 | 11 | 10 | 4 | | 34 | 2,449,805 | 72,053 |
| 70 | | | 6 | 5 | 7 | 2 | 3 | 23 | 1,756,540 | 76,371 |
| 71 | | | 7 | 8 | 4 | 3 | 3 | 25 | 1,920,298 | 76,812 |
| 72 | | | | 1 | 2 | 3 | 3 | 9 | 652,722 | 72,525 |
| 73 | | | 2 | 3 | 3 | | 3 | 11 | 728,628 | 66,239 |
| 74 | | | 1 | 4 | 1 | 1 | | 7 | 386,135 | 55,162 |
| 75 & over | | | | 4 | 2 | 3 | 2 | 11 | 662,149 | 60,195 |
| **Total** | **43** | **190** | **1,916** | **2,055** | **1,203** | **637** | **177** | **6,221** | **$483,469,111** | **$77,716** |

# SUMMARY OF MEMBER DATA

(As of December 31, 2013)

## ACTIVE ERFC 2001 MEMBERS BY ATTAINED AGE AND YEARS OF SERVICE

| Age Group | YEARS OF SERVICE TO VALUATION DATE | | | | TOTALS | | |
|---|---|---|---|---|---|---|---|
| | 0-4 | 5-9 | 10-14 | 15 & up | No. | Salary | Average |
| 15-19 | 1 | | | | 1 | $18,632 | $18,632 |
| 20-24 | 699 | | | | 699 | 29,917,879 | 42,801 |
| 25-29 | 2,687 | 297 | 1 | | 2,985 | 145,780,737 | 48,838 |
| 30-34 | 1,385 | 1,430 | 178 | | 2,993 | 163,250,502 | 54,544 |
| 35-39 | 671 | 776 | 461 | | 1,908 | 112,981,103 | 59,214 |
| 40-44 | 724 | 579 | 311 | | 1,614 | 94,585,588 | 58,603 |
| 45-49 | 670 | 611 | 232 | | 1,513 | 84,021,974 | 55,533 |
| 50-54 | 581 | 683 | 307 | | 1,571 | 83,795,193 | 53,339 |
| 55-59 | 338 | 506 | 330 | | 1,174 | 66,619,037 | 56,745 |
| 60 | 43 | 84 | 80 | | 207 | 12,288,363 | 59,364 |
| 61 | 33 | 81 | 38 | | 152 | 8,612,970 | 56,664 |
| 62 | 24 | 71 | 41 | | 136 | 8,038,629 | 59,108 |
| 63 | 21 | 46 | 40 | | 107 | 6,343,806 | 59,288 |
| 64 | 20 | 60 | 33 | | 113 | 6,532,264 | 57,808 |
| 65 | 12 | 42 | 31 | | 85 | 4,987,999 | 58,682 |
| 66 | 12 | 24 | 16 | | 52 | 2,677,972 | 51,499 |
| 67 | 7 | 17 | 12 | | 36 | 2,214,118 | 61,503 |
| 68 | 3 | 9 | 3 | | 15 | 825,578 | 55,039 |
| 69 | 6 | 11 | 5 | | 22 | 1,117,590 | 50,800 |
| 70 | | 7 | 7 | | 14 | 955,378 | 68,241 |
| 71 | 3 | 6 | 2 | | 11 | 588,984 | 53,544 |
| 72 | | 7 | | | 7 | 332,849 | 47,550 |
| 73 | 1 | 2 | | | 3 | 134,744 | 44,915 |
| 75 & OVER | | 2 | 2 | | 4 | 217,508 | 54,377 |
| **Total** | **7,941** | **5,351** | **2,130** | **-** | **15,422** | **$836,839,397** | **$54,263** |

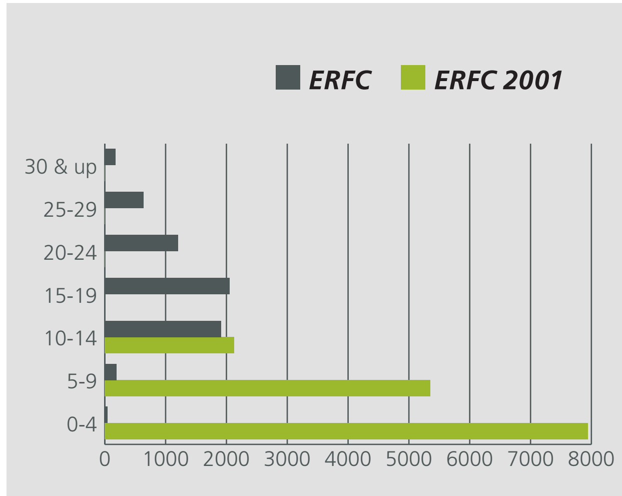
# SUMMARY OF MEMBER DATA

(As of December 31, 2013)

## ACTIVE MEMBER YEARS OF SERVICE

**Average Service = 8.9 years**

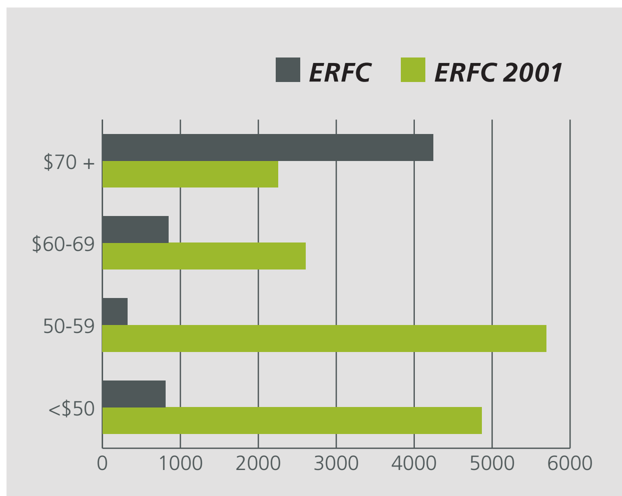
| | 0-4 | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30 & up |
|---|---|---|---|---|---|---|---|
| *ERFC* | 43 | 190 | 1,916 | 2,055 | 1,203 | 637 | 177 |
| *ERFC 2001* | 7,941 | 5,351 | 2,130 | – | – | – | – |




## ACTIVE MEMBER SALARIES ($ in thousands)

**Average Annual Pay = $61,004**

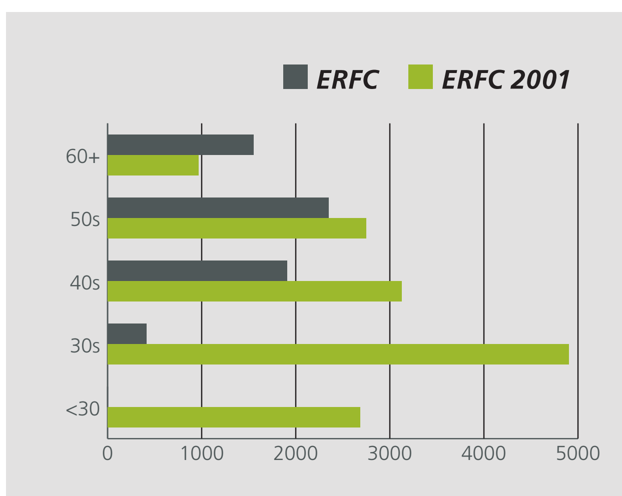
| | <$ 50 | $ 50-59 | $ 60-69 | $ 70+ |
|---|---|---|---|---|
| *ERFC* | 807 | 322 | 848 | 4,244 |
| *ERFC 2001* | 4,865 | 5,698 | 2,606 | 2,253 |




## ACTIVE MEMBER AGES

**Average Age = 43.4 years**
**Total Active Members = 21,643**

| | <30 | 30's | 40's | 50's | 60+ |
|---|---|---|---|---|---|
| *ERFC* | 0 | 414 | 1,909 | 2,349 | 1,549 |
| *ERFC 2001* | 3,685 | 4,901 | 3,127 | 2,745 | 964 |



# SUMMARY OF MEMBER DATA

(Last Eight Years)

## ACTIVE MEMBER VALUATION DATA

| Valuation Date | Annual Number | Annual Payroll | Annual Average Pay | % Increase in Avg. Annual Pay |
|---|---|---|---|---|
| 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 |
| December 31, 2009 | 19,891 | $ 1,208,092,606 | $ 60,735 | (1.1) |
| December 31, 2010 | 20,141 | $ 1,191,290,190 | $ 59,148 | (2.6) |
| December 31, 2011 | 20,976 | $ 1,246,973,240 | $ 59,448 | 0.5 |
| December 31, 2012 | 21,519 | $ 1,297,536,507 | $ 60,297 | 1.4 |
| December 31, 2013 | 21,643 | $ 1,320,308,508 | $ 61,004 | 1.2 |

## 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 December 31 | | | | | | | | |
| 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 |
| 2009 | 426 | $ 596,102 | 249 | $ 162,485 | 8,772 | $ 11,565,358 | $ 1,318 | 3.36 |
| 2010 | 563 | $ 774,606 | 254 | $ 170,078 | 9,081 | $ 11,916,352 | $ 1,312 | 3.03 |
| 2011 | 629 | $ 851,853 | 243 | $ 169,704 | 9,467 | $ 12,410,208 | $ 1,311 | 4.14 |
| 2012 | 636 | $ 821,485 | 315 | $ 194,842 | 9,788 | $ 12,867,671 | $ 1,315 | 3.69 |
| 2013 | 653 | $ 773,322 | 285 | $ 230,145 | 10,156 | $ 13,065,714 | $ 1,287 | 1.54 |

# 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-condition test** is one means of checking a system's progress under its funding program. In a short-condition 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) | | | | | | |
| 6/30/1994 | $ 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 | 1,733,946 | 100 | 100 | 27 |
| 12/31/2009 | 342,663 | 1,264,675 | 706,944 | 1,769,540 | 100 | 100 | 23 |
| # 12/31/2009 | 342,663 | 1,314,885 | 682,321 | 1,769,540 | 100 | 100 | 16 |
| @ 12/31/2010 | 374,086 | 1,355,093 | 654,882 | 1,822,603 | 100 | 100 | 14 |
| $ 12/31/2011 | 402,847 | 1,401,877 | 666,240 | 1,866,952 | 100 | 100 | 9 |
| 12/31/2012 | 426,609 | 1,448,291 | 691,228 | 1,935,292 | 100 | 100 | 9 |
| 12/31/2013 | 439,310 | 1,482,770 | 723,420 | 2,029,005 | 100 | 100 | 15 |

@ After change in asset valuation method. $ After change in benefits or contribution rates. # After changes in actuarial assumptions.

# 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 | | | | | | | | |
| 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) |
| 2009 | 45.0 | (34.6) | 8.8 | (0.8) | (10.0) | (11.6) | (3.2) | (0.1) |
| #2010 | 53.1 | (16.9) | 5.2 | 0.2 | (5.3) | (4.2) | 32.1 | 1.4 |
| 2011 | 18.8 | (30.6) | 5.3 | (0.2) | (4.2) | (4.8) | (15.7) | (0.7) |
| 2012 | 12.3 | (10.8) | 4.6 | (0.3) | (3.4) | (10.2) | (7.8) | (0.3) |
| 2013 | 16.6 | 7.6 | 5.7 | 0.0 | 2.9 | (5.1) | 27.7 | 1.1 |

# Experience Study
* Updated Gain Formulas
@ Gain Loss analysis not performed

# 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 amount payable at age 65 according to June 30, 1987 provisions or the amount payable at age 65 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 highest consecutive average annual salary (FAC) multiplied by years of credited service, and

(ii) means 1.65 percent of the portion of VRS FAC 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 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 FAC multiplied by years of credited service.

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

**Reduced Service Retirement: Amount After 25 Years Service.** Service Retirement amount 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 reduced to reflect that the retirement age 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 FAC 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. The minimum pension payable is 2.5 percent of FAC.

**Death-in-Service Benefits:** An active member with 5 or more years of service who dies will have benefits payable to the surviving spouse or other eligible beneficiary. The 5 year service requirement is waived if the death is service-connected.

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

**Member Contributions:** Members contribute 3 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 3 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** |
| 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 | | | |
| 2010 | 4.00 | 3.20 | 7.20 | | | |
| 2011 | 4.00 | 4.04 | 8.04 | | | |
| 2012 | 4.00 | 4.34 | 8.34 | | | |
| 2013 | 3.00 | 5.34 | 8.34 | | | |
| 2014 | 3.00 | 5.60 | 8.60 | | | |

# SUMMARY OF PLAN CHANGES

There were no significant plan changes during the valuation period ending December 31, 2013.

# STATISTICAL

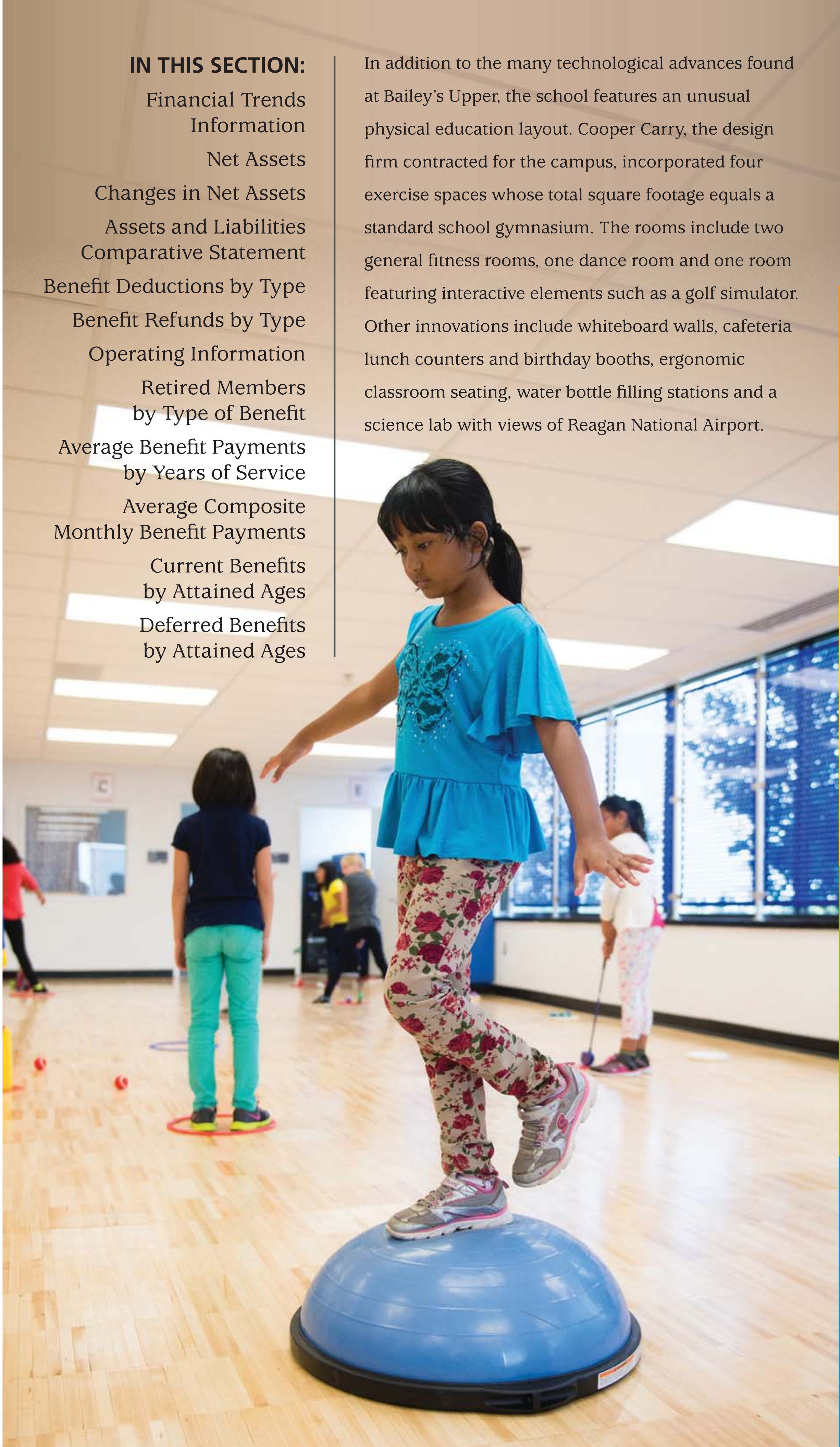
"Education breeds confidence. Confidence breeds hope. Hope breeds peace."

Confucius

**IN THIS SECTION:**



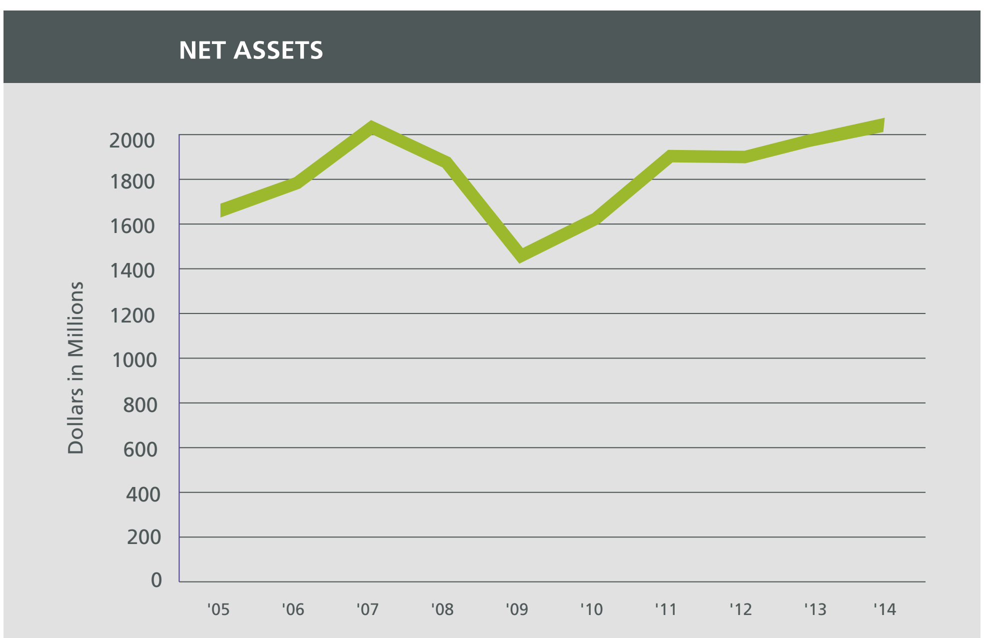
In addition to the many technological advances found at Bailey's Upper, the school features an unusual physical education layout. Cooper Carry, the design firm contracted for the campus, incorporated four exercise spaces whose total square footage equals a standard school gymnasium. The rooms include two general fitness rooms, one dance room and one room featuring interactive elements such as a golf simulator. Other innovations include whiteboard walls, cafeteria lunch counters and birthday booths, ergonomic classroom seating, water bottle filling stations and a science lab with views of Reagan National Airport.



# NET ASSETS

Last Ten Fiscal Years

| FISCAL YEARS | NET ASSETS |
|---|---|
| 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 |
| 2010 | $ 1,607,663,423 |
| 2011 | $ 1,886,968,119 |
| 2012 | $ 1,827,768,322 |
| 2013 | $ 1,956,772,826 |
| 2014 | $ 2,204,927,191 |

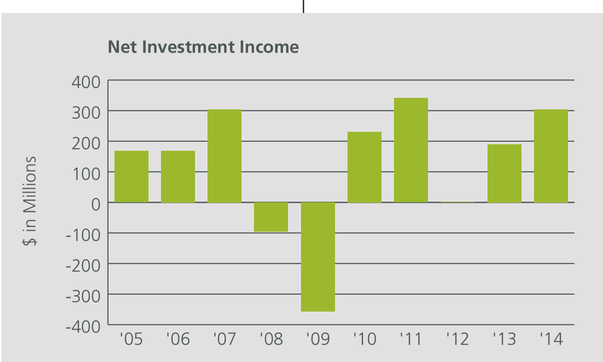


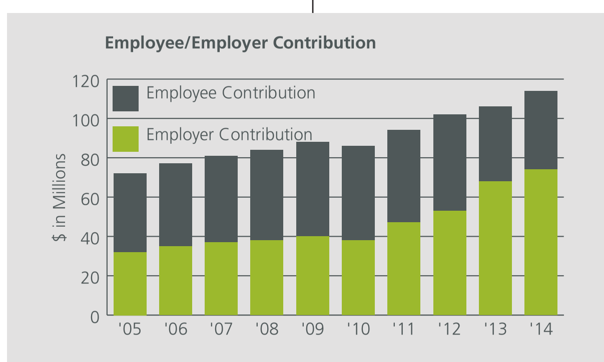
# CHANGES IN NET ASSETS

Last Ten Fiscal Years

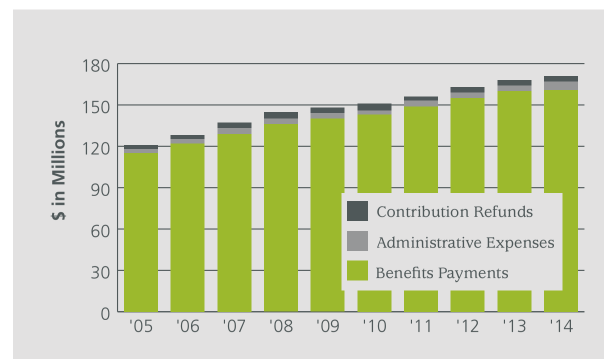
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| **ADDITIONS** | | | | | | | | | | |
| Employee contributions | $ 39,818,585 | $ 42,292,828 | $ 44,453,617 | $ 46,143,803 | $ 47,996,408 | $ 47,918,341 | $ 47,167,129 | $ 49,142,379 | $ 38,428,367 | $ 40,018,590 |
| Employer contributions | 32,198,596 | 34,648,918 | 36,644,001 | 38,334,140 | 40,012,480 | 37,868,623 | 47,118,111 | 52,934,245 | 67,734,634 | 74,174,082 |
| Investment income (net of expenses) | 168,479,920 | 169,944,356 | 304,119,327 | (96,855,060) | (357,672,266) | 231,574,404 | 341,669,367 | 1,635,435 | 190,947,851 | 304,640,803 |
| Gain\loss from sale of capital assets | — | — | 27,632 | — | (5,494) | — | (1,503) | — | — | — |
| **Total additions to plan net assets** | **240,497,101** | **246,886,102** | **385,244,577** | **(12,377,117)** | **(269,668,872)** | **317,361,368** | **435,953,104** | **103,712,059** | **297,110,852** | **418,833,475** |
| **DEDUCTIONS** | | | | | | | | | | |
| Benefit payments | 114,999,379 | 121,687,318 | 128,739,638 | 135,927,308 | 139,594,144 | 143,128,569 | 149,046,042 | 155,041,762 | 160,098,128 | 161,276,831 |
| Contribution refunds | 2,794,118 | 3,087,501 | 3,583,007 | 4,229,850 | 3,975,907 | 3,339,910 | 4,258,033 | 4,295,171 | 4,419,806 | 5,772,959 |
| Administrative expenses | 3,110,563 | 3,289,518 | 3,718,761 | 4,631,844 | 3,898,620 | 4,663,896 | 3,344,333 | 3,574,923 | 3,588,414 | 3,629,320 |
| **Total deductions to plan net assets** | **120,904,060** | **128,064,337** | **136,041,406** | **144,789,002** | **147,468,671** | **151,132,375** | **156,648,408** | **162,911,856** | **168,106,348** | **170,679,110** |
| **Change in net assets net of expenses** | **$ 119,593,041** | **$ 118,821,765** | **$ 249,203,171** | **$ (157,166,119)** | **$ (417,137,543)** | **$ 166,228,993** | **$ 279,304,696** | **$ (59,199,797)** | **$ 129,004,504** | **$ 248,154,365** |

## ADDITIONS BY SOURCE




## DEDUCTIONS BY TYPE



# 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 |
| 6/30/1994 | $ 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 | 1,733,946 | 521,352 | 76.9 |
| 12/31/2009 | 1,208,093 | 1,264,675 | 1,049,607 | 2,314,282 | 1,769,540 | 544,742 | 76.5 |
| # 12/31/2009 | 1,208,093 | 1,314,885 | 1,024,984 | 2,339,869 | 1,769,540 | 570,329 | 75.6 |
| 12/31/2010 | 1,191,290 | 1,355,093 | 1,028,968 | 2,384,061 | 1,822,603 | 561,458 | 76.5 |
| $ 12/31/2011 | 1,246,973 | 1,401,887 | 1,069,087 | 2,470,964 | 1,866,952 | 604,012 | 75.6 |
| 12/31/2012 | 1,297,537 | 1,448,291 | 1,117,837 | 2,566,128 | 1,935,292 | 630,836 | 75.4 |
| 12/31/2013 | 1,320,309 | 1,482,770 | 1,162,730 | 2,645,500 | 2,029,005 | 616,495 | 76.7 |

@ After change in asset valuation method.
$ After change in benefits.
# After changes in actuarial assumptions.

# BENEFIT DEDUCTIONS FROM NET ASSETS BY TYPE

Last Ten Years

| | SERVICE BENEFITS | | | | DEATH BENEFITS | | DISABILITY BENEFITS | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Normal | | Early | | Duty/Non-Duty | | Duty | | Non-Duty | | Total | |
| | Number | Amount | Number | Amount | Number | Amount | Number | Amount | Number | Amount | Participants | Benefits |
| **Calendar Years** | | | | | | | | | | | | |
| 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 | 124 | 1,059,054 | 25 | 319,262 | 210 | 1,043,164 | 8,595 | 134,346,260 |
| 2009 | 4,615 | 96,983,027 | 3,791 | 38,266,346 | 134 | 1,105,438 | 24 | 294,234 | 208 | 1,043,259 | 8,772 | 137,692,304 |
| **Fiscal Years** | | | | | | | | | | | | |
| 2010 | 4,600 | 100,020,271 | 3,783 | 40,614,214 | 145 | 1,167,515 | 23 | 308,454 | 194 | 1,018,115 | 8,745 | 143,128,569 |
| 2011 | 4,717 | 104,792,727 | 3,990 | 41,654,507 | 160 | 1,276,445 | 22 | 300,684 | 189 | 1,021,679 | 9,078 | 146,046,042 |
| 2012 | 4,999 | 106,487,568 | 4,050 | 45,946,862 | 171 | 1,341,323 | 21 | 276,421 | 177 | 989,588 | 9,418 | 155,041,762 |
| 2013 | 5,124 | 110,634,206 | 4,232 | 46,926,222 | 169 | 1,308,058 | 21 | 265,153 | 173 | 964,489 | 9,719 | 160,098,128 |
| 2014 | 5,354 | 111,429,145 | 4,422 | 47,263,400 | 176 | 1,357,852 | 20 | 272,888 | 170 | 953,108 | 10,142 | 161,276,831 |

# BENEFIT REFUNDS BY TYPE

Last Ten Years

| Fiscal Year | SEPARATION | | DEATHS | | TOTAL | |
|---|---|---|---|---|---|---|
| | No. | Amount | No. | Amount | No. | Amount |
| 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 |
| 2010 | 648 | $ 3,201,604 | 15 | $ 138,306 | 663 | $ 3,339,910 |
| 2011 | 725 | $ 4,046,929 | 26 | $ 211,104 | 751 | $ 4,258,033 |
| 2012 | 659 | $ 3,934,877 | 26 | $ 360,294 | 685 | $ 4,295,171 |
| 2013 | 634 | $ 4,081,157 | 19 | $ 338,649 | 653 | $ 4,419,806 |
| 2014 | 727 | $ 5,164,862 | 40 | $ 608,097 | 767 | $ 5,772,959 |

# RETIRED MEMBERS BY TYPE OF BENEFIT

(As of December 31, 2013)

| 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 | 1,744 | 389 | 1,286 | 30 | 33 | 6 | 1,314 | 86 | 5 | 46 | 29 | 264 |
| 251–500 | 1,657 | 624 | 901 | 16 | 110 | 6 | 1,243 | 103 | 11 | 50 | 28 | 222 |
| 501–750 | 857 | 378 | 448 | 9 | 20 | 2 | 619 | 35 | 8 | 26 | 19 | 150 |
| 751–1,000 | 856 | 521 | 315 | 8 | 12 | 0 | 584 | 24 | 25 | 40 | 8 | 175 |
| 1,001–1,250 | 927 | 650 | 266 | 3 | 8 | 0 | 710 | 26 | 11 | 33 | 8 | 139 |
| 1,251–1,500 | 678 | 515 | 159 | 1 | 3 | 0 | 498 | 17 | 9 | 36 | 4 | 114 |
| 1,501–1,750 | 635 | 518 | 115 | 1 | 1 | 0 | 440 | 26 | 8 | 34 | 8 | 119 |
| 1,751–2,000 | 570 | 486 | 81 | 2 | 0 | 1 | 385 | 13 | 12 | 33 | 2 | 125 |
| Over 2,000 | 2,232 | 1,736 | 487 | 3 | 0 | 6 | 1,184 | 111 | 11 | 153 | 25 | 748 |
| **Total** | **10,156** | **5,817** | **4,058** | **73** | **187** | **21** | **6,977** | **441** | **100** | **451** | **131** | **2,056** |

*** 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.*

# 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 1/1/09 to 12/31/09 | | | | | | |
| Avg Monthly Benefit | $ 237.69 | $ 390.72 | $ 791.10 | $ 1,067.98 | $ 2,451.95 | $ 2,782.62 |
| Avg Final Average Salary | $ 4,839.74 | $ 4,776.32 | $ 5,974.65 | $ 6,496.54 | $ 7,376.69 | $ 7,595.88 |
| No. of Retired Members | 58 | 63 | 58 | 59 | 115 | 56 |
| Period 1/1/10 to 12/31/10 | | | | | | |
| Avg Monthly Benefit | $ 295.81 | $ 296.64 | $ 669.73 | $ 1,031.12 | $ 2,439.18 | $ 2,625.63 |
| Avg Final Average Salary | $ 4964.70 | $ 4,995.25 | $ 5,724.04 | $ 6,377.40 | $ 7,307.50 | $ 7,871.13 |
| No. of Retired Members | 82 | 90 | 77 | 80 | 146 | 80 |
| Period 1/1/11 to 12/31/11 | | | | | | |
| Avg Monthly Benefit | $ 264.65 | $ 349.22 | $ 759.30 | $ 920.42 | $ 2,266.05 | $ 2,872.97 |
| Avg Final Average Salary | $ 4,842.94 | $ 4,912.25 | $ 5,806.50 | $ 6,084.78 | $ 7,278.50 | $ 8,073.08 |
| No. of Retired Members | 75 | 103 | 112 | 81 | 168 | 83 |
| Period 1/1/12 to 12/31/12 | | | | | | |
| Avg Monthly Benefit | $ 272.98 | $ 434.75 | $ 678.98 | $ 1,088.46 | $ 2,239.49 | $ 2,667.58 |
| Avg Final Average Salary | $ 4,962.62 | $ 5,182.69 | $ 5,965.10 | $ 6,278.19 | $ 7,040.31 | $ 8,026.53 |
| No. of Retired Members | 87 | 121 | 99 | 83 | 159 | 79 |
| Period 1/1/13 to 12/31/13 | | | | | | |
| Avg Monthly Benefit | $ 280.13 | $ 427.87 | $ 650.93 | $ 935.23 | $ 2,134.83 | $ 2,701.66 |
| Avg Final Average Salary | $ 5,190.10 | $ 5,292.03 | $ 6,089.14 | $ 6,206.50 | $ 6,784.33 | $ 7,862.51 |
| No. of Retired Members | 100 | 115 | 125 | 96 | 136 | 81 |

# AVERAGE COMPOSITE MONTHLY BENEFIT PAYMENTS FOR RETIREES

Last Ten Years

## BY TYPE OF BENEFIT BEING PAID

| | Year | Service Retirement | Reduced Service | Ordinary Disability |
|---|---|---|---|---|
| Calendar Year | 2004 | $ 1,663 | $ 784 | $ 446 |
| | 2005 | $ 1,707 | $ 800 | $ 459 |
| | 2006 | $ 1,745 | $ 809 | $ 466 |
| | 2007 | $ 1,765 | $ 822 | $ 475 |
| | 2008 | $ 1,760 | $ 829 | $ 469 |
| | 2009 | $ 1,751 | $ 841 | $ 480 |
| | 2010 | $ 1,727 | $ 849 | $ 495 |
| | 2011 | $ 1,717 | $ 853 | $ 492 |
| | 2012 | $ 1,688 | $ 839 | $ 570 |
| | 2013 | $ 1,626 | $ 815 | $ 575 |

# RETIREES AND BENEFICIARIES CURRENT ANNUAL BENEFITS TABULATED BY ATTAINED AGES

(As of December 31, 2013)

| | TOTAL | |
|---|---|---|
| **Attained Ages** | **No.** | **Annual Amount** |
| Under 40 | 4 | $ 11,135 |
| 40-44 | 5 | 26,433 |
| 45 | 1 | 5,027 |
| 46 | 2 | 18,097 |
| 47 | 1 | 835 |
| 48 | 3 | 28,181 |
| 49 | 2 | 30,979 |
| 50 | 9 | 48,626 |
| 51 | 8 | 129,618 |
| 52 | 7 | 102,918 |
| 53 | 9 | 239,599 |
| 54 | 16 | 486,984 |
| 55 | 70 | 1,589,731 |
| 56 | 115 | 2,902,946 |
| 57 | 157 | 3,646,133 |
| 58 | 195 | 4,273,907 |
| 59 | 232 | 5,595,034 |
| 60 | 277 | 6,194,637 |
| 61 | 356 | 7,766,004 |
| 62 | 418 | 8,900,323 |
| 63 | 482 | 10,163,947 |
| 64 | 527 | 12,379,045 |
| 65 | 660 | 14,079,062 |
| 66 | 696 | 7,977,154 |
| 67 | 604 | 6,196,907 |
| 68 | 468 | 4,730,406 |
| 69 | 468 | 5,192,836 |
| 70-74 | 1,845 | 20,286,196 |
| 75-79 | 1,282 | 16,655,101 |
| 80 & Up | 1,237 | 14,647,134 |
| **Grand Total** | **10,156** | **$154,304,935** |

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

# INACTIVE VESTED MEMBERS DEFERRED BENEFITS BY ATTAINED AGES

(As of December 31, 2013)

| | TOTAL | |
|---|---|---|
| **Attained Ages** | **No.** | **Annual Amount** |
| 27 | 10 | $ 34,110 |
| 28 | 14 | 46,563 |
| 29 | 35 | 119,860 |
| 30 | 60 | 221,016 |
| 31 | 82 | 313,012 |
| 32 | 127 | 481,458 |
| 33 | 134 | 525,086 |
| 34 | 137 | 509,677 |
| 35 | 140 | 496,372 |
| 36 | 132 | 387,739 |
| 37 | 140 | 414,259 |
| 38 | 127 | 335,369 |
| 39 | 148 | 334,384 |
| 40 | 136 | 327,320 |
| 41 | 133 | 338,006 |
| 42 | 151 | 409,430 |
| 43 | 145 | 353,003 |
| 44 | 130 | 333,051 |
| 45 | 120 | 352,320 |
| 46 | 126 | 383,842 |
| 47 | 101 | 251,056 |
| 48 | 104 | 270,289 |
| 49 | 94 | 233,786 |
| 50 | 94 | 283,734 |
| 51 | 95 | 291,718 |
| 52 | 83 | 264,698 |
| 53 | 90 | 268,060 |
| 54 | 93 | 425,904 |
| 55 | 62 | 227,181 |
| 56 | 67 | 241,786 |
| 57 | 67 | 258,641 |
| 58 | 61 | 205,836 |
| 59 | 61 | 277,016 |
| 60 | 42 | 146,120 |
| 61 | 40 | 145,900 |
| 62 | 32 | 128,734 |
| 63 | 29 | 143,527 |
| 64 | 22 | 102,710 |
| 65 & Over | 35 | 74,768 |
| **Grand Total** | **3,499** | **$ 10,967,341** |

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

STATISTICAL

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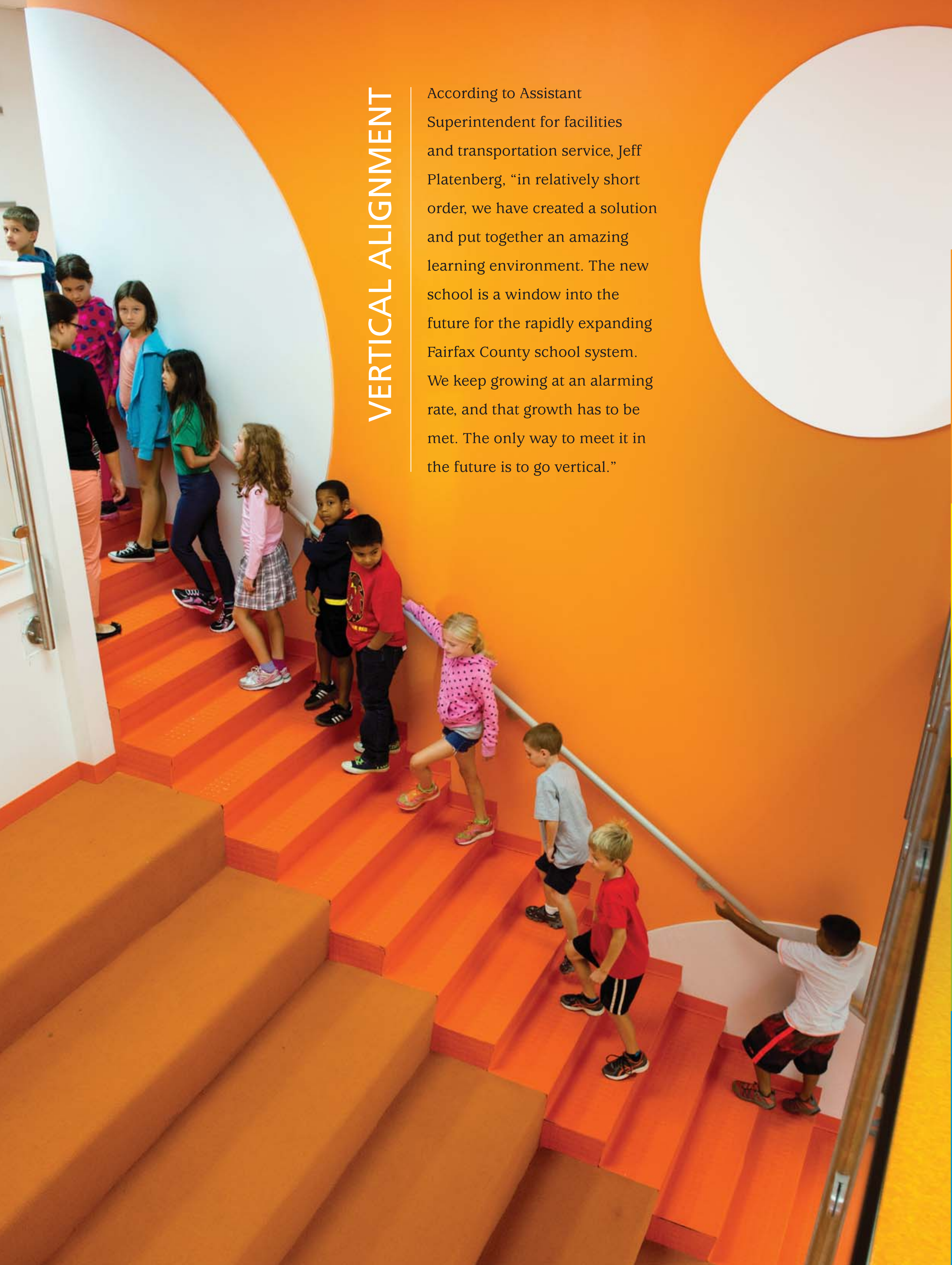

# VERTICAL ALIGNMENT

According to Assistant Superintendent for facilities and transportation service, Jeff Platenberg, “in relatively short order, we have created a solution and put together an amazing learning environment. The new school is a window into the future for the rapidly expanding Fairfax County school system. We keep growing at an alarming rate, and that growth has to be met. The only way to meet it in the future is to go vertical.”

ERFC would like to thank the staff and administrators of Bailey's Upper Elementary School for allowing us the opportunity to feature your Vertical Alignment in our Comprehensive Annual Financial Report. The children are who we all have in common and ERFC is here for those who serve to better their futures.

Educational Employees' Supplementary Retirement System of Fairfax County
8001 Forbes Place | Suite 300 | Springfield, VA 22151-2205

FCPS FAIRFAX COUNTY PUBLIC SCHOOLS