Comprehensive Annual Financial Report

Employees'

RETIREMENT SYSTEM

2009

A Pension Trust Fund of Fairfax County, Virginia

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November 16, 2009

Dear Members of the Board of Trustees:

I am pleased to submit to you the annual report of the Fairfax County Employees' Retirement System (System) for the fiscal year ended June 30, 2009. This annual report is provided as an aid to understanding the structure and evaluating the status of the System. The System's management is responsible for the accuracy of financial information contained herein.

The annual report for fiscal 2009 consists of five sections: (1) an Introductory Section that contains this transmittal letter along with the organization structure and review of plan provisions; (2) a Financial Section that contains the opinion of the independent auditors, management's discussion and analysis, the financial statements of the System and required supplementary information; (3) an Investment Section that contains investment results; (4) an Actuarial Section that includes the independent actuary's certification letter, a summary of the results of the actuarial valuation, and actuarial procedures and assumptions; and (5) a Statistical Section that contains information regarding the System membership.

History

The Fairfax County Supplemental Retirement System was established on July 1, 1955. On February 26, 2001 the name of the System was changed to the Fairfax County Employees' Retirement System. The System is a cost-sharing multiple-employer public employee retirement system providing defined benefit pension plan coverage to full-time and certain part-time Fairfax County and Fairfax County Public Schools employees who are not covered by the Fairfax County Police Officers Retirement System, the Fairfax County Uniformed Retirement System, the Educational Employees' Supplementary Retirement System of Fairfax County (ERFC) or the Virginia Retirement System (VRS). There were 15,034 active members and 5,931 retirees participating in the System as of June 30, 2009.

Benefit Provisions

The benefit provisions of the System are established by County Ordinance. The System provides normal service retirement and early service retirement benefits for members who attain age or service requirements. Coverage for service-connected disability benefits is immediate upon membership in the System. Ordinary (non-service- related) disability benefits are provided after the attainment of five years of service. Members are vested after five years of service and are eligible for benefits at the early or normal service retirement date.

Retirement Administration Agency
10680 Main Street * Suite 280 * Fairfax, VA 22030
Phone: 703-279-8200 * 1-800-333-1633 * Fax: 703-273-3185
http://www.fairfaxcounty.gov/retirement/

Capital Markets and Economic Conditions

Fiscal-year 2009 was a difficult year for capital markets and global economies. Prior years of "loose" credit, overleveraging by institutions and soaring commodities prices precipitated a financial crisis that played out during much of fiscal 2009. What began as a sub-prime mortgage fueled housing bubble spread to all sectors of the global economy as bank balance sheets were crushed by the low quality and illiquidity of their housing-related securities portfolios. Only massive intervention by the Federal Reserve, Treasury Department and Congress provided liquidity and eventual stability to the financial markets. A sharp housing slump, rising foreclosures, declining commodity demand and rising unemployment resulted in a 3.9% decline in GDP growth during the fiscal year.

Equity markets felt the brunt of the pain, as the S&P 500 Index fell 26.2% in fiscal 2009 even after a strong spring rally. International equity markets underperformed domestic markets. The MSCI EAFE Index of developed countries fell 31.0%, while the MSCI Emerging Markets Index fared somewhat better, declining 27.8%. Public real estate markets were particularly volatile due to their leveraged balance sheets. The FTSE NAREIT Index dropped 43.3% for the year. Among S&P economic sectors, energy, materials and financials were hit the hardest, declining 41.4%, 38.9% and 38.6%, respectively. Fixed income markets performed comparatively well overall, as investors fled from equities to safer securities. The Barclays Capital Aggregate Bond Index returned 6.1% for the year.

The diversified fund of the Employees' Retirement System returned a loss of 23.3% for fiscal 2009, before management fees. This return placed the fund in the 4th quartile of the Trust Universe Comparison Service (TUCS) public fund universe in 2009. The returns for the total fund trailed the policy benchmark for the year. The fund's relative performance over the last 10 years was in the 2nd quartile of the public fund universe. The System's investment return for the last 25 years, even including 2009, was 9.0%, and well ahead of the 7.5% actuarial hurdle rate of return necessary to pay future benefits.

After accounting for all cash flows, including contributions, expenses and benefit payments, the market value of the System's assets decreased 26.2%, from $2,763.9 million on June 30, 2008 to $2,039.1 million on June 30, 2009.

Major Initiatives

One significant change was made to the plan's benefit provisions. The Board of Supervisors approved a plan amendment that allows surviving spouses of retirees to continue to receive benefits after remarriage.

With respect to the investment program, the strategic asset allocation was adjusted as a result of the situation last year (where the risk of a major deflationary depression scenario was real) and to continue the direction of reducing overall equity volatility in the portfolio. The result of this shift was to defensively position the total fund. Equity exposure was reduced to

25%. While this will protect moving forward, the fund rebounded less than the others when the markets turned positive later in the year.

In concert with the reduction in equity exposure, the Bridgewater portfolios were restructured by consolidating all Pure Alpha exposure in the All Weather account, leveraging the exposure to U.S. Treasury Inflation Protected Securities (TIPS) and adding non-U.S. inflation protection bonds.

The liquidity issues in the financial system had a major impact on two funds and staff oversaw the restructuring of our investments in the Deephaven multi-strategy fund and the JP Morgan Fixed Income Opportunities Fund.

On the opportunistic front, we sourced and funded a number of fixed income strategies including the PIMCO Distressed Senior Credit Opportunity Fund, the TCW Special Mortgage Credit Fund II, the BGI Tactical Credit Fund and the Gramercy Distressed Opportunity Fund. We also funded the BGI Capital Structure Investment Fund as an adjunct investment to the BGI Global Fixed Income Alpha Fund.

We continued to focus on member services and implemented an on-line capability within our PensionGold administrative system that enables members to access their own records and calculate benefit estimates under various scenarios. We also established an ongoing telephone hotline and e-mail mailbox, first used to enhance communications with the release of the annual benefits statements.

Internal and Budgetary Controls

The System's management is responsible for maintaining internal accounting controls to provide reasonable assurance that transactions are properly authorized and recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles.

Funded Status

An actuarial valuation of the System to determine funding requirements is performed annually. The System's funding policy provides for periodic employer contributions at actuarially determined rates which will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the costs of benefit payments when due. The valuation of the System performed as of July 1, 2008 indicated that the ratio of assets accumulated by the System to total actuarial accrued liabilities for benefits showed a decline from 82.72% to 82.70%. The actuarial section contains further information on the results of the July 1, 2008 valuation.

Based on the July 1, 2008 actuarial valuation, the employer contribution rate for 2010 will be 9.71%, an increase of 0.09% over the 2009 rate of 9.62%. This increase in the rate is required to amortize the increase in unfunded liability from FY 2008 actuarial experience.

Investment Policies and Strategies

The Board of Trustees has an adopted Statement of Investment Objectives and Policy. This Statement establishes the investment goals, guidelines, constraints and performance standards that the Board of Trustees uses when exercising its fiduciary duties to manage the investment assets of the System. The Board operates in conformity with the standard of care required in making investments as stated in the Code of Virginia §51.1-803.

The Board receives quarterly reporting from staff to ensure compliance with its stated objectives and policy. Staff also monitors the performance of the System and its investment managers and updates the Board on a monthly basis throughout the year. Rate of return information is included in the Investment Section.

Securities of the System, except for the pooled funds and the County's pooled cash and temporary investments, are held in safekeeping, on the system's behalf, by BNY Mellon Asset Servicing as agent. The BNY Mellon Financial Corporation, the parent company, carries Financial Institution bond insurance coverage including a Computer Crime Policy. An additional Excess Securities policy covers all risk of physical loss to securities.

Other Information

Independent Audit and Actuarial Certifications

The independent auditors' report and certification from the actuary are included in this report.

Acknowledgements

The annual report of the Employees' Retirement System was prepared by the System's staff under the leadership of the Board of Trustees. I would like to thank the entire organization who has worked hard throughout the year to provide service to our members and to ensure the successful operation of the System. This report is intended to provide complete and reliable information for determining the financial status of the System. It is being submitted to the Board of Supervisors and other interested parties and is available to the public via the County's website located at www.fairfaxcounty.gov/retirement/.

Respectfully submitted,

Robert L. Mears
Executive Director

Administrative Organization

Administrative Staff

Robert L. Mears
Executive Director

Andrew J. Spellar
Senior Investment Manager

Laurnz A. Swartz
Chief Investment Officer

John P. Sahm
Retirement Administrator

Professional Services

Actuary
CHEIRON
Actuaries
McLean, VA

Auditor
KPMG LLP
Certified Public Accountants
Washington, DC

Investment Managers

Artio Global Investors
New York, NY

The Clifton Group
Edina, MN

FrontPoint Partners
Greenwich, CT

Barclays Global Investors
San Francisco, CA

Cohen & Steers Capital Management Inc.
New York, NY

Gramercy Advisors LLC
Greenwich, CT

BNY Mellon Cash Investment Strategies
Pittsburgh, PA

Deerfield Capital Management, LLC
Rosemont, IL

INTECH Investment Management, LLC
Palm Beach Gardens, FL

Brandywine Global Investment Management LLC
Philadelphia, PA

DePrince, Race & Zollo
Winter Park, FL

JP Morgan Investment Management Inc.
New York, NY

Bridgewater Associates
Westport, CT

First Quadrant Partners
Pasadena, CA

LSV Asset Management
Chicago, IL

Investment Managers (continued)

MacKay Shields LLC
New York, NY

Marathon Asset Management LLP
London, UK

PIMCO
Newport Beach, CA

Post Advisory Group LLC
Los Angeles, CA

Pzena Investment Management LLC
New York, NY

Sands Capital Management
Arlington, VA

Shenkman Capital Management
New York, NY

Stark Investments
St. Francis, WI

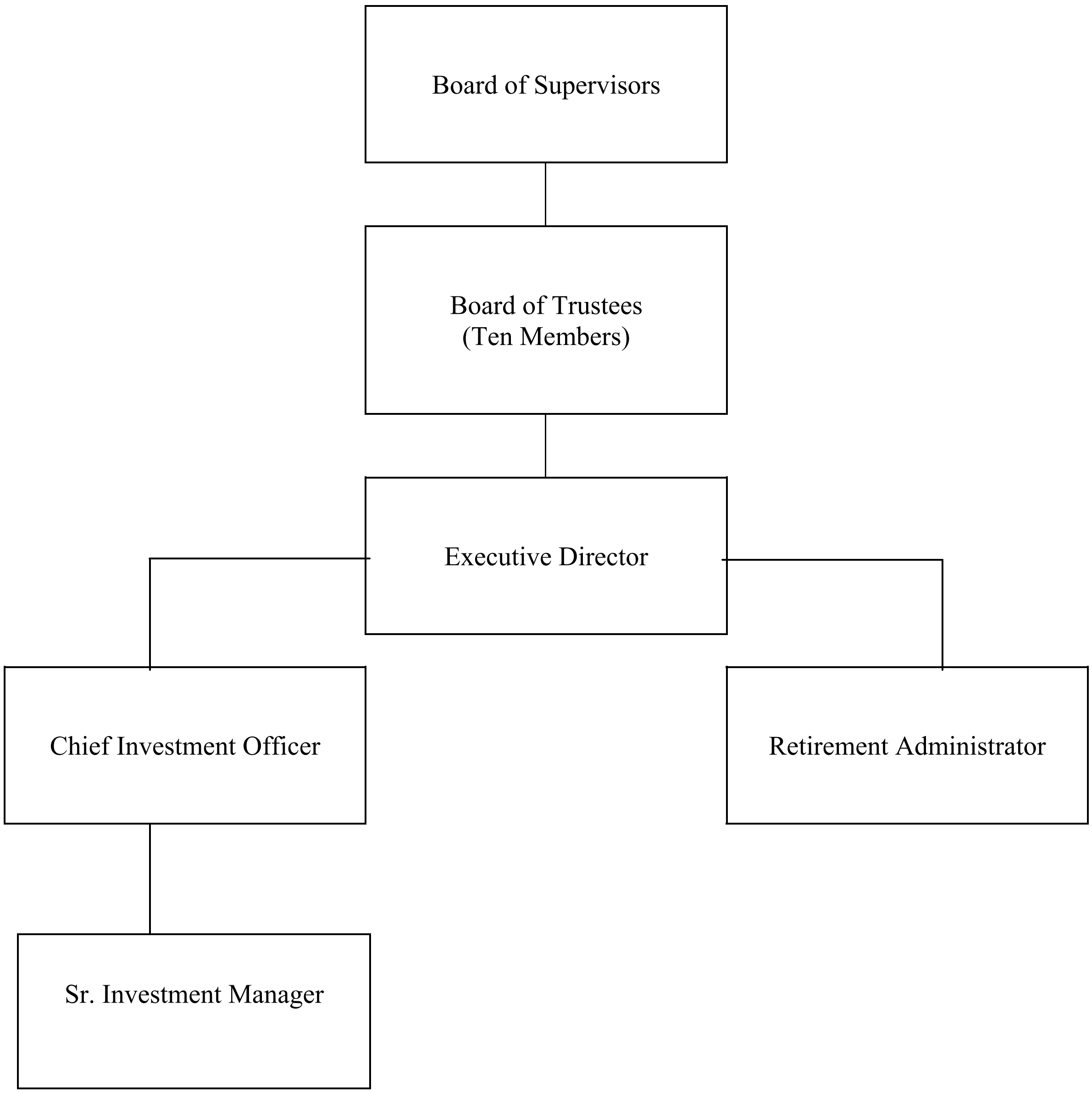
Trust Company of the West
Los Angeles, CA

Wanger Asset Management, L.P.
Chicago, IL

Custodian Bank

BNY Mellon Asset Servicing
Pittsburgh, PA

Organization Chart



Summary of Plan Provisions

Membership in the Fairfax County Employees' Retirement System includes most County employees working at least 20 hours per week as well as part-time and support staff employees from the Fairfax County Public Schools. The System consists of two Plans, Plan A and Plan B, which have different employee contribution rates and slightly different benefits. In all other respects, the Plans are identical. The employee has the option to enroll in either Plan within 30 days of employment. This choice is irrevocable. Employees who make no election default to Retirement Plan A.

The general provisions of the Employees' Retirement System follow:

Plan A

Contribution Rate:
The contribution rate for Plan A is 4% of base salary up to the maximum Social Security wage base plus 5.333% of base salary over the wage base.

Benefit:
The benefit for Plan A is 1.8% of average final compensation (highest consecutive three years) up to the Social Security Breakpoint times creditable service plus 2% of average final compensation which exceeds the Social Security Breakpoint times creditable service. The total benefit is then increased by 3%. The Social Security Breakpoint is an average of Social Security wage bases for the last 35 years before a member reaches age 65.

In addition, at the time of normal service retirement, a Pre-Social Security Benefit is payable at the rate of 1% of average final compensation up to the Social Security Breakpoint times creditable service. This benefit will be payable until the member reaches the age of eligibility for unreduced Social Security benefits. The total benefit is then increased by 3%.

Plan B

Contribution Rate:
The contribution rate for Plan B is 5.333% of base salary.

Benefit:
The benefit for Plan B is 2% of average final compensation (highest consecutive three years) times creditable service. The total benefit is then increased by 3%.

In addition, at the time of normal service retirement, a Pre-Social Security Benefit is payable at the rate of 1% of average final compensation up to the Social Security Breakpoint times creditable service. This benefit will be payable until the member reaches the age of eligibility for unreduced Social Security benefits. The total benefit is then increased by 3%.

Both Plans

Normal Retirement:
Normal retirement occurs at either age 65 with at least 5 years of service or at least age 50 when the member's age plus creditable service (including sick leave) totals 80 or more.

Summary of Plan Provisions
(continued)

Benefit Limits:
Benefits are limited to the maximum amounts for qualified plans as set forth in Section 415 of the Internal Revenue Code. A separate, nonqualified benefit restoration plan has been established for the payment of any benefit formula amounts in excess of the Section 415 limit.

Deferred Retirement Option (DROP):
Those eligible for normal retirement may participate in DROP for up to three years. While in DROP, the member continues to work and receive a salary. In lieu of continuing to earn service credit, DROP participants accumulate a lump sum, including interest, payable at retirement.

Early Retirement:
Early retirement is at age 50 or older when the member's age plus creditable service totals 75 or more. Reduction factors are applied to the basic formula for early retirement and no Pre-Social Security Benefit is payable.

Deferred Vested Retirement:
Deferred vested retirement is available for vested members (vesting is at 5 years of creditable service) who leave their contributions in the System when they terminate. These members are entitled to their normal retirement benefit, at age 65, based on service with the County or a reduced benefit earlier when they reach age 50 and age plus years of creditable service equal 75. This benefit is then increased by 3%.

Service-Connected Disability Retirement:
Service-connected disability retirement is available for members, regardless of their length of service, who become disabled as a result of a job-related illness or injury. Benefits are 66⅔% of average final compensation.

Ordinary Disability Retirement:
Ordinary disability retirement is available for vested members who become disabled due to an injury or illness that is not job-related. Benefits are 2% of average final compensation (highest consecutive three years) times creditable service. The total benefit is then increased by 3%.

Death Benefits:
If death occurs prior to retirement: If the member is vested and the spouse is the listed beneficiary, the spouse may elect to receive 50% of the normal retirement benefit earned as of the date of the member's death. If the 50% of normal retirement benefit is not payable, a refund of the member's contribution plus interest will be paid to the named beneficiary or member's estate.

If death occurs after retirement: A refund of any of the member's contributions and interest not already paid in benefits will be payable to the named beneficiary(ies) unless the member has elected the irrevocable Joint and Last Survivor Option which provides a benefit to the member's spouse for life. At retirement, the member may choose to have his or her spouse receive 50%, 66⅔%, 75% or 100% of the member's reduced annuity upon the member's death. The member's annuity is reduced by a percentage based on the difference in age between the member and his or her spouse. If the spouse pre-deceases the member, the annuity is restored to what it would have been if this option had not been elected.

Summary of Plan Provisions
(continued)

If death occurs because of a job-related illness or injury: A $10,000 lump-sum payment is made to the beneficiary if the member's death is due to a job-related illness or injury.

Cost of Living Benefit:
Annual cost of living adjustments are provided to retirees and beneficiaries equal to the lesser of 4% or the percentage increase in the Consumer Price Index for the Washington Consolidated Metropolitan Statistical Area.

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KPMG

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia
The Board of Trustees
Of the Fairfax County Employees' Retirement System:

We have audited the Statement of Plan Net Assets of the Fairfax County Employees' Retirement System (the System), a pension trust fund of the County of Fairfax, Virginia as of June 30, 2009, and the related Statement of Changes in Plan Net Assets for the year then ended. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

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

Management's discussion and analysis and other required supplementary information is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG

Our audit was conducted for the purpose of forming an opinion on the System's basic financial statements. The introductory, investment, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these sections has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no our opinion on it.

KPMG LLP

November 13, 2009

Management's Discussion and Analysis

This section presents management's discussion and analysis of the System's financial performance and provides an overview of the financial activities for the fiscal year ended June 30, 2009. The information in this section should be reviewed in conjunction with the letter of transmittal provided at the beginning of this report.

Overview of Financial Statements and Accompanying Information

Financial Statements. The System presents the Statement of Plan Net Assets and Statement of Changes in Plan Net Assets as of June 30, 2009. These statements reflect the resources available for the payment of benefits as of year end and the sources and uses of these funds during the year.

Notes to Financial Statements. The Notes to Financial Statements are an integral part of the financial statements and include additional information and schedules to provide a better understanding of the financial statements. The Notes to Financial Statements immediately follow the basic financial statements.

Required Supplementary Information. The Required Supplementary Information and related notes provide information regarding the System's funding progress and employer contributions. The Required Supplementary Information and related notes are immediately following the Notes to Financial Statements.

Financial Analysis

Summary of Plan Net Assets. As indicated in the following Summary Statement of Plan Net Assets, the net assets held by the System decreased $724.8 million or 26.2% during fiscal 2009. This change was primarily due to decreases in the fair value of investments during fiscal 2009.

Return on Investments. The System's return on investments net of investment management fees for fiscal 2009 was negative 23.7%. The System's domestic equities had a negative 24.6% return. The international developed equity portfolios returned a negative 33.7%. Emerging markets returned negative 30.6% for the year. The System's fixed income investments returned negative 5.1%. The System's Real Estate Investment Trust (REIT) portfolio returned a negative 37.0% for the year. The Commodity Futures account returned negative 46.5%. Additional investment market commentary is provided in the Investment Section of this document.

Additions. Total additions decreased $671.8 million from fiscal 2008 to 2009 primarily due to negative investment returns. Employer contributions increased approximately $2.5 million or 4.0% from fiscal 2008 to 2009. The 2009 employer contribution rate of 9.62% of annual covered payroll increased 0.03% over the fiscal 2008 adopted rate of 9.59% of annual covered payroll. The System experienced net investment losses during fiscal 2009. Investments declined $677.7 million during the fiscal year. Interest and dividend income was $31.1 million during fiscal 2009. Investment activity expense decreased $2.6 million during the fiscal year due to lower management fees resulting from poor market conditions. Net securities lending income decreased $1.4 million or 34.2% from fiscal 2008 to 2009 due to a less favorable environment for lending certain securities.

Deductions. Benefit payments increased 26.9% during fiscal 2009. The number of retirees and beneficiaries collecting benefits and the amount of the average benefit increased in both years and were responsible for the increase in benefits. Retirees received cost of living increases of 4.0% as of July, 2008. Refunds to terminated employees decreased 25.6 % from fiscal year 2008 to 2009. The amount of refunds varies from year to year based on changes in employee turnover rates and decisions of former employees.

The actuarial valuation performed as of July 1, 2008 showed the System's funded status at 82.70%, a decline from the July 1, 2007 funded percentage of 82.72%.

Contacting the System's Financial Management

This financial report is designed to provide our membership, the Board of Trustees and the County's Board of Supervisors with a general overview of the System's financial condition. If you have any questions about this report or need additional information, contact the Fairfax County Retirement Administration Agency, 10680 Main Street, Suite 280, Fairfax, Virginia 22030. This report can also be found on the County's internet site at www.fairfaxcounty.gov/retirement/.

Summary Statement of Plan Net Assets

Assets	**2009**	**2008**	**Difference**
Total cash and investments	$2,375,395,252	$3,450,745,369	$(1,075,350,117)
Total receivables	100,381,015	324,827,728	(224,446,713)
Total assets	2,475,776,267	3,775,573,097	(1,299,796,830)
Total liabilities	436,724,871	1,011,696,442	(574,971,571)
Net assets held in trust	$2,039,051,396	$2,763,876,655	$(724,825,259)

Summary of Additions and Deductions

Additions	**2009**	**2008**	**Difference**
Contributions			
Employer	$65,110,832	$62,636,121	$ 2,474,711
Plan members	33,927,190	31,583,496	2,343,694
Total investment income	(653,558,145)	23,018,668	(676,576,813)
Total additions	(554,520,123)	117,238,285	(671,758,408)
Deductions			
Benefit payments	165,529,137	130,453,013	35,076,124
Refunds	3,256,153	4,376,612	(1,120,459)
Administrative expense	1,519,846	1,832,903	(313,057)
Total deductions	170,305,136	136,662,528	33,642,608
Net increase/(decrease)	$(724,825,259)	$(19,424,243)	$(705,401,016)

STATEMENT OF PLAN NET ASSETS

As of June 30, 2009

Assets		
Cash and short-term investments		
Equity in County's pooled cash and temporary investments	$ 2,069,997	
Cash collateral received for securities on loan	296,994,470	
Short-term investments	122,684,084	
Total cash and short-term investments		$421,748,551
Receivables		
Due from other County organizations	1,098,801	
Accounts receivable	4,772,291	
Accrued interest and dividends	8,667,779	
Securities sold	85,842,144	
Total receivables		100,381,015
Investments, at fair value		
Corporate & other bonds	239,691,366	
U.S. Government obligations	77,389,983	
Asset-backed securities	146,850,007	
Common and preferred stock	657,205,469	
Pooled and mutual funds	832,509,876	
Total investments		1,953,646,701
Total assets		2,475,776,267
Liabilities		
Purchase of investments	135,690,613	
Cash collateral received for securities on loan	296,994,470	
Accounts payable and accrued expenses	4,039,788	
Total liabilities		436,724,871
Net assets held in trust for pension benefits		$2,039,051,396

(A schedule of funding progress is presented on page 23.)

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the year ended June 30, 2009

Additions		
Contributions		
Employer	$65,110,832	
Plan members	33,927,190	
Total contributions		$99,038,022
Investment income from investment activities		
Net appreciation/(depreciations) in fair value of investments	(677,707,827)	
Interest	7,594,745	
Dividends	23,458,298	
Total investment income	(646,654,784)	
Investment activity expense		
Management fees	8,705,674	
Custodial fees	192,000	
Consulting fees	51,000	
Allocated administration expense	681,575	
Total investment expense	9,630,249	
Net income /(loss) from investment activities		(656,285,033)
From securities lending activities		
Securities lending income	9,498,133	
Securities lending expenses		
Borrower rebates	5,222,048	
Management fees	1,549,197	
Total securities lending activities expense	6,771,245	
Net income from securities lending activities		2,726,888
Total net investment income/(loss)		(653,558,145)
Total additions		(554,520,123)
Deductions		
Annuity benefits	155,179,988	
Disability benefits	7,045,949	
Survivor benefits	3,303,200	
Refunds	3,256,153	
Administrative expense	1,519,846	
Total deductions		170,305,136
Net increase/(decrease)		(724,825,259)
Net assets held in trust for pension benefits		
Beginning of fiscal year		2,763,876,655
End of fiscal year		$2,039,051,396

See accompanying notes to financial statements.

Notes to the Financial Statements
For the year ended June 30, 2009

The System is considered part of the County's reporting entity and its financial statements are included in the County's basic financial statements as a pension trust fund.

A. Summary of Significant Accounting 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 and employer contributions to the System are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due in accordance with the terms of the System. The cost of administering the System is paid by the System.

Method Used to Value Investments. Short-term investments are reported at cost, which approximates fair value. All other investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Asset-backed securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. Investments in venture capital, alternative investments and real estate are generally illiquid. Because of the inherent uncertainty in valuing these securities, the fair value may differ from the values that would have been used had a ready market for such securities existed. Accordingly, the realized value received upon the sale of the assets may differ from the fair value. The System records investment purchases and sales as of the trade date. These transactions are not finalized until the settlement date, which occurs approximately three business days after the trade date. The amounts of trade receivables and payables are shown as receivables and payables on the Statement of Plan Net Assets. Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received.

Equity in County's pooled cash and temporary investments. The System maintains 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. As of June 30, 2009, the bank balance of the County's public deposits was either insured by the Federal Deposit Insurance Corporation or through the State Treasury Board pursuant to the provisions of the Security for Public Deposit Act.

B. Plan Description, Contribution Information, Plan's Funded Status, and Actuarial Methods and Assumptions
Membership. At July 1, 2008, the date of the latest actuarial valuation, membership in the System consisted of:

Retirees and beneficiaries receiving benefits	5,585
Terminated plan members entitled to but not yet receiving benefits	1,241
DROP participants	366
Active plan members	14,705
Total	21,897

Plan Description. The System is a cost-sharing multiple-employer defined benefit pension plan which covers employees of the County and its component units. The plan covers full-time and certain part-time County, Public Schools, Economic Development Authority and Fairfax County Redevelopment and Housing Authority employees who are not covered by other plans of the County or the Virginia Retirement System. Benefit provisions are established and may be amended by County ordinance. All benefits vest at five years of service. To be eligible for normal retirement, an individual must meet the following criteria: (a) attain the age of 65 with five years of service, or (b) attain the age of 50 with age plus years of service being greater than or equal to 80. The normal retirement is calculated using average final compensation (i.e., the highest consecutive three years) and years, or partial years, of service at date of termination. The plan provides that unused sick leave credit may be used in the calculation of average final compensation by projecting the final salary during the unused sick leave period. Members eligible for normal retirement have the option of participating in a deferred retirement option program (DROP). Participating members continue working up to an additional three years after eligibility for normal retirement. In lieu of continuing to earn service credit, DROP members accrue a lump sum benefit. The benefit for early retirement is actuarially reduced and payable at early termination.

Annual cost-of-living adjustments are provided to retirees and beneficiaries equal to the lesser of 4 percent or the percentage increase in the Consumer Price Index for the Washington-Consolidated Metropolitan Statistical Area.

Contributions. The contribution requirements of the System members are established and may be amended by County ordinances. Members may elect to join Plan A or Plan B. Plan A requires member contributions of 4 percent of compensation up to the social security wage base and 5.33 percent of compensation in excess of the wage base. Plan B requires member contributions of 5.33 percent of compensation. The County is required to contribute at an actuarially determined rate; the rates for the years ended June 30, 2009 and 2008 were 9.62 percent and 9.59 percent, respectively, of annual covered payroll.

Deductions. The deductions from the System included the payment of retiree and beneficiary payments, the refund of employee contributions to former members and other expenses.

System's Funded Status Information. The actuarial valuation performed as of July 1, 2008 showed the System's funded status at 82.70%, a decline from the July 1, 2007 funded percentage of 82.72%. The table below displays the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial accrued liability, the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the unfunded actuarial liability to annual covered payroll.

Actuarial Validation Date	**Actuarial Value of Assets**	**Actuarial Accrued Liability**	**Unfunded Actuarial Liability**	**Funded Ratio**	**Covered Payroll**	**Unfunded Actuarial Accrued Liability as a % of Covered Payroll**
	(a)	**(b)**	**(b-a)**	**(a/b)**	**(c)**	**((b-a)/c)**
7/1/2008	$2,752,873,842	$3,328,900,991	$576,027,149	82.7%	$610,876,960	94.3%

The required Schedule of Funding Progress which presents multiyear trend information is reported immediately following the financial statement notes.

Actuarial Methods and Assumptions.

Valuation date	July 1, 2008
Actuarial cost method	Entry Age
Amortization method	Level percent open
Remaining amortization period	15 years
Asset valuation method	3-year smoothed
Actuarial assumptions:	
Investment rate of return *	7.5%
Projected salary increases *	4.0% - 6.5%
* Includes inflation at	4.0%
Cost of living adjustments	3.0%

The actuarial assumptions used have been recommended by the actuary and adopted by the System's Board of Trustees based on the most recent review of the System's experience, completed in 2005.

The rate of employer contributions to the System is composed of normal cost, amortization of the unfunded actuarial accrued liability and an allowance for administrative expenses. The normal cost is a level percent of payroll cost which, along with the member contributions, will pay for projected benefits at retirement for the average plan participant. The actuarial accrued liability is that portion of the present value of projected benefits that will not be paid by future normal employer costs or member contributions. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial accrued liability. The allowance for administrative costs is based upon the System's actual administrative expenses.

The actuarial valuation performed as of July 1, 2008 per the GASB methodology resulted in a contribution rate of 14.06% for fiscal 2010, an increase of 0.06% over the fiscal 2009 rate of 14.00%. Beginning with fiscal 2003, the funding policy was revised to further stabilize the contribution rate. The methodology now in place sets the employer contribution rate equal to the normal cost and allowance for administrative expense. Amortization of the unfunded liability is included in the contribution rate only for any benefit and actuarial assumption changes or if the actuarial funding ratio falls outside a corridor of 90.0% and 120.0%. Use of the corridor method, with adjustments for plan changes effective after the valuation date, resulted in an adopted rate of 9.71% for fiscal 2010, an increase of 0.09 percentage points over the fiscal year 2009 adopted rate of 9.62%.

C. Investments

The authority to establish the System is set forth in Section 51.1-800 *Code of Virginia* (Code). Section 51.1-803 of the Code authorizes fiduciaries of the System to purchase investments *with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with the same aims. The Board shall also diversify such investments as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so.*

The System has adopted the Employees' Retirement System Investment Policy Statement to provide a well-managed investment program to meet the long-term needs of the System.

Investment decisions for these assets are made by the Board of Trustees or investment managers selected by the Board. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. The Board of Trustees believes that risks can be managed, but not eliminated, by establishing constraints on the investment portfolio and by properly monitoring the investment markets, the System's asset allocation and the investment managers hired by the System. Each individual investment portfolio is managed by an investment management firm selected by the Board. Each investment manager has a specific benchmark and investment guidelines appropriate for the type of mandate they are managing and that fit within the total risk tolerance of the fund. The interest rate risk for the fixed income accounts is controlled by limiting the credit quality of the securities held and the duration of the portfolio against the duration of the benchmark. While the System is not subject to the provisions of the Employment Retirement Income Security Act (ERISA), the Board wishes to comply with the spirit of ERISA to the extent that it does not conflict with the Code of Virginia. The investment policy states that the securities of any one issuer shall not exceed 10.0% at market value. At June 30, 2009 the System did not have investments (other than U.S. Government and U.S. Government guaranteed obligations) in any one organization that represented 5 percent or more of net assets available for benefits. All investments, except for the pooled and mutual funds, short-term investment fund and a short-term collateral investment pool are held by an unaffiliated custodian. There is no custodial credit risk since the custodian's records establish the System's interest in the securities.

The System's investment quality ratings at June 30, 2009 were as follows:

Type of Investment	Fair Value	Ratings	Percent of Fixed
U. S. Government Obligations	$77,389,983	AAA	16.7%
Corporates & Other	25,596,731	AAA	5.5%
	13,341,542	AA	2.9%
	25,777,622	A	5.6%
	25,582,223	BBB	5.5%
	49,722,662	BB	10.7%
	62,923,926	B	13.5%
	19,540,153	CCC	4.2%
	858,600	CC	0.2%
	614,625	C	0.1%
	2,399,087	D	0.5%
	13,334,195	UNRATED	2.9%
Asset Backed	92,047,452	AAA	19.8%
	5,579,895	AA	1.2%
	2,211,104	A	0.5%
	2,253,781	BBB	0.5%
	2,098,144	BB	0.4%
	12,736,964	B	2.8%
	9,595,542	CCC	2.1%
	-	CC	0.0%
	-	C	0.0%
	20,327,125	UNRATED	4.4%
Total Fixed Income	**$463,931,356**	A	100.0%
Short Term	$768,035	AAA	
	121,916,049	UNRATED	
Total Short Term	**$122,684,084**		

As of June 30, 2009 the fixed income portfolio, excluding pooled funds, exhibited an overall credit quality rating of "A", and approximately 34.5% of the total fixed income portfolio was invested in below-investment-grade securities.

The Barclays Capital Aggregate Bond Index (BCAG) is the standard benchmark against which the industry and the System's Board measures its fixed income portfolio performance and volatility. The System's fixed income managers have discretion, within circumscribed limits, to extend the duration of their portfolios beyond that of the BCAG if they forecast falling interest rates (and thus higher bond prices). Conversely, if managers anticipate that the general level of interest rates will rise, they have the ability to shorten the duration of their portfolio, thus reducing the portfolio's sensitivity to rising rates.

The System's investments' sensitivity to interest rates at June 30, 2009 follows:

Investment Type	Fair Value	Option - Adjusted Duration (yrs)	Percentage of Fixed
U. S. Government Obligations	$ 77,389,983	4.9	16.7%
Corporate and Other	239,691,366	3.7	51.6%
Asset-Backed	146,850,007	4.6	31.7%
Total Fixed Income	$ 463,931,356	4.2	100.0%
Short-Term Investments	$ 122,684,084	0.0	

As of June 30, 2009, duration of the System's overall fixed income portfolio excluding pooled funds was 4.2 years compared with the 4.3 year duration of the BCAG.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the investment. The System's investments at June 30, 2009 held in currencies other than US dollars were as follows:

International Securities	Short Term & Other	Equity	Convertible and Fixed Income	Total
Euro	$315,540	$46,426,762	$1,145,398	$47,887,700
Japanese Yen	20,239	33,496,154	2,278,559	35,794,952
British pound sterling	(541,313)	24,367,684	5,197,021	29,023,392
Australian Dollar	450,338	15,242,153	9,748,048	25,440,539
Hong Kong Dollar	18,570	17,247,706	-	17,266,276
Swiss Franc	120,373	9,723,605	-	9,843,978
Canadian Dollar	(47,488)	7,512,841	-	7,465,353
Singapore Dollar	9,566	6,072,826	-	6,082,392
Brazil Real	10,886	1,230,015	3,912,100	5,153,001
Other Currencies	302,055	10,394,916	20,987,878	31,684,849
Total International	**$658,766**	**$171,714,662**	**$43,269,004**	**$215,642,432**

Derivative Financial Instruments. In accordance with the Board's investment policies, the System regularly invests in derivative financial instruments with off-balance-sheet risk in the normal course of its investing activities to manage exposure to certain risks within the fund. The System also enters into derivative transactions to gain exposure to currencies and markets where derivatives are the most cost-effective instrument. During fiscal 2009, the System invested directly in various derivatives including asset-backed securities, collateralized mortgage obligations, exchange-traded futures contracts, forward currency contracts, options, swaps, and floating rate securities. Investment managers are prohibited from purchasing securities on margin or using leverage unless specifically permitted within the investment manager's guidelines. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the creditworthiness of the related parties to the contracts. The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Board's investment policy seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. In addition, the System has indirect exposure to market and credit risk through its ownership interests in certain mutual and commingled funds which may use, hold or write derivative financial instruments.

As permitted by the Board's policies, the System holds off-financial statement derivatives in the form of exchange-traded financial futures and options. The futures and options with fair values of approximately $517,443,271 were held for investment purposes and included within the financial statements at June 30, 2009. Gains and losses on futures and options are determined based upon fair values and recorded in the Statements of Changes in Plan Net Assets.

Interest rate swaps, foreign currency exchange contracts, and currency forwards contracts are held for investment purposes. At June 30, 2009, the System had approximately $1,242,822 negative net exposure in foreign currency exchange contracts and interest rate swaps and $33,289,397 net exposure in currency forwards contracts.

Securities Lending. Board of Trustees' policies permit the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodian is the agent in lending the plan's domestic securities for collateral of 102.0 percent and international securities of 105.0 percent of fair value. The custodian receives cash or securities as collateral from the borrower. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral is invested in the lending agents' collective collateral investment pool, which at June 30, 2009 had a weighted average maturity of 25 days. The relationship between the maturities of the investment pool and the System's loan is affected by the maturities of securities loans made by other plan entities that invest cash collateral in the investment pool.

The following represents the balances relating to the securities lending transactions at June 30, 2009.

Securities Lent	**Underlying Securities**	**Cash Collateral Investment Value**	**Securities Collateral Investment Value**
Lent for cash collateral:			
U.S. Government securities	$38,469,171	$39,135,937	$ -
Corporate and other bonds	23,399,606	24,402,768	-
Common and preferred stock	226,221,857	233,455,765	-
Lent for securities collateral:			
Corporate and other bonds	4,448,616	-	4,559,828
Common and preferred stock	14,699,116	-	15,967,824
Total	**$307,238,366**	**$296,994,470**	**$20,527,652**

The System did not impose any restrictions during fiscal 2009 on the amounts of loans the lending agent made on its behalf. At year end, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System. The custodian provides 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 income earned on the securities while on loan.

All securities loans can be terminated on demand by either the system or the borrower. Cash collateral is invested in the lending agent's collective collateral investment pool which at June 30, 2009 had a weighted-average maturity of 25 days. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of securities loans made by other plans that invest cash collateral in the investment pool.

D. Income Taxes

The Internal Revenue Service issued a determination letter on November 24, 2003, 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.

Required Supplementary Information

Seven-year historical trend information about the System is presented here as required supplementary information. This information is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due and make comparisons with other public employee retirement systems.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (in thousands) (a)	Actuarial Accrued Liability-AAL Entry Age (in thousands) (b)	Unfunded AAL-UAAL (in thousands) (b-a)	Funded Ratio (a/b)	Covered Payroll (in thousands) (c)	UAAL as a Percentage of Covered Payroll (in thousands) ((b-a)/c)
7/1/2002	$1,854,089	$2,051,677	$197,588	90.37%	$507,905	38.9%
7/1/2003	1,903,970	2,251,187	347,217	84.58%	530,216	65.5%
7/1/2004	2,030,539	2,411,135	380,596	84.22%	552,738	68.9%
7/1/2005	2,202,515	2,676,418	473,903	82.29%	565,063	83.9%
7/1/2006	2,363,844	2,881,780	517,936	82.03%	574,294	90.2%
7/1/2007	2,596,658	3,139,187	542,529	82.72%	579,075	93.7%
7/1/2008	2,752,874	3,328,901	576,027	82.70%	610,877	94.3%

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of the System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the System. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the System.

Schedule of Employer Contributions

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2003	$36,408,121	88%
2004	51,992,031	66%
2005	67,996,277	69%
2006	74,548,972	66%
2007	81,551,794	70%
2008	89,480,173	70%
2009	95,052,308	69%

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Capital Markets and Economic Conditions

Fiscal Year 2009 Economic Environment

The 2009 Fiscal Year, beginning in July 2008 and ending in June 2009, encompassed one of the worst economic slowdowns and stock market meltdowns in history. The economic output of the United States declined by 3.9% over the twelve month period, unemployment reached 9.5% by June 2009 and consumer confidence fell precipitously to its lowest reading ever. What began as a sub-prime mortgage fueled housing bubble spread to all sectors of the global economy as bank balance sheets were crushed by the low quality and illiquidity of their housing-related securities portfolios. Financial markets froze as financial institutions rushed to deleverage their balance sheets. Credit spreads ballooned as quotes dried up, and lenders hoarded cash. Declining commodity prices caused by sagging demand contributed to a core inflation rate of just 1.7% as of June 2009. Crude oil prices fell from a high of $147 a barrel to below $34 a barrel during the fiscal year. Correlations turned to one as investors fled all risky assets in search of safety. Treasuries and cash were the only safe havens during the crash.

During the fall of 2008, the global financial system seemed to be on the brink of total collapse following the shocking bankruptcy of Lehman Brothers in September. The past year witnessed the demise, bankruptcy or government take-over of Fannie Mae, Freddie Mac, Lehman Brothers, AIG, Washington Mutual, General Motors, Chrysler and many others. Unprecedented, massive global government intervention in the markets and the bailouts of most major banks improved the liquidity, functioning and confidence in the financial system over the last nine months. This included a Fed Funds Rate which reached a target of 0%.

The shrinking economy also led to massive layoffs across industries with unemployment peaking close to 10%, the worst level since 1983. The absolute level of job losses began to level off in the summer of 2009 and economic indicators slowed their rate of descent, bringing hope that the economy had begun the process of bottoming out. However, most signs point to a long recovery as individual consumers continue to repair their damaged balance sheets and rethink their spending habits. This factor makes it unlikely that the U.S. consumer will be able to lead the economy out of the recession anytime soon.

Equity Markets

Equity markets were severely negative across the board during the fiscal year. The S&P 500 Index fell 26.2% in spite of a strong spring rally in the June quarter of 15.9%, as prices recovered from doomsday scenarios of earlier months. Small caps slightly outperformed large caps, with the Russell 2000 Index returning -25.0% over the fiscal year. For the year, growth and value returns were very similar, despite broad style swings during the year. The Russell 1000 Growth Index lost 24.5% while the Russell 1000 Value Index declined 29.0% for the year. After a strong 2008, the Energy sector was the worst performing sector in the Russell 1000, declining 43.5% for the fiscal year. Financials suffered another bad year, declining 36% for the fiscal year.

International equity markets underperformed the domestic market for the past fiscal year. The MSCI EAFE Index returned -31.0%, trailing the S&P 500 Index by just over 5% percentage points. Developed international markets fell due to the meltdown in the banking sector and the deepening global recession. Also, in 2009, a strengthening U.S. dollar detracted from returns for U.S. based investors. Emerging markets outperformed the developed markets for the year, losing 27.8%. The Emerging Markets countries had a wild ride though, declining 47% in the first half of the fiscal year and then rallying 36% in the first two quarters of calendar year 2009.

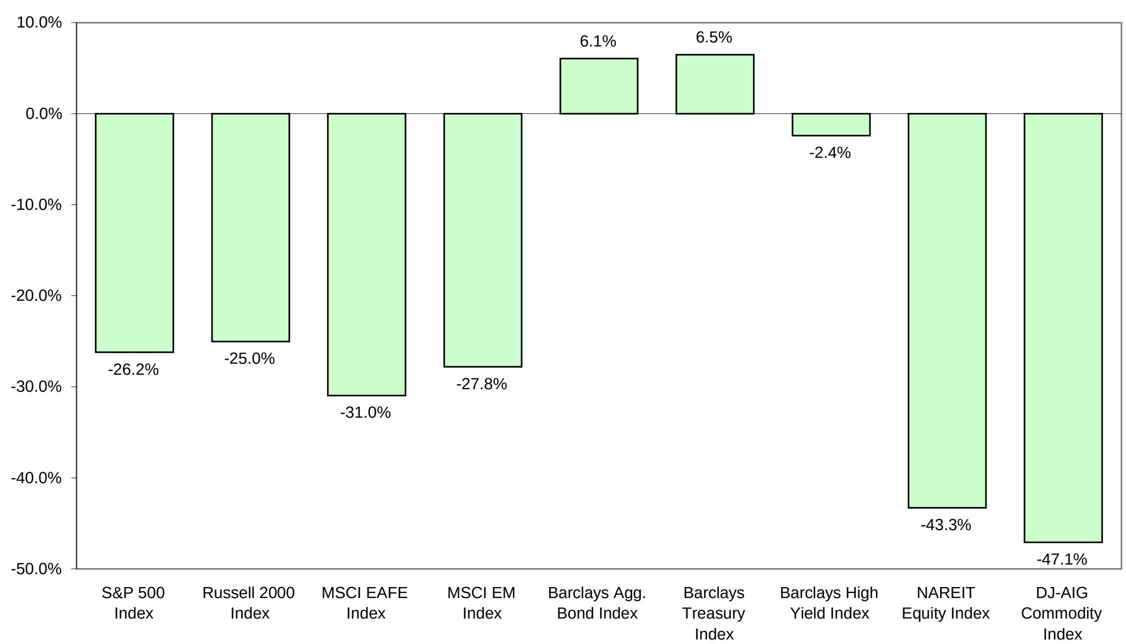
Real Estate Markets

REIT markets had another volatile year as illiquid debt markets and declining real estate fundamentals placed doubt on REITs ability to meet operating targets and roll over their debt over the coming quarters. The FTSE NAREIT Index dropped 43.3% for the year. Not surprisingly, sectors such as lodging and retail, which benefited the most from the consumer driven economy, saw the most precipitous decline in their share values.

Fixed Income Markets

The fixed income market performed comparatively well overall, as investors fled from equities to safer securities. However, the year was marked by extreme volatility and sector rotation within the bond market. The Barclays Capital Aggregate Bond Index returned +6.1% for the year. The index was driven by an intense flight to quality in the fall as nervous investors fled all risky assets in the wake of the Lehman collapse and corporate bond spreads widened to historic levels. During the last two quarters, the extremely low prices and high yields in the investment grade corporate and high yield markets, coupled with a stabilizing of the financial markets, attracted significant capital. This led the Barclays Credit Index to outperform the Government Index by more than 10% in the second half of the year. Additionally, High Yield, as measured by the Barclays Capital High Yield Index, rallied 30.4% in the last 6 months to decline just 2.4% for the year.

Fiscal Year 2009 Market Asset Class Returns



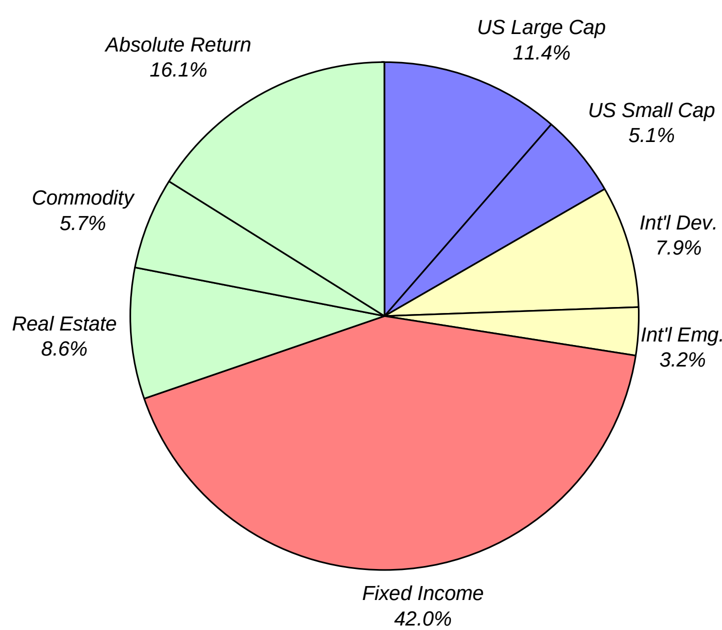
Employees' System

The Employees' Retirement System operates a sound and diversified investment program with disciplined asset re-balancing to achieve strategic long-term goals. That disciplined investment process has been effective in achieving a long-term record of consistent asset growth.

On a market value basis, the total net assets held in trust fell from $2,763.9 million at June 30, 2008 to $2,039.1 million at June 30, 2009. For fiscal 2009, investments provided a return of -23.3%, gross of fees (-23.7%, net of fees), reflecting the deteriorating economic environment. The System's annualized rates of return, gross of fees, were -3.7% (-4.0%, net of fees) over the last three years and 2.1%, gross of fees (1.8%, net of fees), over the last five years. While the dismal market returns in 2009 have dragged down the reported fund returns for the intermediate time periods, it is important to note that the System's investment return for the last 25 years, even including 2009, was 9.0%, and well ahead of the 7.5% actuarial hurdle rate of return necessary to pay future benefits.

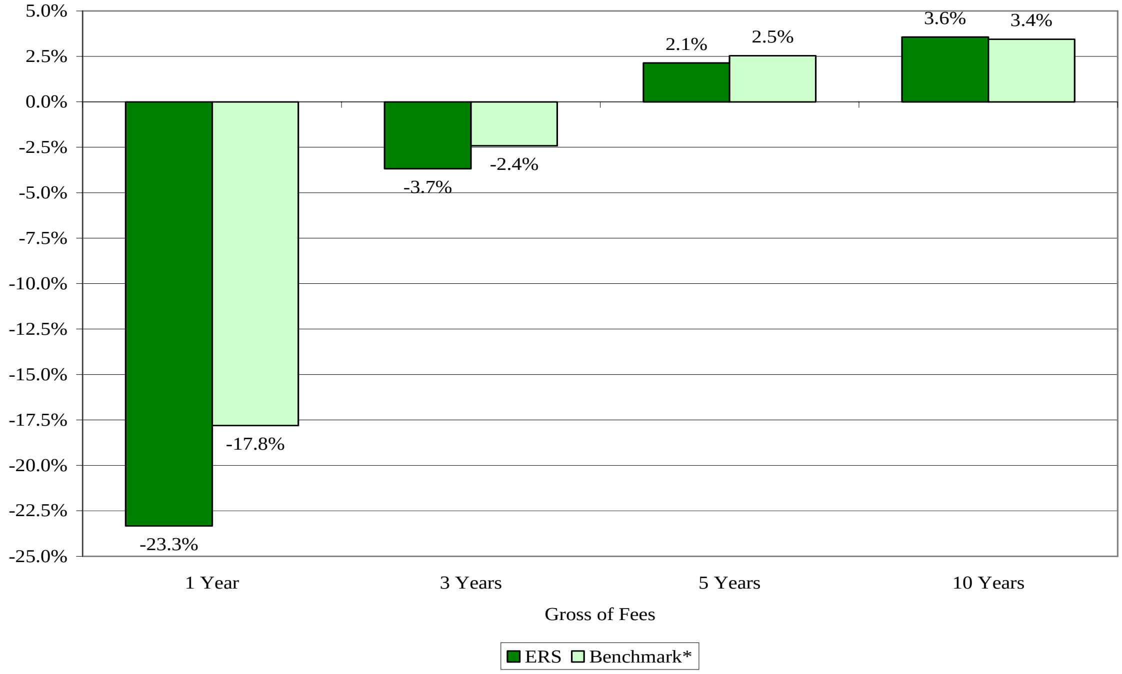
During the past twelve months there were a few changes made to the strategic asset allocation of the System. The System lowered its equity exposure and increased its fixed income exposure to mitigate some of the downside risks due to the extreme volatility of the deteriorating economic environment. Within the Fixed Income allocation, the System added the PIMCO Distressed Senior Credit Opportunities Fund, BGI Tactical Credit Fund, and Gramercy Distressed Opportunity Fund to take advantage of distressed pricing dislocations in the credit markets.

Employees' Retirement System – Allocation of Market Exposures



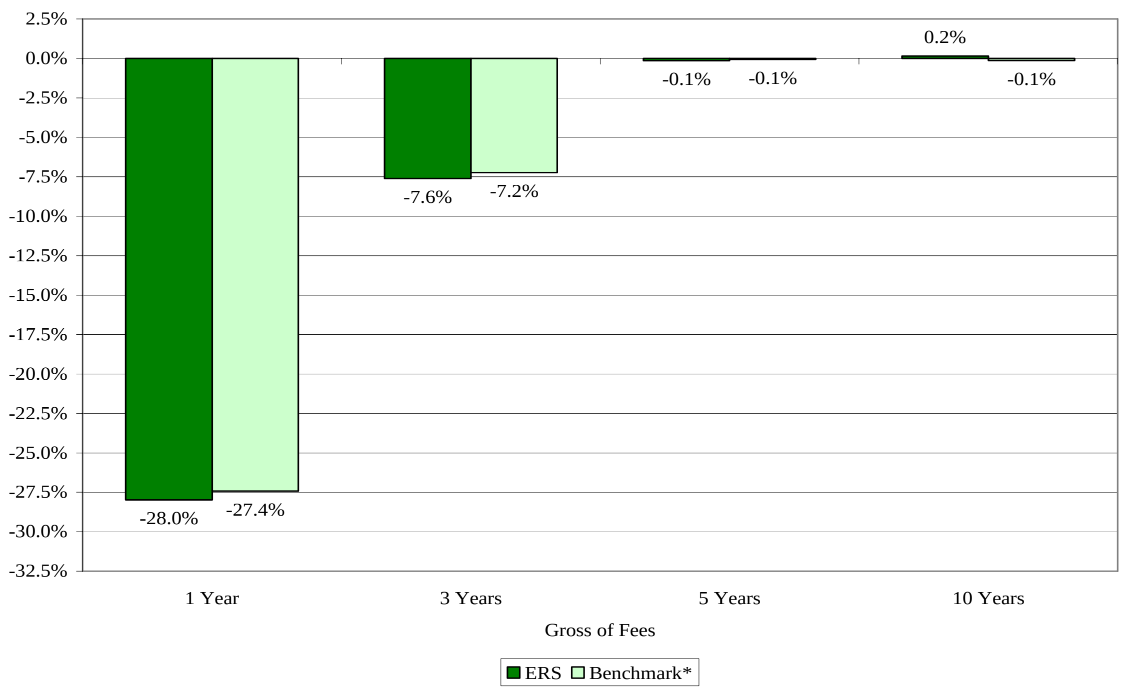
Compounded Annual Rates of Return

Total Fund



*20% Russell 3000, 7% MSCI EAFE, 3% MSCI Emerging Markets, 7.5% Custom High Yield (50% CSFB High Yield, 50% ML High Yield Master II), 50% Barclays Aggregate
* 1.5 – 3 Month LIBOR, 7.5% NAREIT, 5% Dow Jones UBS Commodity

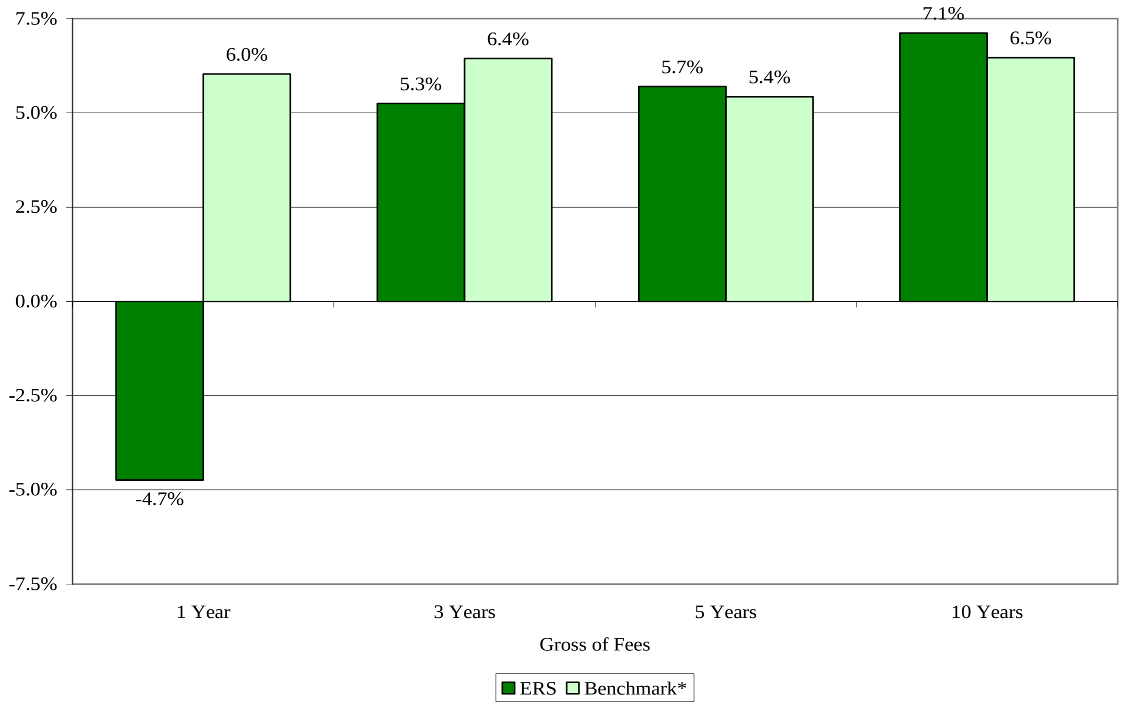
Total Equity



*67% Russell 3000, 22% MSCI EAFE, 11% MSCI Emerging Markets Free (Gross)

Compounded Annual Rates of Return

Total Fixed Income



*18.75% Custom High Yield (50% CSFB High Yield, 50% ML High Yield Master II), 81.25% Barclays Aggregate * 1.5 – 3 Month LIBOR

Investments by Category and Investment Manager
June 30, 2009

Asset Class / Manager	Investment Style	Total Assets	% of Total Net Assets
Domestic Equities			
DePrince, Race & Zollo	Large Cap Value	$ 74,116,697	3.6%
Enhanced Inv. Technologies (INTECH)	Large Cap Growth	65,795,579	3.2%
Pzena Investment Mgt.	Large Cap Value	68,148,872	3.3%
Sands Capital Mgt.	Large Cap Growth	25,165,464	1.2%
Columbia Wanger Asset Mgt.	Small/Mid Cap Core	103,595,137	5.1%
International Equities			
LSV Asset Mgt.	Developed Markets Value	66,696,371	3.3%
Artio Investment Mgt.	Developed Markets	64,885,555	3.2%
Marathon Asset Mgt.*	Developed Markets	28,387,173	1.4%
BGI Emerging Markets Fund *	Emerging Markets Index	33,537,231	1.6%
TCW Worldwide Opportunity Fund*	Emerging Markets	31,893,633	1.6%
Fixed Income			
Bridgewater Associates*	Enhanced TIPS Index	147,731,742	7.3%
Bridgewater Associates	Enhanced Multi-Asset Real Return	188,785,626	9.3%
Brandywine Asset Mgt.	Global Bonds	103,562,174	5.1%
JPMorgan Investment Mgt.*	Multi-Sector Fund	19,014,693	0.9%
Trust Company of the West	Mortgage-Backed Securities	123,659,286	6.1%
Trust Company of the West*	Distressed Mortage Credit	23,233,363	1.1%
Gramercy*	Distressed Opportunity – Emerging Markets	5,670,123	0.3%
Pacific Investment Mgt. Co. (PIMCO)*	Distressed Opportunity	24,579,236	1.2%
BGI Tactical Credit*	Distressed Opportunity	10,885,365	0.5%
Post Advisory	High Yield Bonds	55,588,162	2.7%
MacKay Shields	High Yield Bonds	57,530,273	2.8%
Shenkman Capital Mgt.	High Yield Bonds	58,698,254	2.9%
Alternative Investments			
Cohen & Steers Capital Mgt.	US Real Estate Inv. Trusts	130,449,386	6.4%
Cohen & Steers Capital Mgt.	Int'l Real Estate Securities	43,945,497	2.2%
Pacific Investment Mgt. Co. (PIMCO)	Collateralized Commodity Futures	116,494,727	5.7%
Absolute Return			
BGI GlobalAlpha Fund*	Multi-Sector Fund	62,279,259	3.1%
BGI Global Ascent Fund*	Global Macro Absolute Return Fund	49,833,662	2.4%
Deephaven Capital Mgt.*	Multi-Strategy Absolute Return Fund	38,698,037	1.9%
Deerfield Capital Mgt.	Long/Short Duration Mgt.	38,418,685	1.9%
First Quadrant Partners*	Global Macro Absolute Return Fund	35,743,593	1.8%
FrontPoint Partners*	Multi-Strategy Absolute Return Fund	45,597,872	2.2%
Pacific Investment Mgt. Co. (PIMCO)*	Multi-Sector Fund	57,431,842	2.8%

Investments by Category and Investment Manager
June 30, 2009
(continued)

Asset Class / Manager	Investment Style	Total Assets	% of Total Net Assets
Short-term			
The Clifton Group	Policy Implementation Overlay	25,469,656	1.3%
BNY Mellon CIS	Plan Level Cash Accounts	9,620,525	0.5%
Cash Held at County Treasurer	Operating Cash Account	2,065,321	0.1%
Net Assets		$ 2,037,208,071	100.0%

* Pooled fund

Largest Holdings for Separately Managed (Non-Pooled) Accounts

Asset Class / Manager / Security	Market Value	% of Account
Domestic Equities		
DePrince, Race & Zollo		
Marathon Oil Corp.	$ 1,875,773	2.54%
Morgan Stanley	$ 1,821,789	2.47%
Williams Companies Inc.	$ 1,673,392	2.27%
PNC Financial Services Group	$ 1,602,853	2.17%
Suntrust Banks Inc.	$ 1,582,490	2.14%
INTECH		
Exxon Mobil Corp.	$ 6,592,303	10.02%
Johnson & Johnson	$ 2,461,428	3.74%
Procter & Gamble Co.	$ 2,224,894	3.38%
IBM Corp.	$ 2,224,146	3.38%
Apple Computer Inc.	$ 1,662,301	2.53%
Sands Capital Mgt.		
Apple Inc.	$ 2,036,749	8.10%
Amazon.com Inc.	$ 1,556,076	6.19%
National Oilwell Varco Inc.	$ 1,486,030	5.91%
Google Inc.	$ 1,475,565	5.87%
Intercontinental Exchange Inc.	$ 1,370,880	5.45%
Pzena Investment Mgt.		
JC Penney Company Inc.	$ 2,722,426	4.00%
Northrop Grumman Corp.	$ 2,584,346	3.80%
Magna International Inc.	$ 2,549,184	3.75%
Allstate Corp.	$ 2,440,000	3.59%
Torchmark Corp.	$ 2,174,248	3.20%
Wanger Asset Mgt.		
Crown Castle International Corp.	$ 2,161,800	2.09%
Donaldson Inc.	$ 1,870,560	1.80%
Ametek Inc.	$ 1,867,320	1.80%
TW Telecom Inc.	$ 1,747,600	1.69%
Amphenol Corp.	$ 1,582,000	1.53%

Largest Holdings for Separately Managed (Non-Pooled) Accounts
(continued)

Asset Class Manager Security	Market Value	% of Account
International Equities		
Artio Global Mgt.		
Komercni Banka	$ 1,032,269	1.58%
Vodafone Group	$ 940,383	1.44%
Nestle SA	$ 935,304	1.43%
Total SA	$ 927,057	1.42%
OTP Bank	$ 852,965	1.31%
LSV Asset Mgt.		
Royal Dutch Shell	$ 1,497,803	2.31%
Telefonica SA	$ 1,492,307	2.30%
Total SA	$ 1,403,323	2.16%
AstraZeneca	$ 1,385,343	2.13%
BP PLC	$ 1,370,719	2.11%
Real Estate Securities		
Cohen & Steers Capital Mgt. (US)		
Simon Property Group Inc.	$ 12,052,841	9.33%
Public Storage Inc.	$ 9,366,783	7.25%
Vornado Realty Trust	$ 8,434,704	6.53%
Boston Properties Inc.	$ 7,362,781	5.70%
Equity Residential	$ 4,540,900	3.52%
Cohen & Steers Capital Mgt. (Int'l)		
Westfield Group	$ 3,272,451	7.43%
Sun Hung Kai Properties	$ 3,108,921	7.06%
Mitsubishi Estate Co.	$ 3,022,138	6.86%
Mitsui Fudosan Co.	$ 2,186,496	4.97%
Unibail-Rodamco	$ 2,081,994	4.73%
Core Fixed Income		
Brandywine Global Asset Mgt.		
U.S. Treasury Bond, 4.500%, 05/15/2038	$ 9,106,984	8.94%
New South Wales Treasury Corp., 5.500%, 03/01/2017	$ 6,798,617	6.68%
Treasury STK GBP1, 4.250%, 03/07/2036	$ 4,135,471	4.06%
Government of Brazil, Variable Rate, 01/05/2016	$ 3,912,100	3.84%
Government of Poland, 5.250%, 10/25/2017	$ 3,819,669	3.75%

Largest Holdings for Separately Managed (Non-Pooled) Accounts
(continued)

Asset Class Manager Security	Market Value	% of Account
Core Fixed Income		
TCW Asset Mgt.		
FHLMC Multiclass Mortgage, Variable Rate, 10/15/2033	$ 3,639,938	2.95%
FHLMC Multiclass Mortgage, Variable Rate, 03/15/2035	$ 3,439,218	2.79%
FNMA GTD REMIC, Variable Rate, 08/25/2033	$ 3,283,361	2.66%
Residential ACC, 5.500%, 05/25/2034	$ 2,747,256	2.23%
CMALT Citi Mortgage, 6.000%, 06/25/2037	$ 2,429,538	1.97%
High Yield Fixed Income		
MacKay Shields, LLC		
Invista 144A, 9.250%, 05/01/2012	$ 716,300	1.26%
RRI Energy Inc., 7.875%, 06/15/2017	$ 563,850	0.99%
Crum & Forster Holdings Corp., 7.750%, 05/01/2017	$ 533,513	0.94%
Calpine Corp. Term Loan 1st Priority Term Loan Facility	$ 477,875	0.84%
Videotron, 9.125%, 04/15/2018	$ 477,638	0.84%
Post Advisory		
Intelsat Jackson 144A	$ 1,356,750	1.13%
Echostar DBS Corp., 7.750%, 05/31/2015	$ 1,285,875	1.05%
Cco Holdings, 8.750%, 11/15/2013	$ 902,500	1.05%
Digicel Limited 144A, 12.000%, 04/01/2014	$ 717,750	1.03%
Quebecor Media Inc., 7.750%, 03/15/2016	$ 679,688	1.03%
Shenkman Capital Mgt.		
Sungard Data Systems Inc., 9.125%, 08/15/2013	$ 945,000	1.63%
Aramark Corp., 8.500%, 02/01/2015	$ 921,500	1.59%
Exco Resources Inc., 7.250%, 01/15/2011	$ 800,250	1.38%
Davita Inc., 7.250%, 03/15/2015	$ 799,000	1.38%
Constellation Brands, 8.125%, 01/15/2012	$ 700,000	1.21%
Alternative Assets & Strategies		
PIMCO Commodity Real Return		
US Treasury Inflation Index Notes, 1.875%, 07/15/2015	$ 15,545,356	10.33%
US Treasury Inflation Index Notes, 3.000%, 07/15/2012	$ 11,208,709	7.45%
JP Morgan Repo, 0.060%, 07/01/2009	$ 10,500,000	6.97%
JP Morgan Repo, 0.170%, 07/02/2009	$ 10,500,000	6.97%
US Treasury Inflation Index Notes, 1.875%, 07/15/2013	$ 7,396,890	4.91%

CHEIRON Classic Values, Innovative Advice

February 25, 2009

Fairfax County Employees'
Retirement System
10680 Main Street, Suite 280
Fairfax, Virginia 22030-3812

Dear Members of the Board:

At your request, we have conducted our annual actuarial valuation of the Fairfax County Employees' Retirement System as of July 1, 2008. The results of the valuation are contained in this report.

Funding Objective

The funding objective of the System is to establish contribution rates which, over time, will remain level as a percent of payroll. In order to achieve a more stable contribution rate the County implemented a Corridor Funding Method on July 1, 2002 (based on the July 1, 2001 valuation results). Under this approach the contribution rate is based on the normal cost rate and expense rate on July 1, 2001, adjusted for subsequent plan changes, including a 15 year amortization of any UAL impact. The rate will otherwise remain at this level as long as the actuarial funded ratio remains within a corridor of 90% to 120%. Since the funding ratio is currently below 90%, additional contributions are being made by the County.

Assumptions

The actuarial assumptions used in performing the July 1, 2008 valuation were recommended by the actuary and adopted by the Board of Trustees based on our most recent review of the System's experience for the five year period ending June 30, 2005. The assumptions reflect our understanding of the likely future experience of the System and the assumptions as a whole represent our best estimate for the future experience of the System. The results of this report are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from these assumptions, the true cost of the System could vary from our results.

The assumptions and methods used in performing this valuation meet the parameters set by Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contributions Plans.*

Reliance on Others

In preparing our report, we relied without audit, on information (some oral and some written) supplied by the System's staff. This information includes, but is not limited to, plan provisions, employee data, and financial information. The census data provided was reviewed for reasonableness and for consistency with prior year's data.

8200 Greensboro Drive, Suite 1125, McLean, VA 22102 Tel: 877 CHEIRON (243.4766) Fax: 703.893.2006 www.cheiron.us

February 25, 2009
Fairfax County Employees' Retirement System
Page 2

Supporting Schedules
We are responsible for all supporting schedules to be found in the Actuarial Section.

We are responsible for the 2004 through 2008 information in the Schedule of Funding Progress, Schedule of Employer Contributions and Notes to Trend Data shown in the Financial Section.

Compliance with Code of Virginia §51.1-800
Code of Virginia §51.1-800 requires that the benefits provided to a retiree at age 65 from a local retirement system equal or exceed two-thirds of the allowance to which the employee would be entitled under the provisions of the Virginia Retirement System (VRS). The Board of Trustees of the VRS is to determine whether a local system satisfies this condition, taking into account differences in member contributions between the local system and the VRS.

Although there is no formal procedure for making this comparison, we compared the least valuable rate under the Employees' System to the most valuable accrual rate under the VRS, making adjustments for the fact that employee contributions are required in excess of the VRS 5% rate. The employer provided accrual rates do exceed two-thirds of the employer provided accrual rates under the VRS plan.

I certify that, to the best of my knowledge and understanding, the Fairfax County Employees' Retirement System satisfies the requirements of the Code of Virginia §51.1-800.

Certification
I, Fiona Liston, am a consulting actuary for Cheiron. I am also a member of the American Academy of Actuaries and meet their Qualification Standards to render the actuarial opinion contained herein.

I hereby certify that, to the best of my knowledge, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board, and that as a Member of the American Academy of Actuaries, I meet the Qualification Standards to render the opinions contained herein.

Sincerely,
Cheiron

Fiona E. Liston

Fiona E. Liston, FSA
Consulting Actuary

Summary of Valuation Results

Overview

This report presents the results of the July 1, 2008 actuarial valuation of the Fairfax County Employees' Retirement System. The primary purposes of performing the annual actuarial valuation are to:

- Measure and disclose, as of the valuation date, the financial condition of the Plan;
- Indicate trends in the financial progress of the Plan;
- Determine the contribution rate to be paid by the County for Fiscal Year 2010;
- Provide specific information and documentation required by the Governmental Accounting Standards Board (GASB).

This section of the report presents a summary of the above information in the form of:

- The actuary's comments;
- The prior year's experience of the System's assets, liabilities, contributions, and membership;
- A series of graphs which highlight key trends experienced by the System; and
- A summary of all principal results from this year's valuation, compared to last year's, in a single table, intended for quick reference purposes.

General Comments

The employer's annual contribution to this System is determined by using a Corridor Funding Method. Under this funding approach, the County's contribution rate is based on the normal cost rate plus expense rate determined as of the implementation date of the corridor method (July 1, 2001) 5.85% of payroll plus an expense rate, currently 0.15% of payroll. This rate is adjusted for benefit and assumption changes, but otherwise will remain the same as long as the System's actuarial funded ratio remains within a corridor of 90% to 120%.

The County's contribution rate will change when benefits are increased or modified or assumptions are changed. The new rate will reflect the change in normal cost rate and the change in actuarial liability amortized over 15 years. Since the inception of the Corridor Funding Method the normal cost rate has increased by 0.10% and the UAL rate has increased by 1.47%, the specific changes are summarized in the table below:

	Impact on	
Changes Since 2001	**Normal Cost Rate**	**UAL Rate**
2002 ad-hoc COLA	N/A	+ 0.13%
2005 Assumption Changes	+ 0.05%	+ 1.23%
2006 DROP Implementation	+ 0.03%	+ 0.10%
2006 DPSC Conversion	N/A	- 0.04%
2007 Reduce Disability Offset	+ 0.01%	+ 0.03%
2008 Reduce Disability Offset	+ 0.01%	+ 0.02%
Total Increase	+ 0.10%	+ 1.47%

The basic Corridor Funding Contribution is currently 7.57% of payroll. The normal cost rate and actuarial accrued liability will continue to be measured using the entry age funding method. If the funded status falls outside the corridor, a credit (if above 120%) or charge (if below 90%) will be established based on a 15-year amortization equal to the amount necessary to re-enter the corridor. Once the funded status is within the corridor, the contribution rate will return to the normal cost rate plus expense rate, and any remaining amortization for benefit or assumption changes.

The valuation as of July 1, 2008 shows that the actuarial funded ratio of this Plan (including a credit for the amortization piece of prior benefit increases and assumption changes) has fallen out of the corridor and there is a required increase in the rate at this time of 2.14% of payroll.

The County's contribution rate for FY 2009 will increase from 9.59% to 9.71% of payroll, on the basis of this valuation's results.

The calculated contribution rate for Governmental Accounting Standards Board (GASB) purposes is based on a rolling 15-year amortization of the actuarial unfunded liability.

Trends

The financial markets performed below expectation during the fiscal year ending in 2008. The actual return on a market value basis was approximately 0.83%. On an actuarial value basis, the assets returned 7.71% compared with an assumed rate of return of 7.5%. The gain recognized for funding purposes was $5.5 million.

The measurement of liabilities produced a loss this year in the amount of $26.4 million. This loss was due to experience not meeting our assumptions about salary increases, retirement behavior, death, etc. Specific components of the loss include:

- The average salary increase was 4.7% for active participants who were in both the July 1, 2007 and July 1, 2008 valuations. This was less than the expected salary growth based on the actuarial assumption of 5.2%, resulting in a $3 million gain.

- The valuation assumes a 3% cost-of-living adjustment for benefits in pay status. The actual CPI-based COLA was 4% last year, creating a liability loss of $14 million.

- An annual component of liability loss is the delayed recognition of new hires throughout the year. This does not contribute to an increase in the System's unfunded liability because both the member and the employer make contributions from the date of hire. However, when we look only at the liability side they are a component of the annual liability loss and this year they contributed $7 million to that number.

There was an $8 million liability loss component that is made up of various other causes such as members terminating, dying or becoming disabled in a way contrary to the assumption and also data changes from previous years.

Finally, the County ordinance was changed this year to reduce the offset to service-connected disability benefits from 40% of Social Security amounts to 30% of such amounts. This change had the impact of increasing the liability by about $1.4 million.

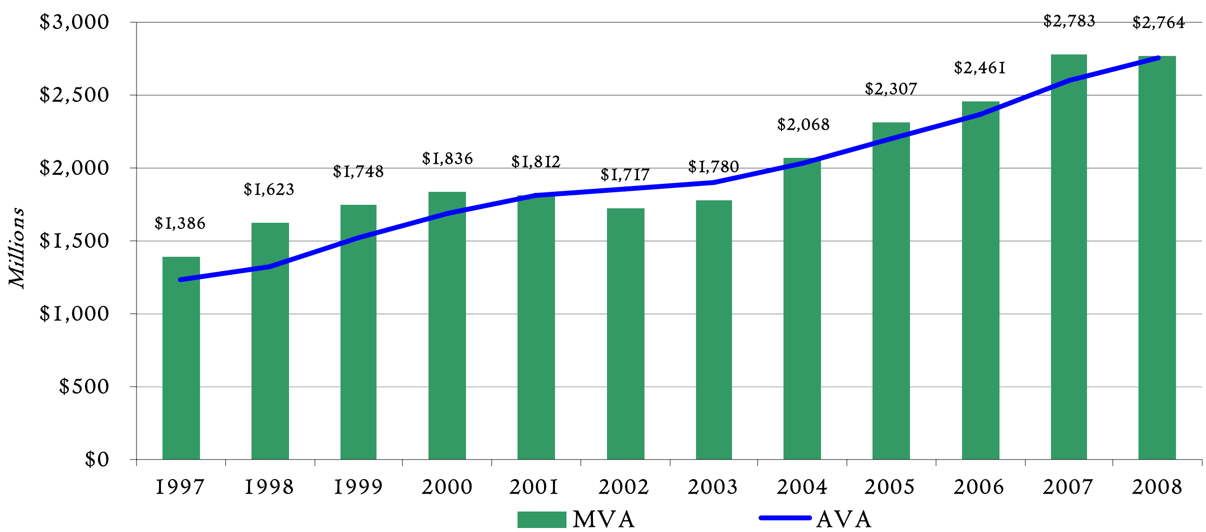
The combination of the asset gain, plan improvement and liability loss offset one another to produce no change in the System's funding ratio (actuarial value of assets over actuarial accrued liability), and it remains at 82.7%. For purposes of measuring whether the System remains within the funding corridor, an adjusted funding ratio is used. In this ratio there is an additional asset recognized in the amount of the unfunded actuarial liability (UAL) payments being made by the employer to pay for benefit increases and assumption changes. On this basis, the System's actuarial funded ratio decreased from 85.5% at July 1, 2007 to 85.3% at July 1, 2008.

It is important to take a step back from the latest results and view them in the context of the System's recent history. On the next two pages we present a series of charts which display key factors in the valuations over the last twelve years. After the historical review we present a few projection graphs, showing the possible condition of the System over the next 15 years under various market return scenarios.

The following is a key to the abbreviations used in the actuarial graphs:

PVAB – Present Value of accrued benefits
PSL – Past service liability
PVFB – Present value of future benefits
AAL – Accrued Actuarial Liability
MVA – Market value of assets
AVA – Actuarial value of assets
DROP – Deferred Retirement Option Program

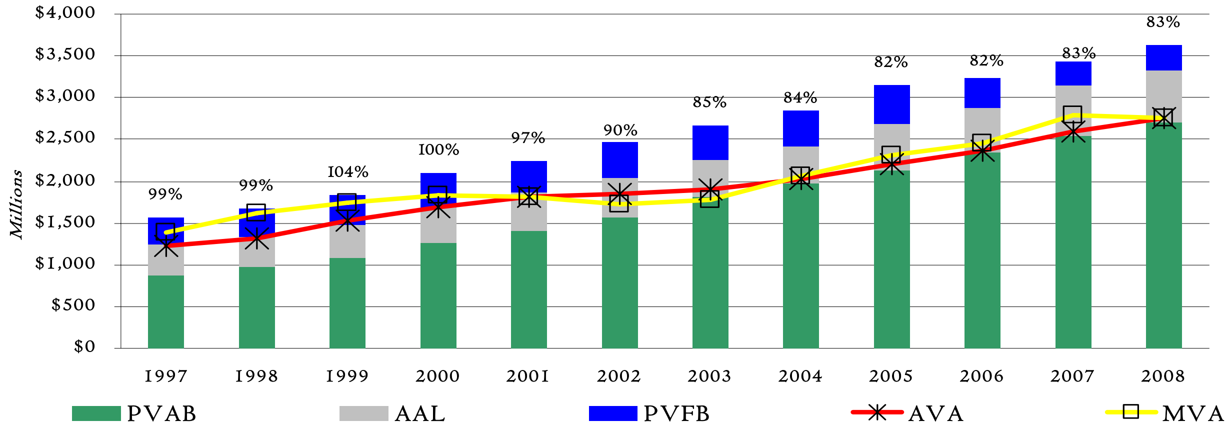
<u>Growth in Assets</u>



The market value of assets (MVA) declined slightly over last year as benefit payouts in excess of contributions were not covered by the return of 0.8%. Due to the asset smoothing method in place, the actuarial value of assets (AVA) increased because a portion of this year's investment loss is being held for future recognition.

Over the period July 1, 1997 to June 30, 2008 the System's assets returned approximately 8.9% per year measured at actuarial value, compared to a valuation assumption of 7.5% per year.

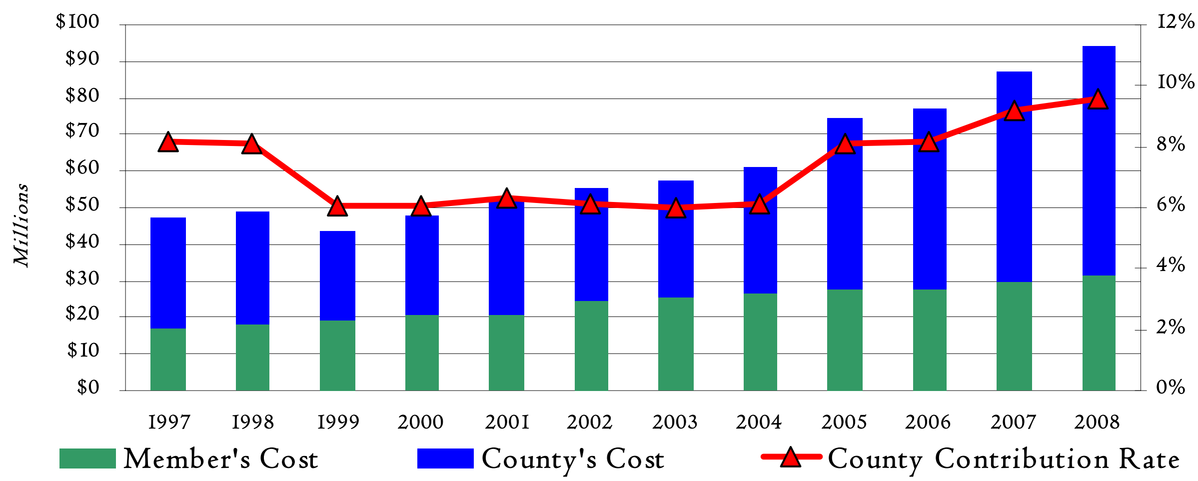
Assets and Liabilities



The three colored bars represent the three different measures of liability mentioned in this report. The amount represented by the top of the blue bars, the present value of future benefits (PVFB), is the amount needed to provide all benefits for the current participants and their beneficiaries. If the System had assets equal to the PVFB no contributions would, in theory, be needed for the current members. For funding purposes, the target amount is represented by the top of the gray bar. We compare the actuarial value of assets to this measure of liability in developing the funded percent. These are the percentages shown in the graph labels.

The combination of asset losses at the start of the decade, with lower employer contribution requirements has led to a slower recovery of this funded percent than might otherwise have occurred. As you can see, the System had its highest funded percentage (104%) at July 1, 1999, before a combination of benefit improvements and the three-year market slide at the start of the decade.

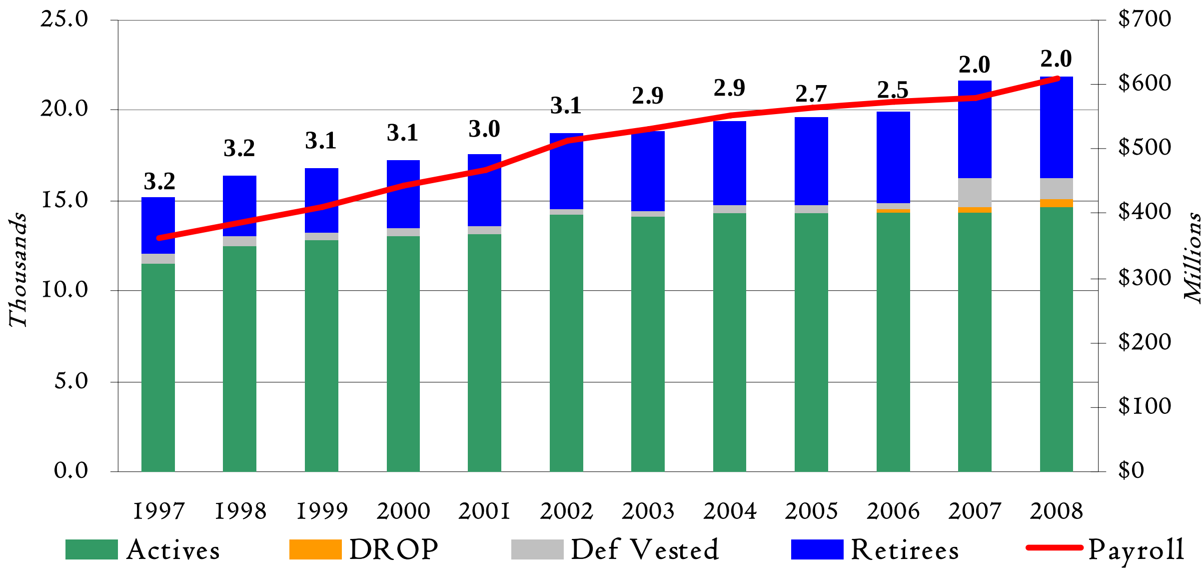
Contribution Rates



The stacked bars in this graph show the contributions made by both the employer and the members (left hand scale). The red line shows the employer contribution rate as a percent of payroll (right hand scale).

The member contribution rate is set by the County Ordinance, depending on which plan the member participates. The employer contribution rate is set by the actuarial process, as constrained by the corridor method. Please note there is a lag in the rate shown. For example, the 2008 value is the rate prepared by the 2006 valuation and implemented for the period July 1, 2007 to June 30, 2008. The employer contribution rates for the fiscal years ending June 30, 2009 and 2010 are set at 9.62% and 9.71% respectively.

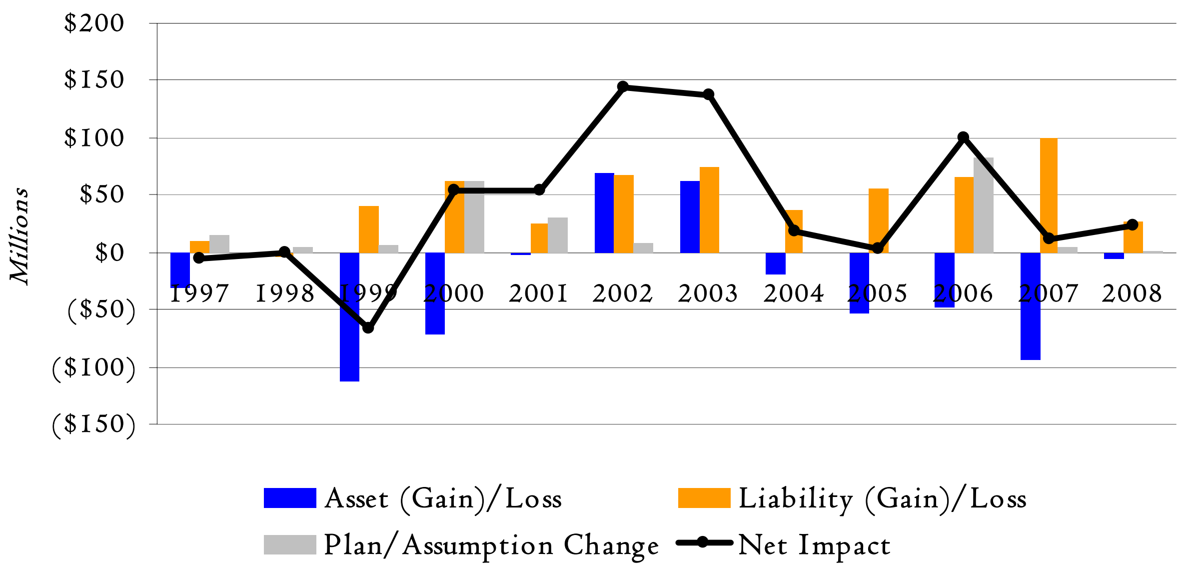
Participant Trends



As with many funds in this country, there has been a steady growth in the number of retired members as the System has matured. The active-to-inactive ratio has decreased from 3.2 actives to each inactive in 1997 to 2.0 actives for each inactive today. While this would be an alarming trend in a pay-as-you-go system, the pool of invested assets has been established in anticipation of this development.

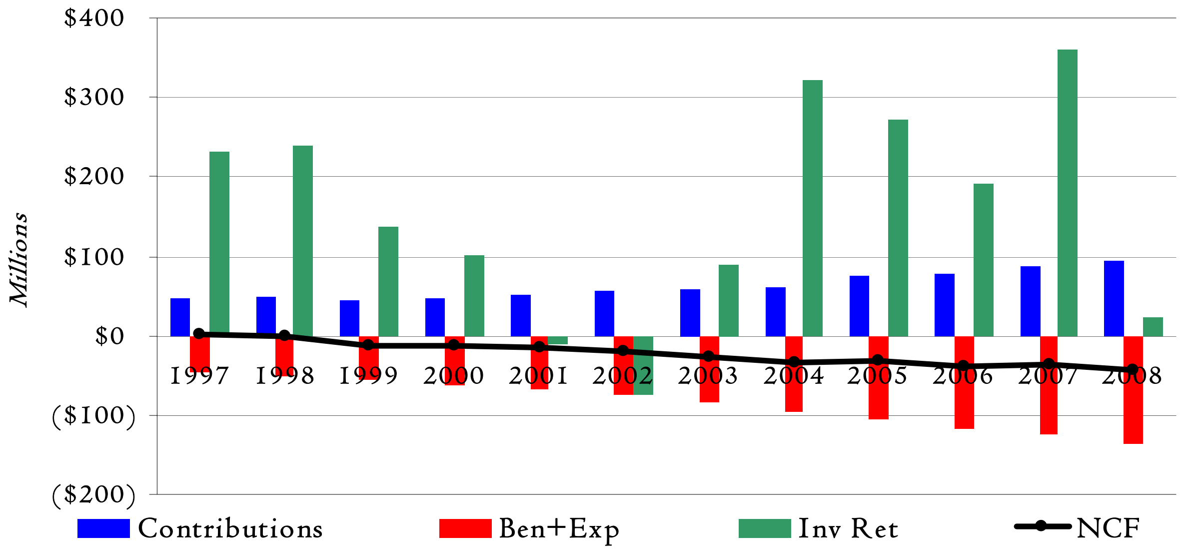
Starting in 2006, the chart also shows the number of DROP participants. Neither employer nor member contributions are made on their behalf, which leads to a slightly lower growth in effective covered payroll for this System.

Gains and Losses



This graph shows the annual gains and losses experienced by the System, along with Unfunded Actuarial Liability (UAL) due to plan amendments and changes in assumptions. The black line shows the net impact of all such changes in a given year. Positive numbers represent increases in the UAL while negative numbers show reductions.

Cash Flow

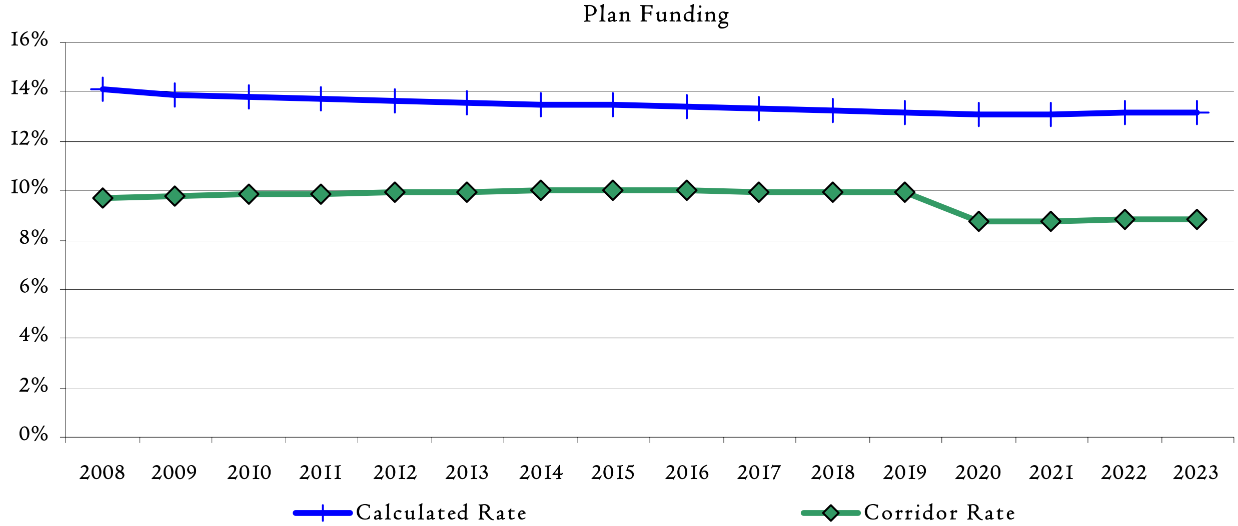


The graph shows the annual cash flows into and out of the System. The graph shows the magnitude the investment returns on the market value (green bars) compared to the contributions (blue bars). The net cash flow (line) is comparing the contributions to benefits and expenses (red bar). Negative cash flow is expected for a mature plan such as this one. The implications of a plan with negative cash flow are that the impact of market fluctuations can be more severe. This is because as assets are being depleted to pay benefits in down markets, less principal is available to be reinvested during favorable return periods.

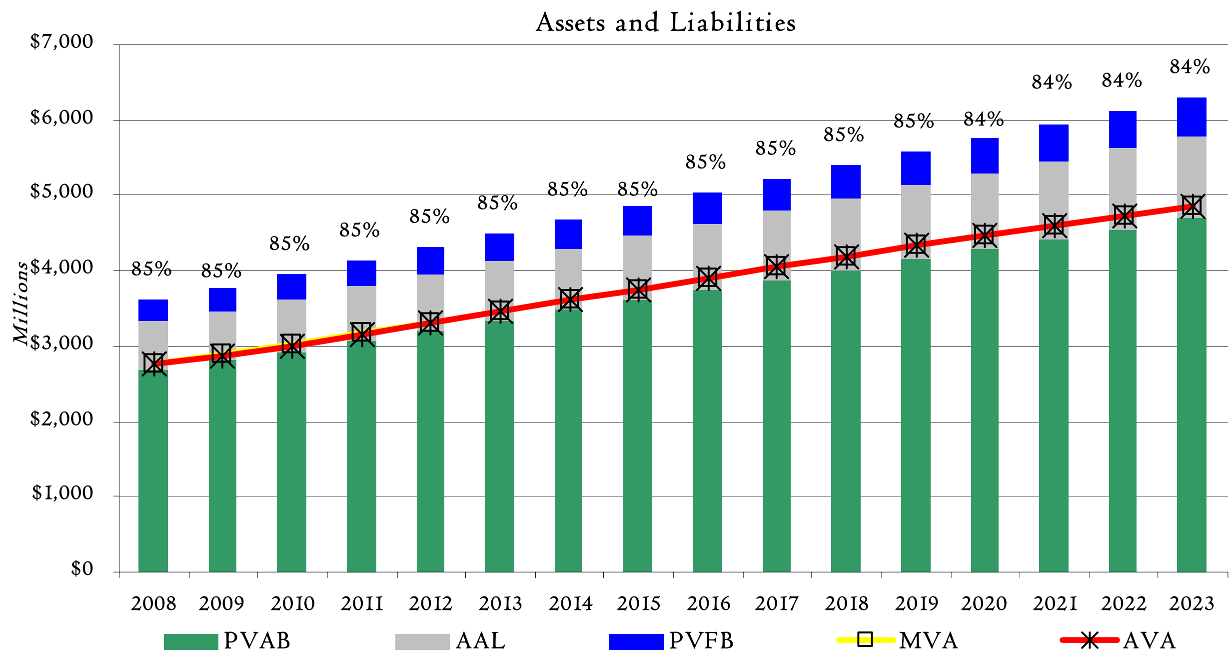
Future Outlook

Base Line Projections

The two graphs below show the expected progress of the Plan over the next 15 years assuming the System's assets earn 7.5% on their *market value.* The graph entitled "Plan Funding" shows the System not re-entering the corridor (if all other actuarial assumptions are met as well as the 7.5% interest rate). The blue line shows the actuarially calculated rate if the corridor were not in place.

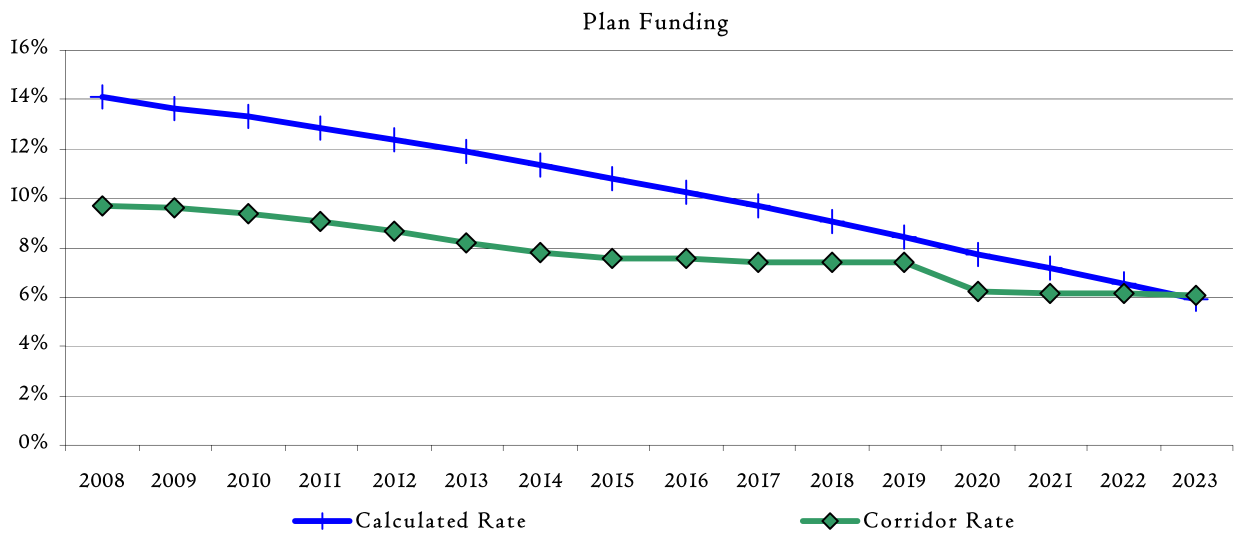


The "Assets and Liabilities" graph shows the projected funding status over the next 15 years. The corridor funded ratio will stay the same in the short term as unrecognized investment gains are incorporated in the actuarial value of assets. However, the funding ratio drops slightly from the current 85% level for the period to 84%.

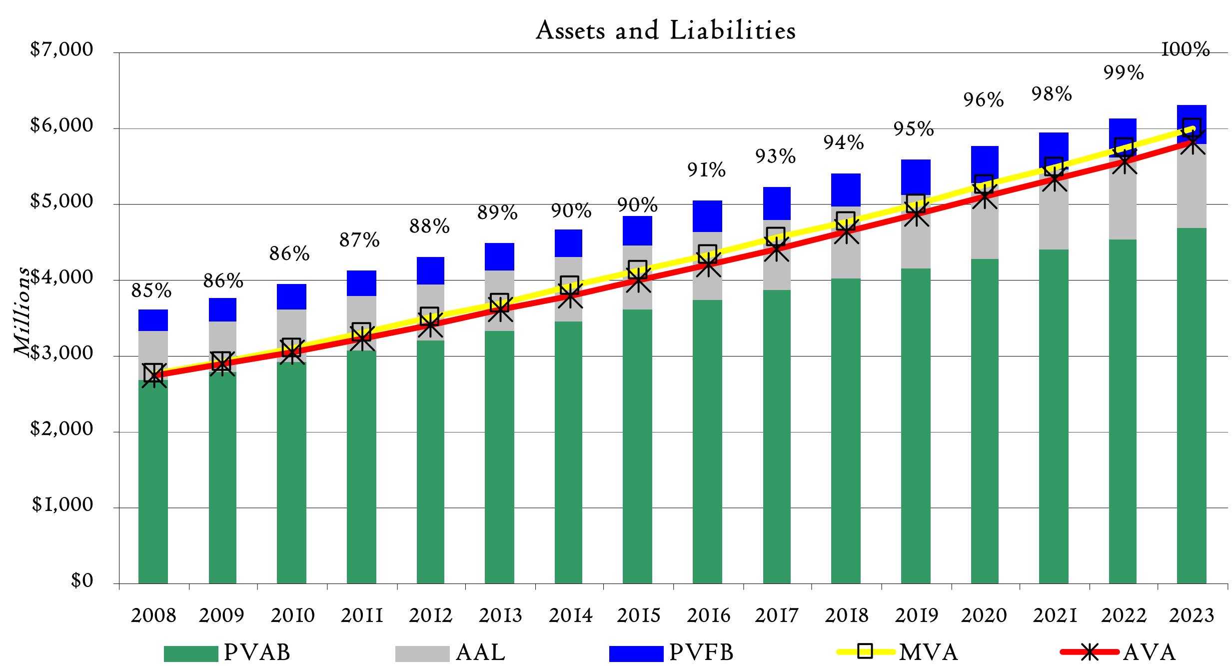


Projections with Asset Returns of 9.0%

The future funding status of this System will be largely driven by the investment earnings. Due to the size of assets, as compared to liabilities, the System is in a highly leveraged position. This means that relatively minor changes in the market returns can have significant effects on the System's status. The next two charts show what the next 15 years would look like with a 9.0% annual return in each year.

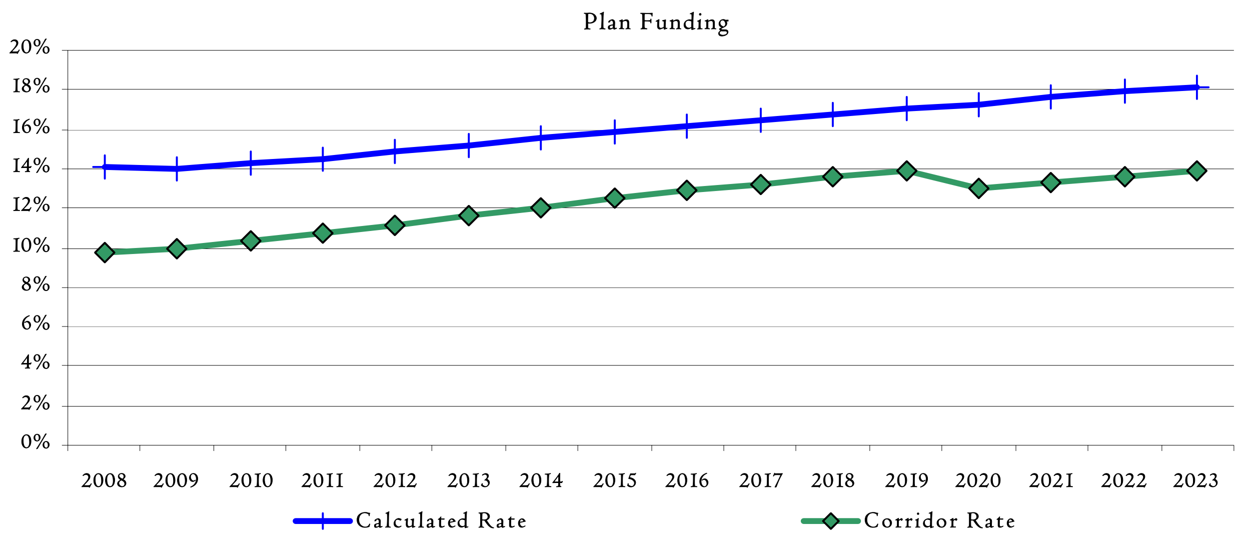


Under this scenario the System would re-enter the corridor in 2014 and reach full funding by 2023. The contribution rate slowly drops back down to reflect the level of the System's normal cost plus expenses, and the calculated (or GASB) contribution rate approaches 6% by the end of the period.

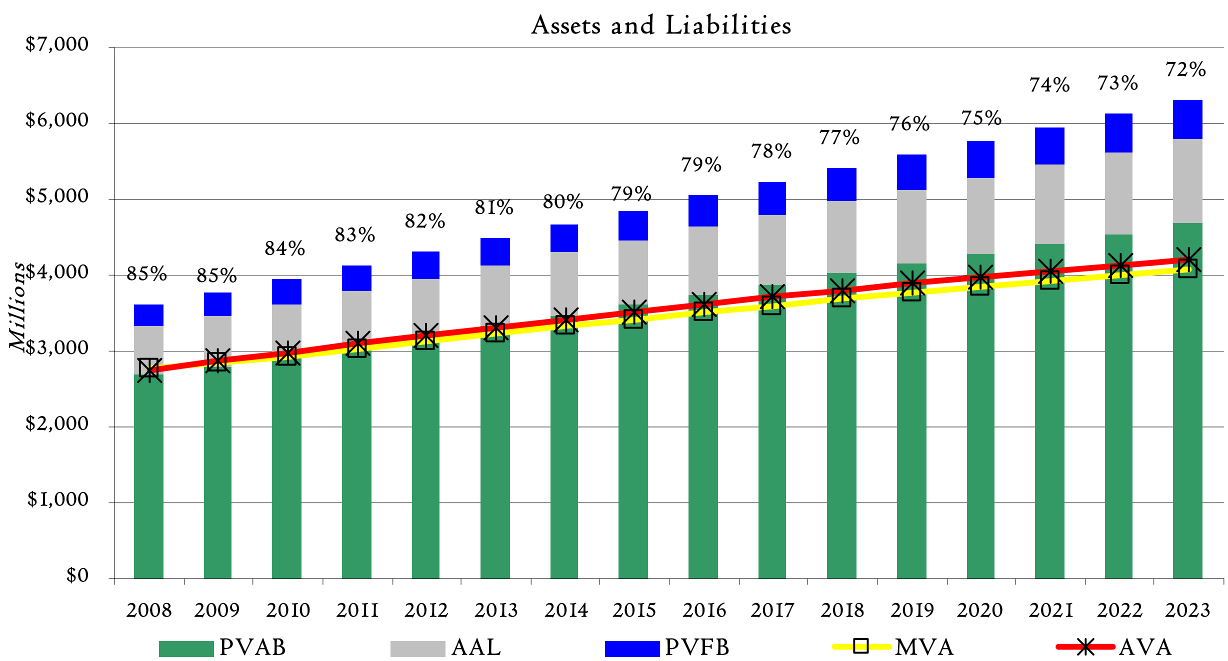


Projections with asset returns of 6.0%

To further demonstrate how the future funding of this System will be driven by investment earnings, we show below the anticipated plan funding projections if the invested assets earn 6.0% per year over the entire 15 year period. Under this scenario, both the corridor contribution required of the employers and the calculated rate used in GASB disclosures would increase.



The projection shows a deterioration of the System's funded status from the current 85% down to 72% by the end of the period while the contribution rate approaches 14% of payroll by 2019.



Fairfax County Employees' Retirement System
Summary of Principal Plan Results

Valuation as of:	7/1/2007	7/1/2008	% Change
Participant Counts			
Actives	14,295	14,705	2.9%
DROP	316	366	15.8%
Terminated Vesteds	1,643	1,241	-24.5%
In Pay Status	5,355	5,585	4.3%
Total	21,609	21,897	1.3%
Annual Salaries of Active Members	$ 579,074,512	$ 610,876,960	5.5%
Annual Retirement Allowances for Retired Members and Beneficiaries (Base amount only – not supplements)	$ 103,851,676	$ 113,441,455	9.2%
Assets and Liabilities			
Actuarial Accrued Liability	$ 3,139,186,700	$ 3,328,900,991	6.0%
Assets for Valuation Purposes	2,596,657,633	2,752,873,842	6.0%
Unfunded Actuarial Liability	$ 542,529,067	$ 576,027,149	6.2%
Funding Ratio	82.7%	82.7%	
Present Value of Accrued Benefits	$ 2,538,724,935	$ 2,705,935,238	6.6%
Market Value of Assets	2,783,300,898	2,763,876,655	-0.7%
Unfunded FASB Accrued Liability (not less than $0)	$ -	$ -	
Accrued Benefit Funding Ratio	109.6%	102.1%	
Contributions as a Percentage of Payroll	**Fiscal Year 2009**	**Fiscal Year 2010**	
GASB Method:			
Normal Cost Contribution	5.94%	5.95%	
Unfunded Actuarial Liability Contribution	7.91%	7.96%	
Administrative Expense	0.15%	0.15%	
Total Contribution	14.00%	14.06%	
Corridor Method:			
Normal Cost Contribution	5.94%	5.95%	
Increase Due to Amortized Changes	1.45%	1.47%	
Amortization of Amount Outside Corridor	2.05%	2.14%	
Administrative Expense	0.15%	0.15%	
Corridor Method	9.59%	9.71%	

Summary of Actuarial Assumptions and Methods

Funding Method

The funding method used for GASB disclosure purposes is the "aggregate accrual modification of the entry age normal cost method." Under this method, the employer contribution has three components – the normal cost, the payment toward the unfunded actuarial liability, and the expense rate.

The normal cost is a level percent of pay cost which, along with the member contributions, will pay for projected benefits at retirement for the average plan participant. The level percent developed is called the normal cost rate and the product of that rate and payroll is the normal cost.

The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and funds accumulated as of the same date is referred to as the unfunded actuarial liability.

The expense rate is added to cover the System's administrative expenses.

The employer contributions are calculated using the same basic actuarial method (EAN). However, in order to produce a more level contribution rate, the System has adopted a Corridor Funding Method.

Under the Corridor Funding Method, the employer's total contribution rate is equal to the normal cost rate, plus rate changes due to assumption changes or amendments passed since June 30, 2001 plus the expense rate as long as the System's actuarial funded status remains within a corridor of 90% to 120%. If the funded status falls outside the corridor, a credit (if above 120%) or charge (if below 90%) will be established based on a 15-year amortization equal to the amount necessary to re-enter the corridor. Once the funded status is within the corridor, the contribution rate will return to normal cost rate, plus post-2001 changes, plus expense rate.

Actuarial Value of Assets

For purposes of determining the employer contribution to the Plan, we use an actuarial value of assets. The asset adjustment method dampens the volatility in asset values that could occur because of fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process.

In determining the actuarial value of assets, we calculate an expected actuarial value based on cash flow for the year and imputed returns at the actuarial assumption. This expected value is compared to the market value and one-third of the difference is added to the preliminary actuarial value to arrive at the final actuarial value.

Changes Since Last Valuation

There have been no changes since the last valuation to the Funding Method or Actuarial Value of Assets.

Long Term Assumptions Used to Determine System Costs and Liabilities

Demographic Assumptions

Mortality

1994 Uninsured Pensioners Mortality Table
Annual Deaths Per 1,000 Members*

Age	Male Deaths	Female Deaths	Age	Male Deaths	Female Deaths
20	1	0	65	16	9
25	1	0	70	26	15
30	1	0	75	40	24
35	1	1	80	67	42
40	1	1	85	105	73
45	2	1	90	164	125
50	3	2	95	251	200
55	5	2	100	341	297
60	9	5	105	441	415

* 5% of deaths are assumed to be service-connected.

Annual Deaths per
1,000 Disabled Members

Age	Male	Female
45	43	24
50	48	28
55	53	33
60	58	38
65	64	44
70	73	51
75	89	63
80	107	80

Termination of Employment: (Prior to Normal Retirement Eligibility)

Annual Termination Rates Per 1.000 Members – Male
Years of Employment With County

Age	0-3	3-5	5+
20	283	174	80
25	270	150	80
30	210	122	65
35	130	103	50
40	125	89	35
45	125	74	20
50	125	59	20
55	125	50	20

Annual Termination Rates Per 1,000 Members – Female
Years of Employment With County

Age	0-3	3-5	5+
20	333	150	150
25	320	150	150
30	260	150	150
35	180	138	100
40	175	125	50
45	168	113	50
50	160	100	50
55	153	100	50

It is assumed that members who terminated before age 45 with age plus service equal to 60 elect to receive a refund of contributions instead of vested benefits.

Disability

Annual Disabilities Per 10,000 Members*

Age	Male	Female
25	3	2
30	3	2
35	3	3
40	6	4
45	15	12
50	28	22
55	43	34
60	53	43

* 30% of disabilities are assumed to be service-connected. Of these, 5% are assumed to receive Social Security benefits and 31% are assumed to receive Workers' Compensation benefits.

Retirement

Annual Retirements Per 1,000 Eligible Members*
(Male and Female)

Age	Early	Normal**
50	0	500
51	0	450
52	25	400
53	25	350
54	25	320
55	25	290
56	25	260
57	28	230
58	31	230
59	34	230
60	40	250
61	60	200
62	80	200
63	100	200
64	125	200
65	N/A	250
66	N/A	150
67	N/A	150
68	N/A	150
69	N/A	150
70	N/A	1,000

* To further account for unused sick leave we are assuming that members can retire early on Rule of 74 (instead of Rule of 75) and normal on Rule of 79 (instead Rule of 80).

******Upon reaching 1st eligibility for normal retirement we assume members retire at the above rates plus 5%.

Merit/Seniority Salary Increase (in addition to across-the-board increase)

Service	Merit/Seniority Increase
0	2.50%
5	1.45%
10	1.20%
15	0.90%
20	0.40%
25	0.00%
30	0.00%

Family Composition

For purposes of valuing the pre-retirement death benefit, an assumption is made that 80% of employees are married at death while active and that the female spouse is 3 years younger than the male spouse.

Sick Leave Credit

Active members are assumed to receive an additional 2% of service credit due to sick leave and an additional 1.8% for average final compensation.

Economic Assumptions

Investment Return: 7.5% compounded per annum.

Rate of General Wage Increase: 4.00% compounded per annum.

Rate of Increase in Cost-of-Living: 4.00% compounded per annum.
(Benefit increases limited to 4% per year. Post-retirement cost-of-living increases are assumed to be 3% per year.)

Total Payroll Increase (For amortization): 4.00% compounded per annum.

Administrative Expenses: 0.15% of payroll.

Changes Since Last Valuation

There have been no changes since the last valuation.

Analysis of Financial Experience

Gain and Loss in Accrued Liability During Years Ended June 30
Resulting from Differences Between Assumed Experience and Actual Experience

	Gain (or Loss) for Year ending June 30,			
Type of Activity	**2005**	**2006**	**2007**	**2008**
Investment Income	$ 52,403,068	$ 48,113,093	$ 93,321,633	$ 5,501,407
Combined Liability Experience	(48,719,014)	(66,263,080)	(99,929,651)	(26,428,258)
Gain (or Loss) During Year from Financial Experience	3,684,054	(18,149,987)	(6,608,018)	(20,926,851)
Non-Recurring Items	(82,052,042)	(4,777,614)	(2,056,768)	(1,446,483)
Composite Gain (or Loss) During Year	$ (78,367,988)	$ (22,927,601)	$ (8,664,786)	$ (22,373,334)

Schedule of Retirees and Beneficiaries
Added-To and Removed-From Rolls

	Added-to Rolls		Removed-From Rolls		On Rolls @ Yr. End			
Year Ended June 30	**No.**	**Annual Allowance**	**No.**	**Annual Allowance**	**No.**	**Annual Allowance**	**% Increase Allowance**	**Average Allowance**
2001	353	$ 9,384,327	136	$ 1,544,050	3,974	$ 66,623,037	13.34%	$ 16,765
2002	298	9,757,867	108	1,129,458	4,164	75,251,446	12.95%	18,072
2003	375	11,302,793	149	1,766,319	4,390	84,787,920	12.67%	19,314
2004	365	11,473,126	136	2,478,847	4,619	93,782,199	10.61%	20,304
2005	410	13,203,836	140	2,578,496	4,889	104,407,539	11.33%	21,356
2006	365	11,467,357	135	2,924,626	5,119	112,950,270	8.18%	22,065
2007	398	13,429,405	162	3,752,603	5,355	122,627,072	8.57%	22,900
2008	388	13,490,523	158	2,650,227	5,585	133,467,368	8.84%	23,897

Solvency Test

Valuation Date July 1,	Aggregate Accrued Liabilities For (1) Active Member Contributions	(2) Retirees Vested Terms, Beneficiaries & DROP	(3) Active Members (Employer Financed Portion)	Reported Assets	Portion of Accrued Liabilities by Reported Assets (1)	(2)	(3)
2002	$ 207,072,630	$ 820,951,804	$ 1,023,653,031	$1,854,088,532	100%	100%	81%
2003	229,276,020	945,552,585	1,076,358,791	1,903,970,061	100%	100%	68%
2004	243,581,448	1,046,687,178	1,120,866,834	2,030,538,870	100%	100%	66%
2005	260,335,634	1,155,976,307	1,260,106,417	2,202,515,466	100%	100%	62%
2006	259,773,091	1,351,131,274	1,270,875,228	2,363,844,055	100%	100%	59%
2007	285,104,636	1,537,540,475	1,316,541,589	2,596,657,633	100%	100%	59%
2008	298,907,993	1,662,930,379	1,367,062,619	2,752,873,842	100%	100%	58%

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Schedule of Additions by Source

Fiscal Year	Plan Member Contributions	Employer Contributions	Employer Contributions % of Covered Payroll	Net Investment Income (loss)	Total Additions
2002	$ 24,217,436	$ 31,083,805	6.12%	$ (75,059,747)	$ (19,758,506)
2003	25,467,082	31,983,708	6.00%	89,440,289	146,891,079
2004	27,716,595	34,418,051	6.13%	319,741,487	381,876,133
2005	27,563,754	46,958,113	8.08%	271,340,627	345,862,494
2006	27,605,933	49,436,463	8.24%	204,149,213	281,191,609
2007	29,805,266	57,452,711	9.25%	358,779,626	446,037,603
2008	31,583,496	62,636,121	9.59%	23,018,667	117,238,284
2009	33,927,190	65,110,832	9.62%	(653,558,145)	(554,520,123)

Schedule of Deductions by Type

Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Transfers	Total Deductions
2002	$ 70,703,829	$ 3,774,942	$ 807,528		$ 75,286,299
2003	79,442,355	3,425,017	845,537		83,712,909
2004	89,675,104	3,780,390	1,019,054		94,474,548
2005	98,494,430	6,545,800	1,015,986		106,056,216
2006	108,735,741	6,059,597	1,016,292	$ 11,750,084	127,561,714
2007	117,885,907	3,935,886	1,866,410		123,688,203
2008	130,453,013	4,376,612	1,832,903		136,662,528
2009	165,529,137	3,256,153	1,519,846		170,305,136

Schedule of Benefit Payments by Type

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
2002	$ 63,723,688	$ 2,553,198	$ 2,738,462	$ 1,688,480	$ 70,703,828
2003	71,933,909	2,634,434	2,918,607	1,955,406	79,442,356
2004	81,795,303	2,749,554	3,155,573	1,974,674	89,675,104
2005	90,329,194	2,748,877	3,257,053	2,159,306	98,494,430
2006	100,083,209	2,736,141	3,479,564	2,436,827	108,735,741
2007	108,782,484	2,768,116	3,646,607	2,688,700	117,885,907
2008	120,689,116	2,958,765	3,835,111	2,970,020	130,453,012
2009	155,179,988	3,200,844	3,845,105	3,303,200	165,529,137

Schedule of Retired Members by Benefit Type

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
2002	3,459	174	366	165	4,164
2003	3,674	172	364	178	4,388
2004	3,888	168	375	188	4,619
2005	4,137	167	378	207	4,889
2006	4,365	156	378	220	5,119
2007	4,566	167	386	236	5,355
2008	4,791	161	383	250	5,585
2009	5,133	153	383	262	5,931

Schedule of Average Monthly Benefit Amounts

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Average
2002	$ 1,629	$ 1,259	$ 680	$ 879	$ 1,500
2003	1,750	1,326	687	886	1,610
2004	1,840	1,333	708	915	1,692
2005	1,932	1,401	740	939	1,780
2006	1,987	1,460	777	998	1,839
2007	2,061	1,502	816	1,030	1,908
2008	2,144	1,619	845	1,070	1,991
2009	2,187	1,710	841	1,092	2,039

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Fairfax County Employees' Retirement System

A Fairfax County, Va.,
publication

Comprehensive Annual Financial Report

For the Fiscal Year ended June 30, 2009